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Putting Mubarak on trial

China's emerging internet giants

A quarter-century of burgernomics

The naked world of Lucian Freud

Turning Japanese

Debt, default and the West's new politics of paralysis

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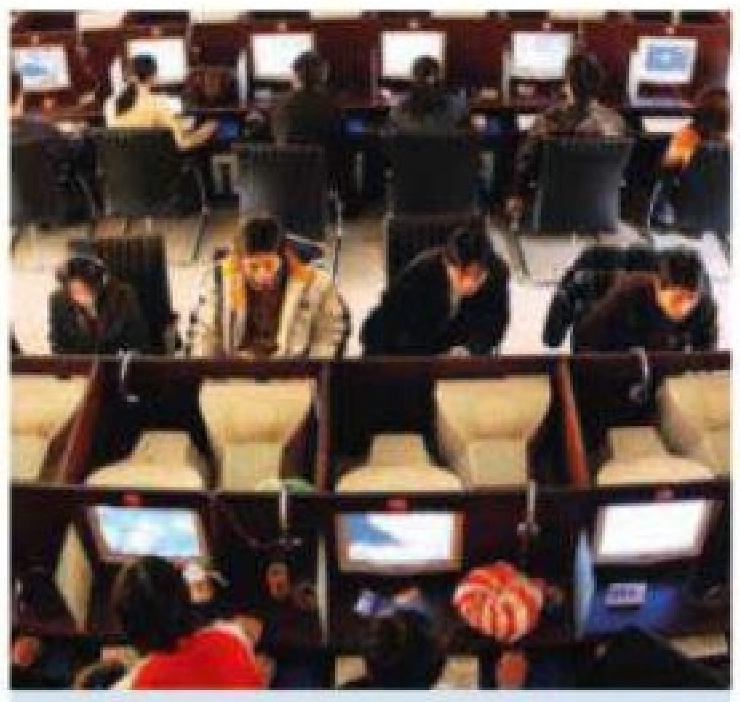

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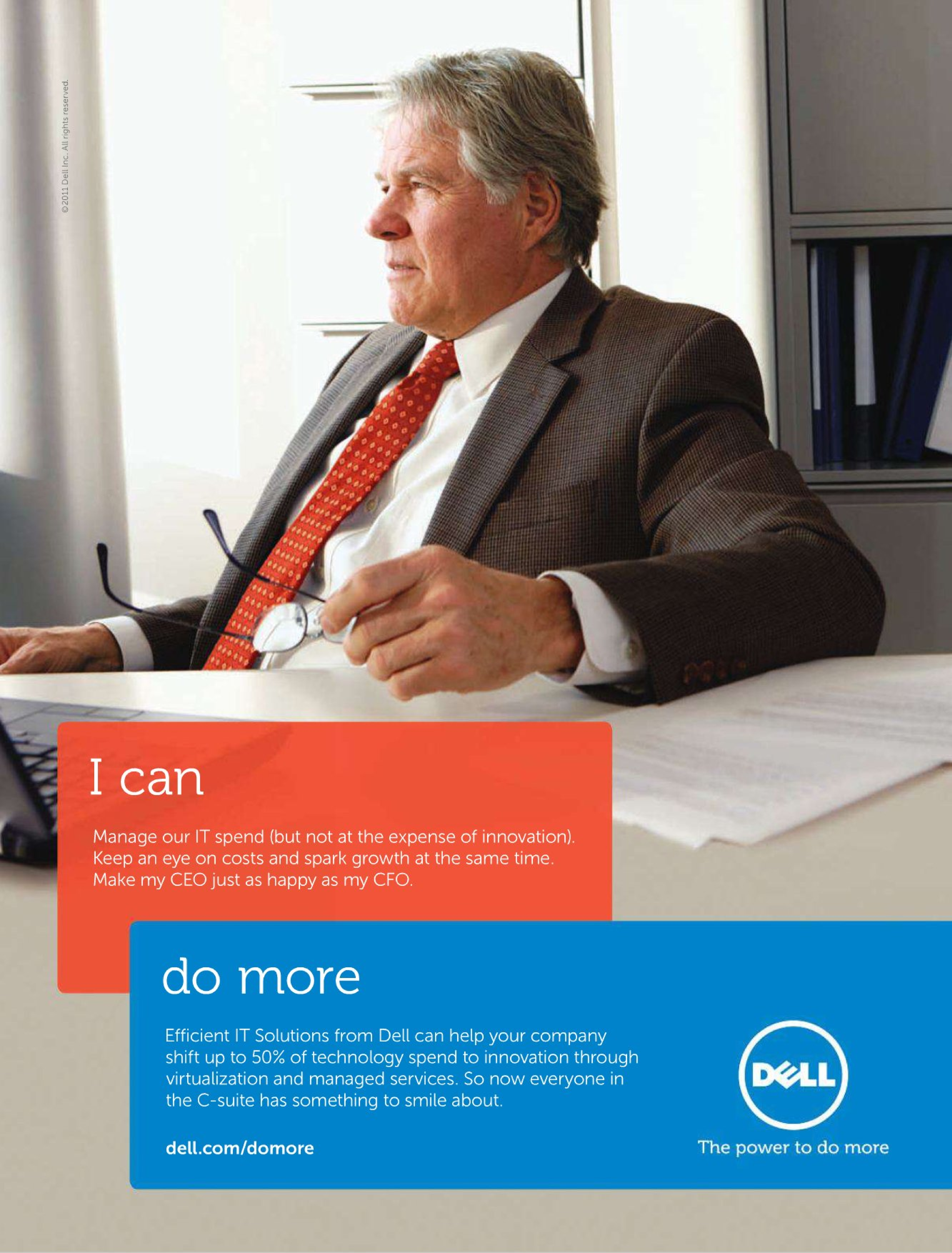
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Politics

Norway suffered its worst peacetime atrocity. Anders Behring Breivik, a far-right extremist, shot dead at least 68 people at a political youth camp run by the ruling Labour Party and set off a car bomb in central Oslo that killed at least eight others. He was arrested and admitted to the killings. A long document that he posted on the internet hours before the massacre suggested he had been motivated by anti-Muslim hatred and the establishment's liberal stance on immigration.

Police from **Kosovo** attempted to seize two border crossings with **Serbia** to try to enforce a ban on Serbian imports. Ethnic Serbs responded with gunfire, killing one Kosovar policeman, and later set fire to a border checkpoint. Boris Tadic, Serbia's president, called for calm and said the protesting Serbs were "hooligans".

The **Vatican** recalled its envoy to **Ireland**, saying it was taking seriously Irish claims that it had downplayed alleged incidents of child abuse in the country. This followed a stinging attack on the Catholic church by Enda Kenny, the Irish prime minister.

The American government announced a visa ban on dozens of **Russian officials** linked to the death of Sergei Magnitsky, a tax lawyer who died in a Moscow prison in suspicious circumstances in 2009. The move was designed in part to stop American senators legislating on the matter, which the White House fears could jeopardise its "reset" with Russia.

Safety first?

Two of **China's** new bullet trains collided, killing at least 39 people and injuring nearly 200. Blaming signal failure, the railways ministry offered a rare apology and high-profile sackings, but did little to disperse outrage and scepticism about its account of the incident. China's high-speed railways have been expanding at a frantic pace and at great cost, but have recently been beset by technical problems.

Chinese fighter jets chased an American spy plane in late June into airspace claimed by **Taiwan**, according to Taiwanese media. When Taiwan sent fighters of its own to intercept them, the Chinese aircraft withdrew. This week China's defence ministry demanded that America respect Chinese sovereignty by ceasing surveillance flights along its coast.

The mayor of Kandahar was killed by a Taliban insurgent who concealed a bomb in his turban. Three high-ranking officials have now been murdered in the principal city of southern **Afghanistan** in a month, all of them close associates of the president, Hamid Karzai.

The foreign ministers of **India** and **Pakistan** met in Delhi in a significant gesture of co-operation, two weeks after bombs in Mumbai killed 23 people.

An alliance of parties associated with the Tamil Tigers won 80% of the seats they contested in the first council elections to be held in **Sri Lanka's** ravaged north and east since the end of civil war two years ago. Sri Lanka's ruling party, representing the Sinhalese majority, won nearly everywhere else.

Australia signed a deal designed to lessen its appeal as a first port of call for refugees. It will transfer 800 asylum-seekers who land by boat on its shores to Malaysia, where their applications will be processed. In return, Malaysia will send 4,000 registered refugees to Australia—and collect $300m to cover its costs.

The real's deal

In a further attempt to reverse the appreciation of the real, which reached a 12-year high against the dollar this week, **Brazil's** finance ministry decreed a 1% tax on futures contracts that bet on yet more strengthening of the currency. The real weakened on the news.

In **Mexico** 17 prisoners were killed when members of a criminal gang attacked a wing of a jail in Ciudad Juárez occupied by rival inmates.

Jack Layton stepped down temporarily as the leader of **Canada's** official opposition, the left-of-centre New Democratic Party, while he receives treatment for cancer. Under his leadership the party has quadrupled its support, winning 31% of the vote in May's general election.

Canada deported Lai Changxing, China's most-wanted **fugitive**. Arriving in Beijing, he was arrested on charges of running a multi-billion-dollar smuggling ring in the 1990s.

The bad old days

Vigilantes loyal to **Egypt's** military leaders, who have been overseeing a transitional government since the fall of President Hosni Mubarak six months ago, attacked pro-democracy marchers in Cairo, injuring several hundred. The protesters had called for the trials of senior figures and for democratic reforms to be hurried up. A cabinet committee said that both demands would be met.

After a bomb wounded several soldiers in the north-east **Nigerian** city of Maiduguri, Amnesty International accused security forces of going "on the rampage", killing 23 people at random. Boko Haram, a Muslim sect which has carried out recent bombings, denied responsibility for the explosion.

The UN's World Food Programme sent food to Somalia's capital, Mogadishu, in an effort to save the lives of people hit by drought in the **Horn of Africa**. Aid agencies estimate that 3.7m people in Somalia and millions of others in Djibouti, Ethiopia, Kenya are close to starvation. At a meeting in Rome officials said the UN had received about $1 billion for emergency relief since November but needed $1 billion more by the end of the year.

Down to the wire

The cost of buying insurance against a default by America rose to a record, as negotiations over raising the federal **debt ceiling** became ever more fraught. The Treasury-imposed deadline of August 2nd crept into view.

Barack Obama signed an order that will formally end America's ban on gays serving openly in the armed forces on September 20th. Democrats repealed **"don't ask don't tell"** in the waning days of the previous Congress and instructed the Pentagon to consult troops on the matter. The Defence Department now thinks America's soldiers and sailors "are ready" for the ban to be lifted.

Atlantis returned safely from its final mission on July 21st, bringing an end to 30 years of NASA's **space-shuttle** voyages, and thus to American manned flights in space. For now at least.

Business

After months of discussion European leaders agreed on July 21st to give **Greece** a second bail-out. The country will receive another €109 billion ($158 billion) in loans from the euro zone and the IMF. In addition private bondholders holding around €135 billion in Greek debt will be asked voluntarily to accept new securities with a lower value. Ratings agencies are expected to declare Greece in selective default once the bond swaps occur. The agreement should ease Greece's borrowing costs, but does less to address its long-term debt pile.

Despite the deal in Brussels markets remained jittery about the **euro zone's** (and America's) debt problems. Italian and Spanish bond yields went up; Wolfgang Schäuble, Germany's finance minister, said that Germany won't hand over "blank cheques"; and Moody's downgraded Cyprus's sovereign rating by two notches.

Then there were three

Deutsche Bank resolved the quandary of its management succession plans by appointing Anshu Jain and Jürgen Fitschen as co-chief executives to take over from Josef Ackermann when he leaves the job next year. Mr Jain, who is currently based in London, will be the first person not fluent in German in charge at Germany's biggest bank. But with Mr Ackermann expected to chair the supervisory board, analysts are pondering how much autonomy Mr Jain and Mr Fitschen will really have.

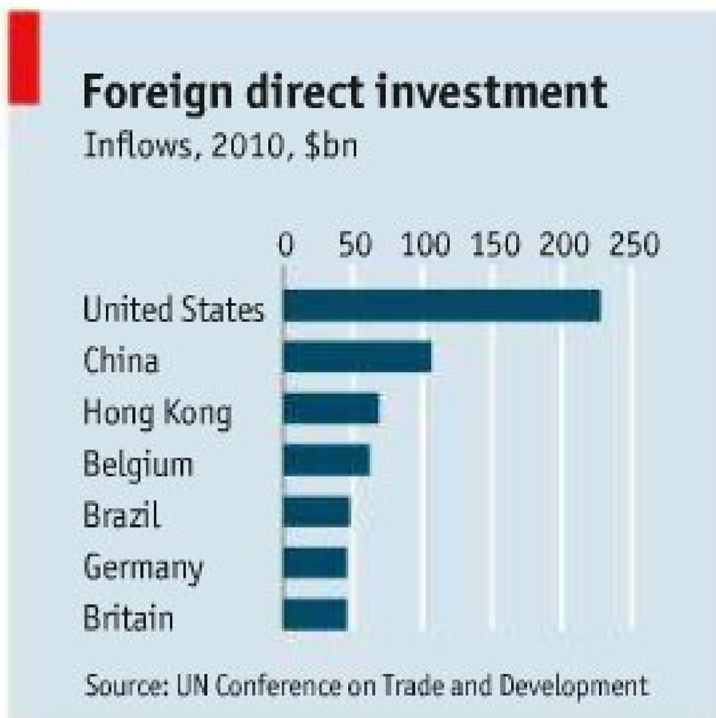
UBS reported a sharp decline in quarterly profit, issued a warning that it would probably miss its earnings target for the year and embarked on another round of job cuts. The Swiss bank attributed its latest misfortune in part to "new capital and regulatory requirements", but some say its weak performance is a result of the big salary increases it paid to retain senior staff during the financial crisis. Profit at **Credit Suisse** also slumped, by half, and it too announced lay-offs.

An appeals court rejected the Securities and Exchange Commission's **proxy-access rules**, which were designed to make it easier for large shareholders to propose candidates for corporate boards. The judges ruled that the regulator had carried out insufficient cost-benefit analysis. Other bits of the Dodd-Frank financial reforms could now come under legal attack.

A very exclusive club

It emerged that **George Soros** is to close his hedge fund to outside investors and will refund up to $1 billion to those who have put in money. The prominent financier blames new regulations that require investment advisers to register with the SEC. The rules exempt funds that are run on behalf of a family, so Mr Soros's firm will manage only his own $25 billion pot of investments from now on.

India's central bank raised its benchmark **interest rate** by half a percentage point, to 8%. As with other hot emerging markets, India is trying to contain inflation. Brazil recently upped its basic rate to 12.5%.



The volume of **foreign direct investment** around the world continued to recover after the financial crisis, growing by 5% in 2010 to reach $1.24 trillion (though this was still 37% below its peak in 2007). One notable exception was **Britain**, where FDI fell by 35% compared with 2009. New figures showed that Britain's economy slowed in the second quarter, growing by just 0.2%.

Bob Dudley, **BP's** chief executive, reassured shareholders that the energy company was getting back on track after last year's oil spill in the Gulf of Mexico. Mr Dudley did not dismiss splitting BP in two, as some investors have urged, though he stressed that this would be BP's "year of consolidation". BP made a headline profit of $5.3 billion in the second quarter, compared with a $17 billion loss in the same period a year ago.

Meanwhile, **ConocoPhillips**, which is splitting in two, reported an 18% drop in quarterly net profit. Earlier this month Conoco announced that it would sell its refining and marketing business next year so it can concentrate on exploration and production.

Express Scripts and **Medco Health Solutions** announced their intention to merge in a $29.1 billion deal. Both are in the business of managing prescription-drug plans provided by employers and negotiating prices on their behalf with drugs companies. In 2006 Express Scripts proposed to buy Caremark in a similar mega-deal, but its bid failed partly on antitrust grounds.

Japan's **Panasonic** decided to sell part of the washing-machine and refrigerator operations of **Sanyo**, which it acquired in 2009, to China's Haier, the world's largest branded maker of large home appliances. It is a rare instance of a Japanese firm selling a big division, and one of the only cases in which Japanese operations have been sold to a Chinese company, a sensitive matter in Japan.

Other economic data and news can be found on Pages 85-86

"No. I can talk.

I haven't had a chance to find that cake recipe you asked for.
I can't believe they don't sell tres leches mixes in the U.S.

Things have been crazy around here lately.
James has been working a lot, so I've been pulling double duty.
The house is a disaster zone.
I guess I'm giving up on being some domestic goddess.

The kids are good. The twins started back to school.
They now think I'm lame.
Anyway. Erica keeps saying she wants to come visit.
Jimmy has started to walk. I can't believe it either. I think he looks like Dad.
I know it sounds weird.
But sometimes when I look really closely, I think he might actually be Dad.
I mean he's not. I know that. But he's got his eyes, you know?

I wish they could have met. Dad would have been crazy about Jimmy. Don't you think?"

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Turning Japanese

The absence of leadership in the West is frightening—and also rather familiar

A GOVERNMENT'S credibility is founded on its commitment to honour its debts. As a result of the dramas of the past few weeks, that crucial commodity is eroding in the West. The struggles in Europe to keep Greece in the euro zone and the brinkmanship in America over the debt ceiling have presented investors with an unattractive choice: should you buy the currency that may default, or the one that could disintegrate?

In the early days of the economic crisis the West's leaders did a reasonable job of clearing up a mess that was only partly of their making. Now the politicians have become the problem. In both America and Europe, they are exhibiting the sort of behaviour that could turn a downturn into stagnation. The West's leaders are not willing to make tough choices; and everybody—the markets, the leaders of the emerging world, the banks, even the voters—knows it. It is a mark of how low expectations have sunk that the euro zone's half-rescue of Greece on July 21st was greeted with relief. As *The Economist* went to press, it still was not clear on what terms America's debt limit would be raised, and for how long. Even if the current crises abate or are averted, the real danger persists: that the West's political system cannot take the difficult decisions needed to recover from a crisis and prosper in the years ahead.

The world has seen this before. Two decades ago, Japan's economic bubble popped; since then its leaders have procrastinated and postured. The years of political paralysis have done Japan more harm than the economic excesses of the 1980s. Its economy has barely grown and its regional influence has withered. As a proportion of GDP, its gross public debt is the highest in the world, twice America's and nearly twice Italy's. If something similar were to happen to its fellow democracies in Europe and America, the consequences would be far larger. No wonder China's autocrats, flush with cash and an (only partly deserved) reputation for getting things done, feel as if the future is on their side.

Yes, you Kan, if you carry on like this

Though both about debt, the arguments in Europe and America have very different origins. The euro crisis was brought on by investors with genuine worries about the solvency of several euro-zone countries. By contrast the stand-off in Washington is a political creation, thrust upon initially incredulous investors (see page 25). Increasing America's overdraft beyond $14.3 trillion should have been relatively simple. But Republican congressmen, furious about big government, have recklessly used it as a political tool to embarrass Barack Obama.

The similarity between the European and American dramas lies in the protagonists' refusal to face reality. European politicians, led by Angela Merkel, have gone to absurd lengths to avoid admitting two truths: that Greece is bust; and that north Europeans (and Mrs Merkel's thrifty Germans in particular) will end up footing a good part of the bill, either by transferring money to the south or by bailing out their own banks. They have failed to undertake a serious restructuring: the current rescue package reduces Greece's debt, but not by enough to give it a genuine chance of recovery (see page 65). As a result, Greece, and maybe other peripheral European countries too, will need another bail-out sooner or later. Just as in Japan, politicians have failed to make the structural labour- and product-market reforms essential to spurring growth. If this deal spawns a fiscal union within Europe, as it may well, that will not be because Mrs Merkel and her peers took a bold, strategic and transparent decision to create one, but because they ran away from more immediate forms of pain (see page 47).

America's debt debate seems still more *kabuki*-like. Its fiscal problem is not now—it should be spending to boost recovery—but in the medium term. Its absurdly complicated tax system raises very little, and the ageing of its baby-boomers will push its vast entitlement programmes towards bankruptcy. Mr Obama set up a commission to examine this issue and until recently completely ignored its sensible conclusions. The president also stuck too long to the fiction that the deficit can be plugged by taxing the rich more: he even wasted part of a national broadcast this week bashing the wealthy, though the Democrats had already withdrawn proposals for such rises.

Yet Mr Obama and his party seem a model of fiscal statesmanship compared with their Republican opponents. Once upon a time the American right led the world when it came to rethinking government; now it is an intellectual pygmy. The House Republicans could not even get their budget sums right, so the vote had to be delayed. A desire to curb Leviathan is admirable, but the tea-partiers live in a fantasy world in which the deficit can be reduced without any tax increases: even Mr Obama's attempts to remove loopholes in the tax code drive the zealots into paroxysms of outrage.

In both Europe and America electorates seem to be turning inward. There is the same division between "ins" and "outs" that has plagued Japan. In Europe one set of middle-class workers is desperate to hang on to protections and privileges: millions of others are stuck in unprotected temporary jobs or are unemployed. In both Europe and America well-connected public-sector unions obstruct progress. And then there is the greatest (and also the least sustainable) division of all: between the old, clinging tightly to entitlements they claim to have earned, and the young who will somehow have to pay for all this.

Is that Mount Fuji I see?

Sometimes crises beget bold leadership. Not, unfortunately, now. Japan has mostly been led by a string of weak consensus-seekers. For all their talents, both Mr Obama and Mrs Merkel are better at following public opinion than leading it.

The problem lies not just in the personalities involved, but also in the political structures. Japan's dysfunctional politics were rooted in its one-party system: petty factionalism has survived both the Liberal Democratic Party's resounding defeat in 2009 and the recent tsunami (see page 37). In America's Congress the moderate centre—conservative Democrats and liberal Republicans—has collapsed, in part because partisan ▸▸

redistricting has handed over power to the extremes. In Europe national politicians, answerable to their own electorates, are struggling to confront continent-wide problems.

Autocrats need not sneer at the troubles of Western democracies. The problems the latter face would tax any government; and, as the Asian financial crisis a decade ago showed, dictatorships are often worse at distributing pain. Moreover, Western politics is less broken than many allege. Since 2009 Congress has passed a huge stimulus and the health-care bill, both controversial yet also evidence that the legislature can get things done. For all their petty foolishness, the Republicans are bringing issues like tax reform and entitlements into the national debate. Outside the euro zone—in Britain, and in the Baltic republics, for instance—politicians have implemented reforms and austerity programmes with admirable speed.

Our views on what the West should do will be painfully familiar to readers. Europe's politicians need to implement not just a serious restructuring of the peripheral countries' debts but also a serious reform of their economies, to clean out cronyism, corruption and all the inefficiencies that hold back their growth. America's Democrats need to accept entitlement cuts and Republicans higher taxes. Independent commissions should set electoral boundaries. And so on.

Japan's politicians had umpteen chances to change course; and the longer they avoided doing so, the harder it became. Their peers in the West should heed that example. ■

The ethics of warfare

Drones and the man

Although it raises difficult questions, the use of drones does not contravene the rules of war

THE use of Unmanned Aerial Systems, as the armed forces prefer to call them, is growing. Drones have become today's weapon of choice in counter-terrorism. And over the next 40 years or so, they are expected largely to replace piloted aircraft. In nine years the Pentagon has increased its drone fleet 13-fold and the generals are spending at least $5 billion a year adding to it. The frequency of drone strikes on al-Qaeda and other terrorists that lurk in Pakistan's Federally Administered Tribal Areas (FATA) has risen under Barack Obama to one every four days, compared with one every 40 during George Bush's presidency. In Libya NATO commanders turned to drones when their fast jets failed to find and hit Muammar Qaddafi's mobile rocket launchers.

Not everyone feels comfortable with all this. Critics say that the legal and ethical issues surrounding the use of drones have been neglected. Some of those concerns may be exaggerated, but others need to be taken seriously, particularly if, as seems certain, armies will increasingly fight with machines, not men.

There are good reasons for using more drones. Cruise missiles and jet fighters work against fixed targets, concentrations of forces or heavy weapons on open ground. They are not as useful, however, in today's "wars among the people" fought against insurgents and terrorists. Drones such as the Predator and the Reaper can loiter, maintaining what one former CIA director described as an "unblinking stare" over a chosen area for up to 18 hours. Thanks to the drone's ability to watch and wait, its "pilot", often thousands of miles away, can patiently choose the best moment to fire its missiles, both increasing the chances of success and minimising the harm to civilians.

That makes the drone the ideal weapon for tracking down and killing terrorists, particularly in places like the FATA where other options, such as sending in special forces, are not politically feasible. Claims in Pakistan that American drone attacks have killed thousands of civilians are undermined by research (see page 36) carried out at the New America Foundation, a think-tank, suggesting that in the seven years since 2004, 80% of the fatalities have been militants and that last year (thanks in part to intelligence provided by the Pakistanis themselves) fully 95% of them were. The increasing accuracy of these attacks and the evidence that they have helped to weaken al-Qaeda encourage some to believe (not least in the White House) that counter-terrorist campaigns in the future can be waged without the sacrifice of blood and treasure that goes with putting thousands of boots on the ground.

The rules of the drones club

Before that happens, America must square up to some of those ticklish legal and moral questions that drones raise. The United States is surely right to seek to minimise its own casualties, but if war can be waged by one side without any risk to the life and limb of its combatants, has a vital form of restraint been removed? Is the drone "pilot" who clocks off after a day's work a legitimate target for those he has been hunting down? If the drones of the future have the intelligence to act autonomously, who is responsible if a vital algorithm fails to distinguish between a tank and a school bus? Drones throw up a tangle of ethical questions. Only open debate will provide the answers; they cannot be assumed by button-pushers.

Yet the more fundamental argument that armed drones somehow breach the laws of war does not, at present, stand up. There are still plenty of human beings in the operational loop—it takes a team of about 180 to run and service a Predator—and it is clear that the responsibility for the decision to fire a missile rests as much with the pilot in a distant command centre as with a pilot in any cockpit. The legal defence for that missile killing people who have not been proven to be terrorists or who have not been allowed the chance to give themselves up is the same too. America must show that the attack is within its right to self-defence and that it is proportionate.

To improve accountability, control of armed drones flying over Pakistan and Yemen should be transferred from the CIA to the armed forces (which operate them in Afghanistan, Iraq and Libya). The CIA can use drones to spy, but when it comes to warfare, it is less accountable than the military chain of command, less used to applying the rules of war and less inclined to pay compensation to the families of innocent civilians who have been killed. The operation of America's new killing machines must be brought clearly within the law. ■

India and its near-abroad

New humility for the hegemon

Too slowly, India is realising that poor relations with its South Asian neighbours hold back its global ambitions

NO ONE loves a huge neighbour. For all that, India's relations with the countries that ring it are abysmal. Of the eight with which it shares a land or maritime boundary, only two can be said to be happy with India: tiny Maldives, where India has the only foreign embassy and dispenses much largesse, and Bhutan, which has a policy of being happy about everything. Among its other South Asian neighbours, the world's biggest democracy is incredible mainly because of its amazing ability to generate wariness and resentment.

Until recently it operated a shoot-to-kill policy towards migrant workers and cattle rustlers along its long border with Bangladesh. Over the years it has meddled madly in Nepal's internal affairs. In Myanmar India snuggles up to the country's thuggish dictators, leaving the beleaguered opposition to wonder what happened to India's championing of democracy. Relations with Sri Lanka are conflicted. It treats China with more respect, but feuds with it about its border.

As for Pakistan, relations are defined by their animosity. One former Indian diplomat likened reconciling the two nuclear-tipped powers to treating two patients whose only disease is an allergy to each other. The observation underscores the fact that it takes two to have bad relations, and to be fair to India plenty of problems press in on it—many of them with their roots in India's bloody partition in 1947. Pakistan has used a long-running territorial dispute over Kashmir as a reason to launch wars. It also exports terrorism to India, sometimes with the connivance of parts of the Pakistani state. India thinks Bangladesh also harbours India-hating terrorists.

With the notable exception of India's prime minister, Manmohan Singh, who has heroically persisted in dialogue with Pakistan in the face of provocations and domestic resistance, India's dealings with its neighbours are mostly driven by arrogance and neglect. It has shared shockingly little of its economic dynamism and new-found prosperity with those around it. Just 5% of South Asia's trade is within the region.

Too little and too late, the neglect is starting to be replaced by engagement (see page 35). This week Sonia Gandhi, dynastic leader of India's ruling Congress Party, visited Bangladesh—a first. And on July 27th India's foreign minister hosted his Pakistani counterpart, the first such meeting in a year. He promised a "comprehensive, serious and sustained" dialogue.

Up to India

A new regional engagement is prodded by two things. China's rapid and increasingly assertive rise challenges India's own regional dominance. As a foundation for its rise, China pursued a vigorous "smile diplomacy" towards its neighbours that stands in contrast to slothful Indian energies. The smile has sometimes turned to snarl of late (see Banyan). Even so, China's engagement with its neighbours has allowed it both to prosper and to spread influence.

Second, dynamic India can hardly soar globally while mired in its own backyard. Promoting regional prosperity is surely the best way to persuade neighbours that its own rise is more of an opportunity than a threat. Yet India lacks any kind of vision. A region-wide energy market using northern neighbours' hydropower would transform South Asian economies. Vision, too, could go a long way to restoring ties that history has cut asunder, such as those between Karachi and Mumbai, once sister commercial cities but now as good as on different planets; and Kolkata and its huge former hinterland in Bangladesh. Without development and deeper integration, other resentments will be hard to soothe. It falls on the huge unloved neighbour to make the running. ■

Justice in Egypt

End impunity now

Hosni Mubarak must be brought to book. But the need for justice is deeper than one man's crimes

ONE of the most righteous demands of the newly awakened Arabs is that the tyrants who pillaged their countries and battered the bodies of those who opposed their crimes should face the full force of justice. The principle that no person is above the law, especially those at the top, is among the most precious of all the rights that the brave protesters in Tahrir Square have sought. So it is vital for Egypt's fledgling democracy that Hosni Mubarak, who sorely abused his position as head of state for the past 30 years, should face trial in an open court—and with all the benefits of defence lawyers that were denied to the many thousands of his opponents who were tortured and locked up without trial during his time.

He faces two main sets of charges, both grievous: corruption on the grandest scale; and murder by virtue of his government's decision that police should fire on the demonstrators in Tahrir Square and elsewhere, killing more than 800. Mr Mubarak's doctors suggest he is too ill (and—laughably—"too depressed") to stand trial. If independent doctors deem him to be malingering, he should be dragged to court. If he is medically unfit, the trial should be postponed. And if his condition deteriorates, he should—though this is the worst option—be tried in absentia. It is important that justice be seen to be done. ▸▸

Egypt remains an incomparably better place than it was before the revolution that overthrew Mr Mubarak (see page 41). The country is grinding forward, albeit with hiccups, towards democracy. By the end of the year there should be a genuinely elected parliament. A sensibly broad coalition government is likely to emerge, with a strong contingent of Islamists whom secular-minded liberals distrust and whose democratic credentials have yet to be tested. It is a risk that must be taken.

Stop the rot

But in the past few weeks Egypt has been stumbling through a bad post-revolutionary patch. The generals overseeing the necessarily messy transition have been failing to keep up the momentum of change. Some suspect they are keen to strike a closet bargain with the Islamists to fend off those who seek to rebuild Egypt as a paragon of pluralism and tolerance. Among protesters there is worrying talk of the need for street justice and public hangings.

The current supposedly stopgap ruler, Field-Marshal Muhammad Hussein Tantawi, is a long-time acolyte of Mr Mubarak. He has been loth to let soldiers and policemen be tried and punished for the many abuses heaped on peaceful protesters in the run-up to Mr Mubarak's fall—and sometimes, disgracefully, in the weeks after it. Deplorably the field-marshal has sanctioned the use of military tribunals to impose draconian sentences on alleged lawbreakers who have included innocuous democracy activists.

Hence the urgent need for the open and speedy dispensing of proper justice for all serious offences, Mr Mubarak's trial to the fore. Egyptians need reassuring that a decent new order is in the offing. In due course, a truth-and-reconciliation commission should be established to draw a line under the past. In Mr Mubarak's day thousands of Egyptians committed crimes of varying degrees of gravity just to rub along. Getting small fry to confess the details may be punishment enough for many of them. But that is for later. Such commissions work only if the main authors of much greater crimes have already been tried—and tried fairly. That process should start forthwith. ■

The Big Mac index

Fast food for thought

What do hamburgers, lipstick and men's underwear have in common? The joys of quirky economic indicators

IT IS nearly 25 years since *The Economist* cooked up the Big Mac index. We devised it in September 1986 as a fun way to explain "purchasing-power parity", by comparing the prices of hamburgers in different countries. But burgernomics has since provided serious food for thought. Some economists think the Big Mac index has been surprisingly accurate in predicting long-run movements in exchange rates. It has also provided a few hot tips (and some half-baked ones) for investors.

When the euro was launched in 1999, almost everybody reckoned it would immediately rise against the dollar. But the Big Mac index suggested that the euro was already overvalued. Soros Fund Management, a prominent hedge fund, later told us that it sniffed at the sell smell coming from the Big Mac index, but resisted the temptation to bite. It was cheesed off when the euro promptly fell. Today, our burger barometer suggests that the euro is again overvalued against the other main currencies, and it highlights the euro area's internal problems, showing that Greece, Italy, Portugal and Spain have lost competitiveness relative to Germany.

Burgernomics is also a handy check on whether governments are understating inflation. It supports claims that Argentina has been cooking the books: over the past decade, Big Mac prices there have, on average, risen by well over ten percentage points more each year than the official consumer-price index—a far bigger gap than in any other country.

But bingeing on burgernomics can be unhealthy. American politicians cite the Big Mac index as proof that the yuan is massively undervalued. It is true that burgers are cheap in China, but so they should be in all emerging economies, because wages are much lower. If the index is adjusted for GDP per person, it shows that the yuan is now close to its fair value against the dollar (see our Economics focus, page 70).

Alternative currency benchmarks have been proposed, based on the prices of iPods, IKEA bookshelves, Starbucks lattes and even *The Economist* itself. None really cuts the mustard. Studies suggest that the Big Mac index fairly closely tracks the purchasing-power-parity rates calculated by more sophisticated methods. Yet whereas those fancier techniques require researchers to gather thousands of prices in each country and take two years to produce, the Big Mac index relies on a single product, so the results are almost instant.

A general problem with official economic statistics is that they are published only after a lag and are subject to big revisions. This explains the popularity of quirky but timely indicators such as the crane index (the number of cranes you can see from a given point in a city), the lipstick index (when things get tough women buy lipsticks instead of dresses) and our own R-word index, which gives early warning of recessions by counting newspaper stories which mention the R word.

A brief encounter

When Alan Greenspan was chairman of the Federal Reserve, he monitored several unusual measures. One favourite, supposedly, was sales of men's underwear, which are usually pretty constant, but drop in recessions when men replace them less often. The Old Lady of Threadneedle Street is perhaps too prim to inspect men's underpants. Instead, the Bank of England tracks data on internet searches for telltale terms. It has, for example, found that the trend in searches for "estate agents" can be a predictor of house prices.

It is time for another unorthodox measure. A more modern (or just lazier) outfit these days, *The Economist* is giving "crowdsourcing" a try. What international indicator, edible or otherwise, could usefully be served with Big MacCurrencies? Readers can send suggestions to deliciousdata@economist.com. We will publish any especially tasty morsels. ■


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ANNA NEMETH, CFA
ETHICS
TENACITY
RIGOR
ANALYTICS

Gay life in the South

SIR – I don't know if it was just a disappointingly typical buy into stereotypes, but the tone of your article on gay life in the South simplified a complex situation ("Still far behind", July 9th). Gay life in the South is pretty much like gay life elsewhere in America: large, vibrant communities in urban areas, lower visibility in rural districts. This is true in all states. In San Francisco gay life is easy; in Fresno, not so much. It is the same in Europe. London, Paris, Berlin, Prague and Copenhagen are very gay-friendly, though I'm guessing that a small town in Yorkshire is probably not.

In Dallas, the "Buckle of the Bible Belt", gay city-council and school-board members no longer make news. We have the largest church with a gay and lesbian membership in the world. We have a famous gay men's chorus, which performs to packed audiences.

I don't expect Texas (or any other southern state) will allow same-sex marriage any time soon, but it will, eventually, as time is on our side. Dallas will never be another San Francisco or New York, but we wouldn't want that anyway. Most of us living here are doing quite well, and to imply that we are cowering under the lash of wild-eyed evangelicals is simply misleading.

RICHARD SEARS
Dallas

Histrionics repeats itself

SIR – The only thing going up more quickly than European bond yields at the moment is the colourfulness of *The Economist*'s prose in reporting the issue. Consider a recent leader in the July 16th edition, "On the edge". The euro "crisis" has entered a "perilous" new phase. The debt "drama" has "lurched" from one "nail-biting" scene to another.

Financial markets have reacted with "alarming" speed; stockmarkets have "slumped". Default would have "calamitous" consequences. The lesson of the week is "horrible". Germans face a "stark" choice. Investors are "terrified" of the situation in Italy, and so on, and so forth.

Hang on a second. If investors really were so terrified of Italy's situation, would yields on bonds have risen by just a percentage point? And would they then have subsequently fallen back? Europe's financial problems are undoubtedly serious, but there is no need to go overboard.

ROBERT SATCHWELL
Haarby, Denmark

Antitrust policy in Brazil

SIR – *The Economist* is right to say that competition policy in Brazil would be enhanced if proposed new legislation under discussion in Congress is approved ("Too little, too late", July 9th). Under the new laws, CADE, the competition authority, would shift its emphasis towards looking at potential mergers, rather than at mergers after they have happened.

However, it is not fair to say that "antitrust policy has long been weak in Brazil." CADE has become increasingly more active over the past decade, especially within the last two or three years. In 2011 CADE was elected "Agency of the Year in the Americas" by the *Global Competition Review*, a British specialised publication.

FERNANDO FURLAN
President
Competition and Antitrust Council (CADE)
Brasília

Pay-as-you-drive

SIR – Your gibe that "public transport in Los Angeles has a great future, and always will" threw a spotlight on the common misunderstanding that adding more road capacity is the best way to ease traffic congestion on highways ("Carmageddon", July 9th). Traffic will always expand over time to meet the available capacity. But the problem remains that those who use highways a lot and in peak periods pay the same as those who do not. In effect, we subsidise peak-period drivers.

A solution to this is to ▸▸

charge motorists for their decision to drive by time and location. A driver's monthly bill could be based on the total amount of travel over that period. At the same time the taxes that are paid by others to subsidise the heavy use of the highway would be reduced. A system where the user pays is the only way forward to attaining a reasonable transport system in the future, which would include an optimal mix of car and public transit. Such a system could be implemented gradually to allow people to make adjustments to their choices of housing, vehicle, route and time of travel.

In a democratic society we have the freedom to use whichever mode of transport we deem necessary, be it car, bicycle or foot, but that should come with a responsibility that the user has to pay the true cost of his or her choice of transport, just as we do for our use of water and electricity.

CHAN WIRASINGHE
Professor of civil engineering
University of Calgary
Calgary, Canada

SIR – Actually, public transport in Los Angeles has a celebrated past. Before Robert Moses and Dwight Eisenhower regrettably encouraged America's obsession with the freeway, greater Los Angeles was home to the Red Car system of Pacific Electric, at the time one of the largest electric-railway systems in the world.

JAMES SAKSA
Philadelphia

Austria-Hungary had a coast

SIR – Your obituary on Otto von Habsburg (July 16th) thought it absurd that the regent who ran "landlocked" Hungary in the interwar years was "styled admiral". The regent, Nicholas Horthy, was an officer in the Austro-Hungarian navy and commander at the Battle of Otranto in 1917. He most assuredly was an admiral.

You also mentioned Hungary's "disastrous turning". It is not clear what specific turning you are referring to, but "70 years before" 1990, the start of "free Hungary", would be 1920, when Horthy assumed the regency. He brought stability and prosperity to the country and is regarded with great affection. Finally, you seem to believe it was in Hungary's power to "dump" the Nazis. May I remind you that it took the lives of hundreds of thousands of allied soldiers to remove the Nazis from Europe.

EDINA KOPITS
Princeton, New Jersey

Rick Perry's Texan two-step

SIR – Your description of Rick Perry as a "real deal" conservative seems to be based solely on sources from inside his unofficial campaign (Lexington, July 23rd). Dig deeper into Mr Perry's record as governor of Texas and you will find inconsistencies. He rails against Obamacare because he says the government is interfering with the doctor-patient relationship, yet he signed an act that requires doctors to perform sonograms just before an abortion procedure and to describe the characteristics of the fetus to the patient seeking the abortion.

And just how does the long-serving fiscally conservative Mr Perry explain the state's huge budget deficit? He has spent his entire career in government.

TIM REVELS
Houston

Simile culture

SIR – It is correct that the "returns on capital" in Indian mobile telecoms are pathetic, but to say that they "stink like the drains in Kolkata" is insensitive to the people who live in that city ("Happy customers, no profits", June 18th). Did your journalist go around various drains to determine the level of stink to arrive at that conclusion? I doubt it.

ASIM BANERJEA
Kolkata ■

Letters are welcome and should be addressed to the Editor at
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United Nations
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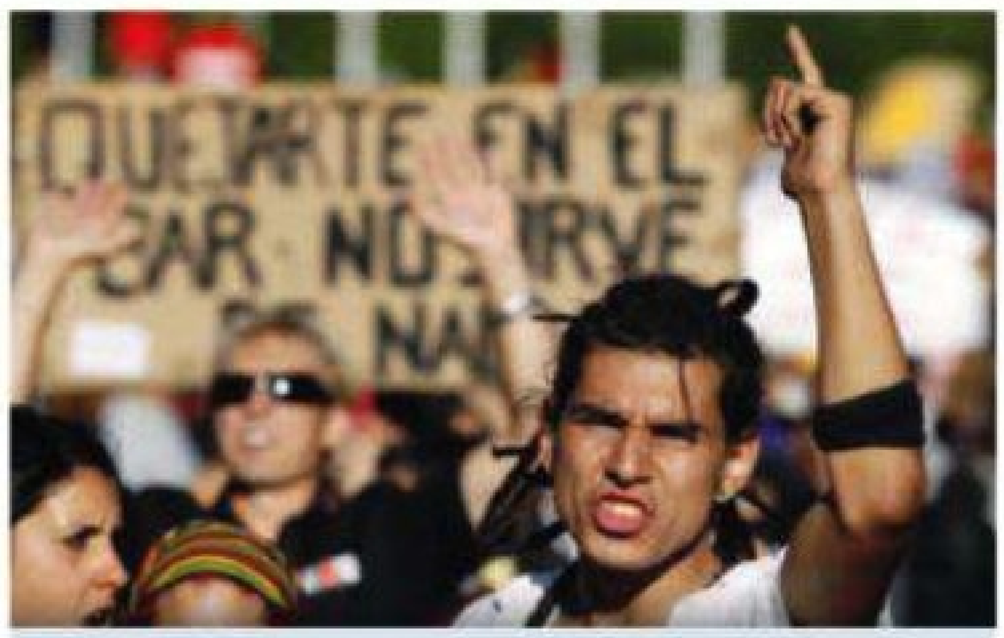

Incoherent rage
Spain's "indignados" are anxious about their future and angry with the establishment. But although they enjoy wide support across the political spectrum, they are struggling to convert their energy into a meaningful vision for political change
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Sun-burned
The installed capacity of solar power increased in more than 100 countries in 2010 as the price of solar panels dropped. But this building frenzy has coincided with cuts to solar-subsidy schemes across Europe as governments battle with the debts they have run up
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A celebration of burgernomics
The Economist's Big Mac index, a light-hearted guide to whether currencies are trading at a reasonable level, celebrates its 25th birthday this year. Our latest update introduces a new, beefed-up index, which suggests the yuan is no longer undervalued against the dollar
Economist.com/bigmac0811

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This house believes the euro is dividing Europe and should be abolished
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Europe: Breivik and the Balkans
The man behind the Norway killings had a peculiar obsession with the history and affairs of the Balkans
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No great apes are experimented on in Britain, but the strict rules that govern the use of monkeys should be further tightened
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Africa: Accountability needed
Despite Jacob Zuma's efforts corruption still threatens democracy in South Africa
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We revisit an MBA programme in Côte d'Ivoire that was launched just as the country was collapsing into civil war
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3D television has not been the blockbuster success setmakers had hoped. But it has at least spurred them into producing screens with higher resolutions
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Culture: Her odds were stacked
In an industry of factory-produced icons and committee-born sounds, Amy Winehouse stood out as the real thing
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Flowers for freedom

OSLO

As Norwegians mourn their dead, they insist that they will not give up the openness of their society

"WITH the strongest weapons in the world—freedom of speech and democracy—we are staking out the course for Norway after 22 July 2011." Jens Stoltenberg, Norway's prime minister, echoed the sentiments of most of his compatriots when he spoke at a vigil in Oslo this week. Anders Behring Breivik, a 32-year-old Norwegian and far-right Islamophobe, had admitted killing at least 76 people in a bomb attack on government buildings in the capital and a machinegun massacre on nearby Utoya island, where young members of the Labour Party were at a holiday camp.

The public's resolve to preserve Norway's cherished freedom, openness and tolerance was as striking as the grief. In Oslo 150,000 people held roses in a mass symbol of remembrance. The gesture was replicated in town gatherings the length and breadth of the country, from Svalbard, halfway to the north pole, to villages on its southern shores. "I am infinitely grateful to be living in a country where, at a critical time, people take to the streets with flowers and candles," said Mr Stoltenberg.

Mr Breivik is in police custody, in solitary confinement without access to news or the internet for the next eight weeks. Though he has confessed to the killings, he denies he committed a crime. He will probably be charged under a recent terrorism provision in the criminal code that allows a 30-year prison sentence. There are other provisions that could keep him locked up for the rest of his life. The Norwegian police have yet to answer conclusively the vital question of whether he acted alone or with accomplices.

A facet of Norwegian openness—its tolerance of diversity—was one of the things that fuelled Mr Breivik's mass slaughter. The Labour Party, the dominant force in Norwegian politics for decades, came into his cross-hairs because of its staunch defence of both diversity and tolerance. AUF, the party youth wing that organised the camp on Utoya island, was a doubly attractive target in his twisted ideology: it is fervently anti-racist and many members come from Norway's ethnic minorities.

"Our organisation has been struck in the heart with the murder of the new young generation of politicians. It is not just an attack on the Labour Party but on the whole of Norway and on our democracy," said Raymond Johansen, the party secretary. Gro Harlem Brundtland, a former long-standing prime minister, delivered a keynote address to the young party members on the day of the massacre. Though she had been specifically picked by Mr Breivik (who called her the murderer rather than the mother of the nation), she had fortunately left the island before he got there. Much later she revealed that she had chatted on the day to half a dozen youngsters who told her of their plans to stand for parliament in the 2013 general election. At least two of these, she said, were among the dead.

The cold-blooded targeting of the stars of Norway's political future shocked politicians of every hue. For the time being they are standing together in disgust, everyday differences cast aside. Though campaigning for local elections on September 12th was due to start soon, the parties agreed unanimously to postpone all pre-election debate until the second half of August.

One thing that stands out is Norway's ▸▸

determination not to let Mr Breivik's appalling deeds affect its unusual way of life. The country's easy informality and open-access attitudes can surprise foreigners used to more strictly controlled environments. After the attack the police temporarily stepped-up their vigilance at the borders, checking the identity of some, but far from all, travellers. The Royal Palace shut briefly but four days later it was business as usual, with Norwegians and tourists milling around the forecourt.

Leading figures do have security guards but very discreet ones. Crown Princess Mette-Marit, for instance, moved freely among mourners at a gathering in the home town of her step-brother, Trond Berntsen, who was on guard at the Labour Party youth camp on Utoya island and one of the first to be killed.

Just before he went on his killing spree, Mr Breivik published a 1,500-page manifesto on the internet. In graphic detail, the murderer cast himself as a latter-day crusader who would redeem European civilisation from invasion by Muslim hordes.

But Mr Breivik's declamation of invaders who are conquering by reproduction is at odds with reality. The country's demographic make-up has shifted over the past 30 years; 12.2% of its 4.9m people are now immigrants and their Norwegian-born children. But this figure covers migrants from all countries, and some 40% of them are from the West. By nationality, the biggest group of immigrants are Poles, followed by Swedes and then Pakistanis.

Moreover, Mr Breivik's prophecies of conquest by multiplying is confounded by rapidly falling immigrant birth rates. Statistics show that newcomers from countries that are culturally attuned to having lots of children quickly fall into line with Norwegian norms once residency is established.

More policemen in future?

That does not mean that Norwegian immigration policy is trouble-free: there has been friction at many levels. The failure (so far) of the Norwegian authorities to expel Mullah Krekar, a fractious Islamic cleric, has caused agitation. Mr Krekar, who came to Norway as a refugee, is wanted for murder in Iraq and was deemed "a threat to national security" by the Norwegian high court. There has also been violence between various ethnic groups, but the only serious incident in recent years was the stabbing to death of Benjamin Hermansen, a boy of mixed Norwegian-Ghanaian parentage, by a neo-Nazi gang. Unemployment is higher and poverty greater among non-Western immigrants, but most charts show things moving, rather rapidly, in a fairer direction.

Watch the neighbours

Mr Stoltenberg this week announced an independent inquiry into the attacks, amid criticism of the police response. In thinking about the future, Norwegians may look to their immediate neighbours, examining their experiences of sudden bloodshed and the paths they took afterwards. In Sweden the murder in 2003 of the country's popular foreign minister, Anna Lindh, in the middle of a euro referendum campaign caused much revulsion and soul-searching. Though Sweden did not completely roll back its Norwegian-style openness, security has certainly been ratcheted up several notches. Sightings of leading politicians on Stockholm's streets are rarer than they once were and access to government buildings is trickier.

Things have changed in Denmark too. The shock-factor here was the 2005 publication of a series of satirical cartoons of the prophet Muhammad and the threats that ensued. Protests at perceived blasphemy erupted throughout the Muslim world. Embassies were burned and scores of people lost their lives. Since then, increasingly vociferous outbursts against the ills of immigration have become commonplace—and toxic. Denmark's anti-immigration measures have been tightened incrementally and are now among Europe's most restrictive. The far-right Danish People's Party has consistently and successfully bartered its voting power for the chance to hold sway over immigration policy.

Now, after Norway's tragedy, there may be some rethinking in Denmark. People are asking whether the often poisonous nature of public discourse on Islam and immigration did indeed nourish the ideology that underlay Mr Breivik's crime.

It was not like that in Norway, but it is Norway that has been hit. As bodies of teenagers still lie deep in the lake around Utoya, awaiting discovery, nobody is yet making decisions about the future. "We are broken-hearted, but we are not broken," explained the prime minister. ■

Norway's role in the world

The peacemakers

How a small country plays a large part

IT HAS become standard for countries which discover large deposits of oil or gas to declare that they will copy Norway. A president will announce the creation of a fund to park revenues from hydrocarbons. Grand plans are drawn up for spending the bounty on improving the lot of mankind. But being Norway is much harder than it sounds. Only one country seems to have the necessary mixture of wealth, generosity, internationalism, optimism and modesty required to pull it off.

Norway is the biggest contributor to conflict resolution, the optimistic name given to efforts to get warring parties to talk to each other. A high point here came in 1993, when Norwegian diplomats and researchers cajoled Israelis and Palestinians to negotiate face to face. The resulting Oslo accords were signed in Washington by politicians from America, Russia, Israel and Palestine. Norway was more than happy for them to take the credit for its initiative.

Since then Norway has sought to involve itself in many other conflicts—the less tractable the better. It has tried to repeat its Arab-Israeli success (as it seemed at the time) in Colombia, Haiti, Cyprus, the Philippines, Burma, Indonesia and, most recently, Sri Lanka. This last has been criticised as naive, leading as it did to a ceasefire that allowed the combatants to rearm before the killing resumed. Yet a consistent principle runs through these efforts: that it is better to sit down with all parties, even those considered pariahs, than to exclude anyone from peace talks.

Norway is a generous funder of a huge number of good causes. It has, for instance, given more to alleviate hunger in the Horn of Africa this year than France or Germany. It has set up a mechanism to pay Brazil not to chop down the Amazon. And it shovels money into the United Nations.

This makes Norway sound like a place that models its foreign policy on the banners held up at Woodstock, but that is not the case. It is a member of NATO and is playing an outsized role in the campaign in Libya. It has repeatedly shown a willingness to put its soldiers in harm's way. The foreign ministry estimates that 120,000 Norwegians served as peacekeepers between 1947 and 2008, and Norwegians wearing the UN's blue berets can today be found in Sudan, Congo and Afghanistan.

The growth of Islamophobia

Can careless talk cost lives?

If denunciation of Islam is now acceptable, it is more important than ever to distinguish between robust debate and incitement to violence

FOR a few hours after the killings in Norway, when many people guessed that the perpetrators were Muslims, the blogosphere buzzed with told-you-so indignation from those who argue that the threat to the Western world from political Islam has been underestimated. Surely now, it was said, people would see the need for vigilance, not only against Islamically inspired violence but against any Muslim talk that abets such violence.

Soon after, as it emerged that the killer was a self-appointed warrior for the white Christian West, the boot was on the other foot: defenders of Muslim rights began arguing that xenophobic violence, even by the unhinged, was abetted by any language that demonised Islam and all those who practise it. Then it came to light that many of the best-known critics of Islam in Britain and the United States were cited in Anders Breivik's rambling 1,500-page manifesto. To some this seemed like proof that Islamophobic talk, even of the most cerebral kind, could have a cost in blood.

Islamophobia at its most vile

In response, critics of Islam were defiant, not embarrassed. In the sarcastic words of Mark Steyn, an Islamosceptic writer, posted in the *National Review Online*: "If a blond blue-eyed Aryan Scandinavian kills dozens of other blond blue-eyed Aryan Scandinavians, that's now an 'Islamophobic' mass murder?" Equally strident in self-defence was Robert Spencer, an American whose website Jihad Watch is widely read by adversaries of Islam.

But for better or worse, the word Islamophobia, implying an intense, potentially violent antipathy towards the Muslim faith and its followers, is now firmly in the world's political vocabulary. That may be one of the consequences of the Norwegian horror. Hitherto the term has often been called into question, especially if used to outlaw any strong dissent from Islam as a creed. A phobia suggests a prejudice, an irrational fear or hatred. Surely, some say, it is possible to criticise a religion, by disagreeing with its tenets or even arguing that they could have bad social consequences, without being malicious.

On the other hand, for those who do want to demonise a social group or pick a fight, appeals to religious sentiment can—as every rabble-rouser knows—be an effective rhetorical device. People who have never darkened the door of a church can easily be persuaded that minarets on a skyline are a threat to everything they hold dear, to be resisted in every way.

Across Europe and America, the denunciation of Islam as such—as opposed to fundamentalist or radical readings of Islam—has gained respectability in the past few years, even as Muslim communities have grown in size and confidence. Lisa Bjurwald, a Swedish writer on far-right politics, points to three powerful strands of Islamophobia at work in Europe.

Bad, worse, worst

First, in almost every European democracy there are semi-respectable political parties which trade on antipathy towards Islam (and immigrants in general—especially dark-skinned ones). Second, there are street movements, such as Germany's Pro Deutschland, which might evolve into genuine parties. Third, on the fringe, there are groups such as the English Defence League (EDL), and its embryonic imitators in some other countries, whose supporters barely conceal the fact that they are spoiling for a fight on the streets. Mr Breivik claimed to have been in touch with the EDL—which does not imply any responsibility on its part.

For several years after the terror attacks on the United States in 2001, senior figures in both Europe and America held back from any denunciation of Islam as such; they were careful to distinguish between the faith and the people who practised violence in its name. When, in 2001, Franklin Graham, an American preacher, denounced Islam as "a very evil and wicked religion", the Bush administration was deeply embarrassed. That self-restraint—the sense that it is indecent or irresponsible to make a general attack on a religion that hundreds of millions of people practise—has now partly evaporated.

In 2009 the leader of Norway's Progress Party, to which Mr Breivik belonged for several years, made waves by saying: "The reality is that a kind of sneak-Islamisation of this society is being allowed…we are going to have to stop this." The Flemish-nationalist Vlaams Belang party laments in its manifesto that Muslims have made little or no attempt to adapt to "our Western lifestyle". In Denmark the People's Party leader, Pia Kjaersgaard, has deplored the arrival in her country of "thousands of persons who apparently civilisationally, culturally and spiritually live in the year 1005 instead of 2005." This week an Italian MEP from the Northern League caused outrage by calling Mr Breivik's ideas "good" and in some cases "excellent".

In America, where national culture is seen as a work perpetually in progress, and the constitution guarantees freedom of religion, it may be harder to make purely nativist arguments against Islam. But denunciations of Muslims and their beliefs have been couched in terms of security. A mosque, even an ostensibly peaceful one, could pose a terrorist threat; and America's constitution could be threatened by an attempt, however improbable, to impose the *sharia* code over the law of the land.

In the argument over whether to allow a mosque near the site of the 2001 attacks, much of the language implied the "collective guilt" of all Muslims, suggests John Esposito, a professor at Georgetown University. Mr Esposito, who advocates Christian-Muslim reconciliation, gets a torrent of abuse as a "fellow-traveller" with Islam. Herman Cain, a Republican with dreams of the presidency and also a Baptist minister, recently said that it was right to oppose the building of mosques (in Tennessee, for example) because they might be part of a plot to impose *sharia*.

Still, even as arguments over Islam get more intemperate, many people see a greater need to protect religious free speech, to distinguish clearly between outspoken theological dialogue and incitement to hatred or violence. The best way of defusing explosive religious tensions is to safeguard a "respectful, robust, religiously literate debate" between faiths, says Elizabeth Hunter of Theos, a British think-tank. Keith Porteous Wood, of Britain's National Secular Society, says the Norwegian tragedy must "not silence legitimate debate about Islam and Western values", because that would be a gift to deranged extremists such as Mr Breivik. ■

Also in this section

The debate ceiling (continued)

Glum and glummer

WASHINGTON, DC

With the Treasury about to run out of money, John Boehner, Barack Obama and their acolytes remain at loggerheads over budget cuts

THE closer the federal government comes to hitting the limit imposed by Congress on its borrowing and thus defaulting on some of its obligations, the more frantically members of Congress churn out schemes to avert the impending disaster. As *The Economist* went to press, the House of Representatives was poised to vote on the latest plan, put forward by John Boehner, the speaker and leading Republican voice in the debate about the debt ceiling. But the measure's prospects seem uncertain in the House and even bleaker in the Senate. Several more plans wait in the wings, but all face the same difficulty: passing muster both with the Republican scourges of government who run the House and the more reluctant budget-cutters from the Democratic Party in charge of the Senate and the White House. Meanwhile, the Treasury insists it will run out of money after August 2nd, whereupon it will have to stop paying at least some bills.

Since Republicans took control of the House at the beginning of the year, they have given warning that they will not simply wave through an increase in the debt ceiling, as Congress has usually done in the past. Never mind that in April a majority of them voted for an interim budget that assumed that the debt ceiling would be lifted, and for a longer-term budget resolution that would require it to leap by almost $9 trillion over the next decade. America's deficits, they argued, were unsustainable, and the bargaining power conferred on them by the need to raise the debt ceiling presented a wonderful opportunity to stop the rot.

In a speech in May Mr Boehner explained that he would want dramatic reductions in government spending in exchange for an increase. "We should be talking about cuts of trillions, not just billions. They should be actual cuts and programme reforms, not broad deficit or debt targets that punt the tough questions to the future." As recently as last week he was discussing just such a deal with Barack Obama, who despite having presented a spendthrift budget earlier in the year had professed a willingness to trim future deficits by as much as $4 trillion. On July 22nd, however, Mr Boehner withdrew from the negotiations, saying that Mr Obama was too eager to raise taxes—something that almost all Republicans in the House had sworn not to do. (By most accounts, Mr Obama was talking chiefly about eliminating or reducing loopholes and exemptions in the tax code, albeit on a grand scale.)

Red means recalcitrant

Would you rather have a congressman who...

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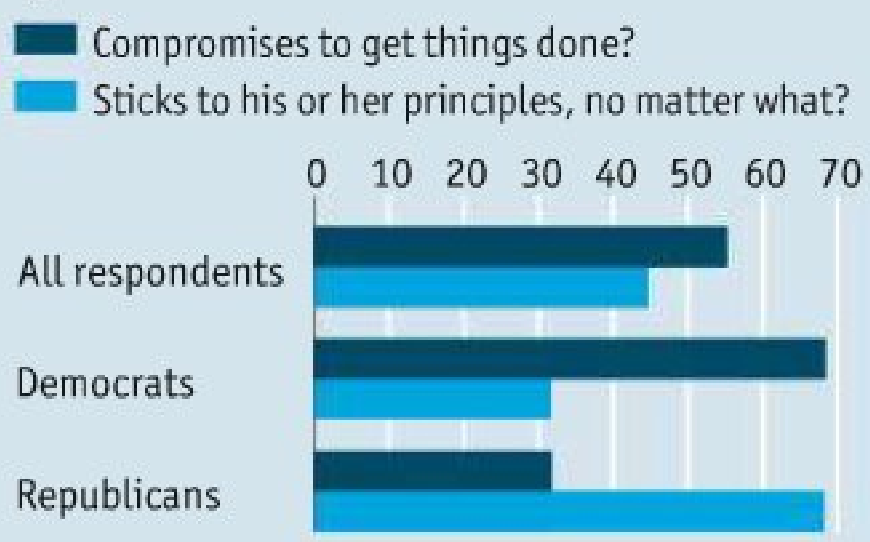


Source: *The Economist*/YouGov poll, July 23rd-26th 2011

Even as Messrs Boehner and Obama were falling out, the Senate rejected a bill passed by the House that would have slashed spending next year, capped it in future and prevented the debt ceiling from being lifted until Congress approved an amendment to the constitution that barred the federal government from running deficits even as it made it harder to raise taxes. That, the Democrats complained, was far too draconian. The harried Mr Boehner responded on July 25th with a lesser measure that he said would cut spending by $915 billion, and raise the debt ceiling by a little less—only enough to keep the government going for about six months. The bill would also set up a panel of 12 congressmen to recommend another $1.8 trillion of cuts, which if enacted would prompt another $1.6 trillion rise in the debt ceiling. Tax rises would be ruled out from the start.

Many of Mr Boehner's foot-soldiers in the House are unhappy with this proposal. They complain that it abandons the principles he laid out in May, by resorting to committees and spending caps rather than detailed reforms. Thirty-nine of them have vowed not to vote for any increase in the debt ceiling unless it is accompanied by a balanced-budget amendment—something that Mr Boehner's bill only offers a vote on. Worse, the non-partisan Congressional Budget Office (CBO) declared on July 26th that his sums did not add up, prompting him to delay a vote on the bill while he re- ▸▸

jigged it.

Even if Mr Boehner's plan scrapes through the House, Harry Reid, the leader of the Democratic majority in the Senate, says it is "dead on arrival" in his chamber: his entire caucus has signed a letter opposing it. Not only does it set the stage for another crisis just a few months from now, Democrats complain, but it also rigs future negotiations on reducing the deficit in the Republicans' favour. The White House, too, is threatening a veto.

That is the state of play. The fact that Mr Boehner's plan is too extreme for the Democrats in the Senate and too mild for many Republicans in the House shows how hard it will be to get any other scheme approved by both chambers. Mr Reid has proposed one, which would cut spending by $2.4 trillion or so and raise the debt ceiling by the same amount, enough to keep the government going past next year's elections. But Republicans don't like it because almost half of the savings come from winding down the wars in Iraq and Afghanistan—something that was already on the cards. Meanwhile, Mitch McConnell, the leader of the Republican minority in the Senate, has a scheme to transfer the authority to raise the debt ceiling to the president, which would at least spare Republicans the embarrassment of voting for an increase, even if it does not cut the deficit at all. And there is lots of talk about a short-term increase, if no lasting plan can be agreed on.

In the end, the leaders of the two chambers are likely to put some sort of amalgam of all these plans to a vote, and can probably wring enough votes out of their underlings to secure passage. Mr Obama, for his part, would presumably sign any bill that had won the approval of the Democrats in the Senate. The alternative, most observers assume, is simply too horrible: payments withheld from pensioners, soldiers, government contractors and the like, higher interest rates, chaos in the financial markets and the harm to an already sickly economy that all this would bring.

So far the markets have shown only muted signs of disquiet. Stock prices have continued their slow but steady downward drift of the past week. The dollar slipped against some safer currencies, especially the Swiss franc. The price of insuring against an American default rose. And in auctions of government debt this week, the cost the American government pays to borrow ticked up ever so slightly. But these mild movements seem predicated on the assumption that Congress will pull a rabbit out of a hat within the next few days. The longer the rabbit takes to appear, however, the less quiescent the markets will become. And even if the debt ceiling is raised, ratings agencies are still threatening to downgrade America's debt—because the long-term fiscal outlook is so grim. ■

Health-care reform

Looking to Uncle Sam

NEW YORK

As lawmakers squabble, spending on health care continues to grow

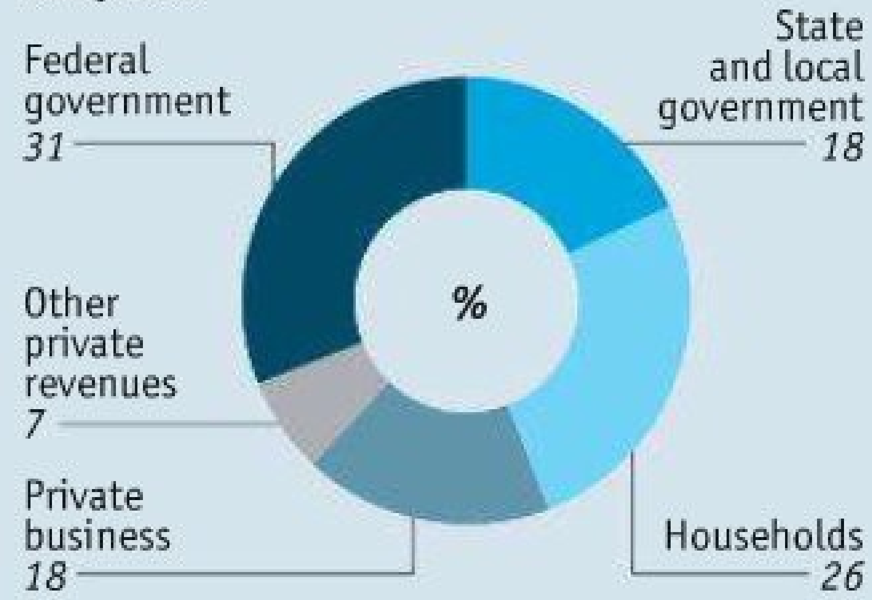
POLITICIANS want to lower spending, or at least they say they do. But in all the to-and-fro over raising the debt ceiling, little sensible has been said about lowering spending in the long term. Nothing illuminates this more clearly than health care.

A new report, published in *Health Affairs* on July 28th, paints a daunting picture. Health spending will rise by 5.8% each year from 2010 to the end of 2020, according to actuaries at the Centres for Medicare and Medicaid Services (CMS). In 2020 health care will account for one-fifth of America's economy. The federal government will pay for a greater share than ever before.

From business to state

National health spending by sponsor

2020 *forecast*



Source: Centres for Medicare & Medicaid Services

Hawks have long warned that it would be impossible to curb government spending without curtailing spending on health. Democrats claimed that their health law would lower costs. Barack Obama assembled grey-haired sages to recommend changes to entitlement programmes. Paul Ryan, the Republican chairman of the House Budget Committee, offered his own reforms. And yet spending on health care continues to climb.

Last year the actuaries at CMS projected that health reform would not lower spending, as Democrats hoped. From 2009 to 2019 average annual growth for health spending would be 0.2 percentage points higher with Mr Obama's health reform than without it. This slight net rise would mask dramatic shifts, the actuaries said. For example, reform's efforts to contain costs for Medicare, the government programme for the old, would be dwarfed by the expansion of Medicaid, the government programme for the poor.

The actuaries' newest study estimates that health spending grew little last year, mostly because of the weak economy. The next decade, however, will bring rapid growth. Government spending will be the main driver. Ageing baby-boomers will enroll in Medicare; Medicaid coverage will swell; Washington will subsidise many of those on the new state exchanges. CMS expects Washington's share of health spending to grow from 27% in 2009 to 31% by 2020. Together with spending by states and cities, the public sector will pay for nearly half of America's health care.

This is a sobering prediction. However, even this may be an underestimate. The actuaries at CMS assume that only 2m people who now have employer-sponsored insurance will lose it, as companies drop coverage and workers move to exchanges or to Medicaid. But more may make the switch. In June McKinsey, a consultancy, found in a survey that 30% of firms would definitely or probably stop offering insurance after 2014, when the exchanges are in place. On July 25th the National Federation of Independent Business, which represents small firms, published its own survey. If some workers begin to move to exchanges, the report found, 57% of companies would consider dropping insurance completely. If these surveys are borne out in firms' actions, government spending will be even higher than CMS expects. The debt disaster on August 2nd may be averted. The bigger problem remains. ■

Charter schools

The long turnaround

NEW ORLEANS

Why the Big Easy has gone furthest with the charter experiment

WHEN Hurricane Katrina hit New Orleans in August 2005, right at the start of the school year, thousands of students across Orleans Parish saw their classes delayed. Teachers were displaced, and so were parents; the schools themselves were festering, where they were not destroyed. Even before the levees broke the schools were struggling, as the city was. More than two-thirds of pupils in the public system attended schools that were officially failing. In the high schools, fewer than half could pass their graduating exams.

Six years on, it appears that Katrina was catalytic. Reformers had been fretting over New Orleans schools for years. In 2003, for example, the state created a Recovery School District (RSD) to take over failing schools. In July 2005 the Knowledge Is Power Programme, a national network of charter schools, opened its first outpost in Orleans Parish. But after the storm these efforts had a new urgency.

The state legislature declared the Orleans Parish district to be in "academic crisis" and, on that basis, authorised the RSD to assume control over more than 100 schools. Some were permanently closed, some taken on by the RSD, and some reconfigured as charters overseen by the state. They were joined by a cluster of other charters, supported by federal and state funds but independently operated.

At the end of the last school year, more than two-thirds of public-school students in New Orleans were enrolled in charter schools of one form or another. The shift has led to some gains. The RSD schools (most of which are charters) posted a 20% gain in state achievement tests between 2007 and 2010. And although 26% of New Orleans's public schools were deemed academically unacceptable by the state department of education in 2010, that was a sharp fall from 42% the year before.

The winner gets an ice cream at Galatoire's!

So the city schools have done decently, especially in the face of continuing difficulties. A July 2011 report from the Cowen Institute at Tulane University notes that New Orleans schools receive significantly more funding per pupil than the state average, about $13,000 compared with $10,700 a year. That gap will narrow as the recovery takes root. Meanwhile, they could use the money. Even before Katrina, a third of all schoolchildren in New Orleans were in private or parochial schools, compared with a national average of 11%. In the public system, more than 80% of pupils get free lunches, a proxy for poverty.

The charter-school experiment in New Orleans raises the question of why more cities and states have not followed its example. But there are problems. Georgia, for example, has more than 120 such schools. But it has got bogged down in legal arguments over whether the state, or local government, has the power to grant or revoke charters. Elsewhere, charters have never caught on. Mississippi has only one. In a recent interview the governor, Haley Barbour, said that he would love to see more but that legislative efforts to establish them were blocked by black legislators who worried that such a system might lead to de facto segregation.

This complaint annoys supporters, who point out that nationally most pupils in charter schools are black or Latino. But it is not an abstract issue in Mississippi, where demographic clustering has left many schools more racially homogeneous than the state itself. And the same concern simmers elsewhere. In May the National Association for the Advancement of Coloured People joined a teachers' union in New York to file a lawsuit to block 20 new charter schools in the city. On July 21st a judge ruled in favour of the schools.

The controversy points to a broader factor that may have helped in New Orleans. One of the common complaints against charter schools is that those who do not get into them are left behind in "sink schools". The school system in New Orleans was so bad, however, and the city so beleaguered, that a wholesale change was possible. It would be difficult, and undesirable, to replicate those conditions. Experiments may have to wait. ■

It's an ill wind...

Districts with largest percentage of public-school pupils attending charter schools, 2010

Sources: Louisiana Department of Education; National Alliance for Public Charter Schools

America's embassies

First, dig your moat

WASHINGTON, DC

Designing buildings for America's diplomats is getting ever trickier

"NOBODY can be messing with our embassy," declared Barack Obama in mid-July, after a pro-government mob pelted America's mission in Damascus with stones, eggs and tomatoes. That is not true, however, of the put-upon architects who have to design America's embassies: they are constantly being hit with new restrictions, from both their own government and the host country.

Ever since the bombing of the American embassy in Beirut in 1983, security has been the overarching concern when designing new embassies. Safety rules have been tightened repeatedly, and incorporated into a "standard embassy design" that dictates which offices should be adjacent to which (keep the bigwigs away from the public areas), how far embassy buildings should be set back from nearby roads (100 ▸▸

feet, or 30 metres), what materials can be used for walls and windows (nothing that is easy to climb or shatter) and so on. The result, critics say, is a dull series of near-identical, boxy bunkers. As John Kerry, who heads the Senate foreign-relations committee, put it in 2009, "We are building some of the ugliest embassies I've ever seen…I cringe when I see what we're doing."

He is not alone. Londoners are less than thrilled by the thought of the "crystalline cube" that will slowly rise from the semi-gentrified riverine site of Nine Elms. This, at $1 billion the most expensive American embassy ever built, was made necessary when Grosvenor Square in Mayfair became too unsafe, despite the bomb-blast barriers that make the place look like a damper version of Baghdad. The new embassy will be separated from malicious sightseers by rolling parkland and a moat—100 feet wide, as required.

Embassy architects argue that they are creative where the rules permit it. Thomas McCarthy of Page Southerland Page, a Texan firm which has designed 17 American diplomatic compounds, is very proud of the tributes to local tradition it incorporated into the embassy in Ouagadougou, for example, in the form of a shaded but open-air waiting area and a zigzag decorative motif on the external walls. But aesthetics and security are just two of a host of competing priorities.

The State Department insists on fixed prices and completion dates, with predetermined penalties for overruns. Yet conditions in the host country can be unpredictable to say the least. Page Southerland Page has had half a dozen projects interrupted by civil wars or terrorist scares. Even in places at peace, the obstacles can be hard to foresee: a dead tree on the site in Phnom Penh turned out to be revered by locals, forcing the design to be changed to preserve it; in Kigali, excavations for the foundations unearthed human remains; in Kiev the winters are so cold that it was hard to keep the concrete from freezing; and in Monrovia an arms embargo impeded the import of the explosives needed to blast away some awkward rocks.

It took six months for imported goods to get from Congo-Brazzaville's main port to the embassy site in the interior, Mr McCarthy notes, but that was an improvement on the Sudan, where the government refused to issue certain import permits and visas at all. Yet ever more imported material and outside expertise is needed since Mr Obama began a recent drive to make government buildings, including embassies, more energy-efficient. And then there are America's rules about procurement and contracting, with standards on everything from sustainability to labour relations. Think of it not as messing so much as digressing. ■

The Los Angeles River

Through culverts to the sea

LOS ANGELES

A waterway that says a lot about its city

IN THE 1980s, when Lewis MacAdams founded Friends of the Los Angeles River, his non-profit organisation, "my first job was trying to convince people that the river existed." The waterway is certainly easy to miss, even for locals. Once it emerges from the San Fernando Valley to run through downtown Los Angeles and various industrial cities before spilling into the Pacific near the port of Long Beach, the "river" is really a pathetic trickle composed almost entirely of treated sewage. It runs in a concrete channel under freeways and along railway tracks, invisible to most people. Graffiti mark the turfs of rival gangs. It smells not of fresh water but of hobo urine, slaughterhouses and factories.

A Parisian, Londoner or New Yorker might find this sad—no quays, cafés, promenades, boat cruises. Not so Mr MacAdams, who is a professional poet, though with a wry political and ecological bent (influences include William Carlos Williams and a German sculptor, Joseph Beuys). He approaches his mission of saving the river "not with sadness, but optimism and humour", he says, as he climbs over a fence under an echoing highway to descend the embankment to a tiny and improbable oasis of greenery in the river bed.

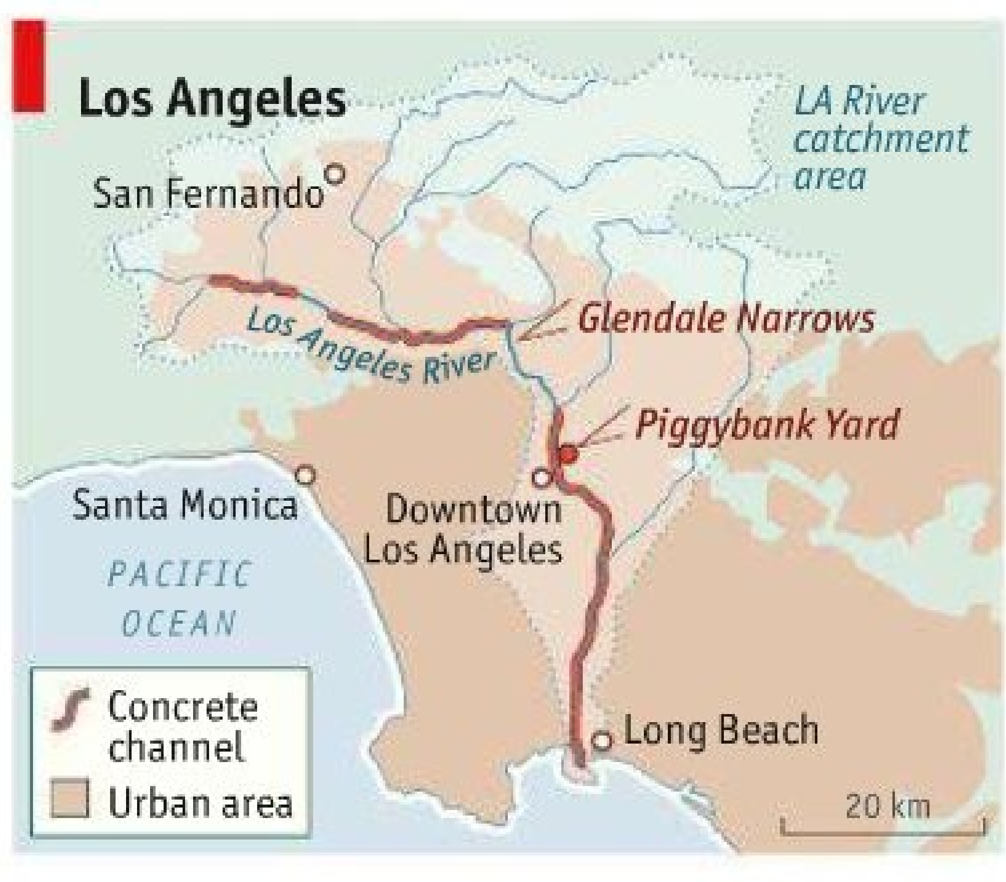
The river, Mr MacAdams says, reflects its city, for better and worse, and not necessarily in obvious ways. When the Spanish arrived in the 18th century it still flowed unpredictably, changing its course often (sometimes flowing into the Pacific near today's Santa Monica) and turning the entire area into a marshy wetland. The largest Indian settlement and subsequent Spanish pueblo were near today's downtown, somewhat elevated and safe from floods.

After 1876, when the transcontinental railroad reached Los Angeles, the modern pattern took hold: a confusing regime in which private developers and various levels of government pumped, dammed, diverted and otherwise subdued the river. In a few awesome fits, the river fought back. Two flash floods in the 1930s, in particular, burst through the manmade structures and washed away lives and settlements. In the spirit of the times, which favoured grand federal works, the Army Corps of Engineers then shackled the river in its current concrete.

Ecologically and aesthetically, that seemed to spell the end of the river per se. Where once it had recycled mountain rain into a vast aquifer underneath, its hard bottom now ushers occasional floodwater right out to sea. The aquifer is small and shrinking, and has long ceased to provide water to Angelenos (aqueducts, the result of California's notorious "water wars", instead pipe water in from afar). In terms of urban architecture, the river plays no role at all. In the 1990s it was named one of America's most "endangered" rivers.

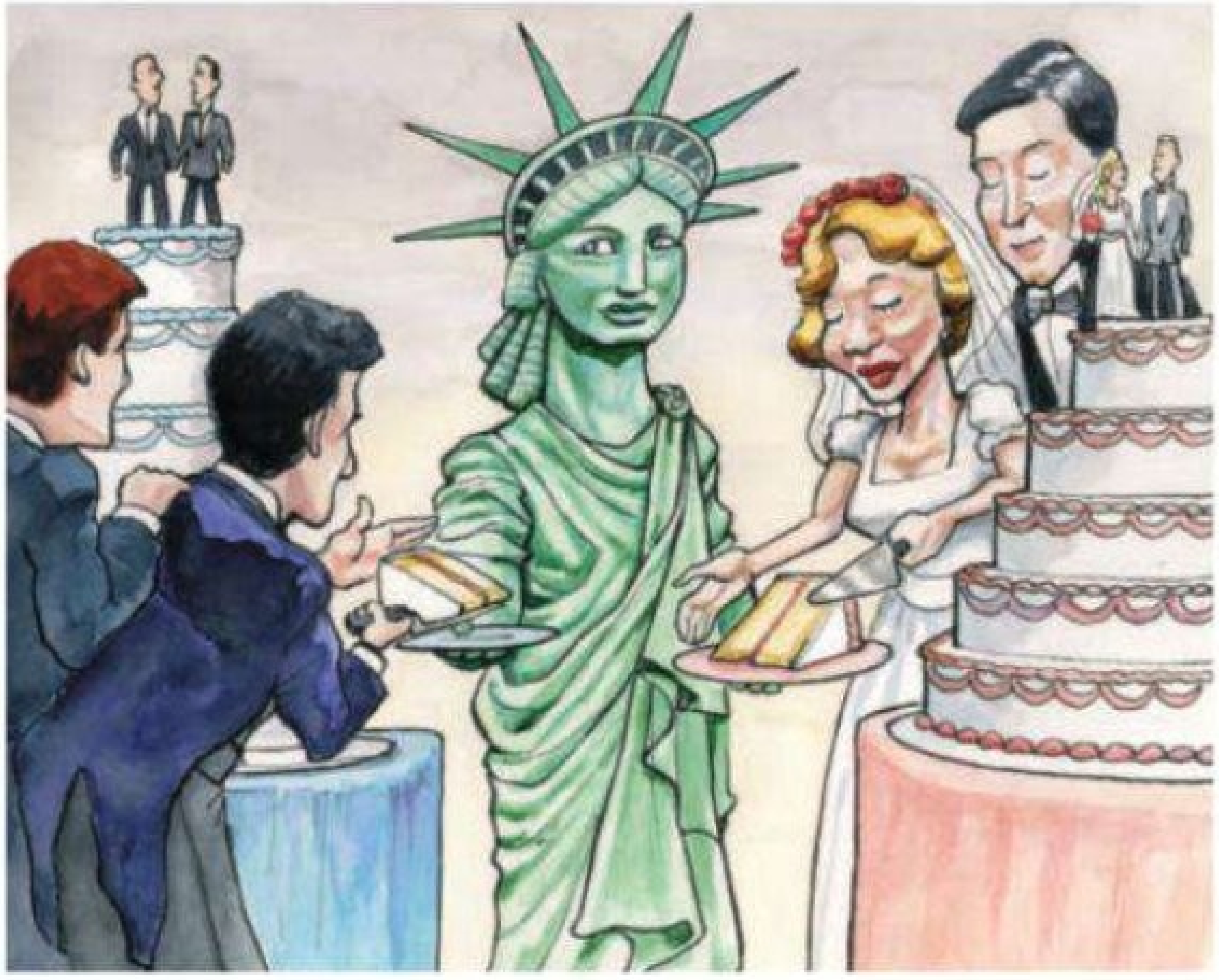
But times change, and Mr MacAdams's outfit is now one of several that take an interest in the river. Last year the federal government declared it "navigable", which has bureaucratic benefits for those who want to clean it. A few brave Angelenos even kayak on it. Mr MacAdams proudly points to a newish bicycle path, built with his support (and entirely unused when this correspondent visited). "Our megalomaniacal scheme", he says, is to convert a huge railway yard owned by Union Pacific (nicknamed "Piggyback Yard" because it is used for reloading) into a riparian park. And thence onward to a wholesale renaissance of the river.

Or not. Mr MacAdams, aged 66, seems philosophical, or poetic, about his quest and the meaning of the river. He sees more nuance in it than outsiders or most locals. Nothing about it is natural; and yet nature constantly reclaims parts of it. In a city that worships, without irony, organic, local food grown with distant water and bodies simultaneously toned by holistic yoga and cosmetic surgery, the river mirrors what it runs through. ■



Lexington | Connubial bliss in America

Behind the politics of gay marriage, a widening social acceptance



AMERICA is the country, said Alexis de Tocqueville, where the bonds of marriage are most respected and the concept of connubial bliss "has its highest and truest expression." If the French aristocrat were to revisit America's capital today, he might at first glance think his observation had withstood the test of time remarkably well. Not content with having in 1996 put a Defence of Marriage Act (DOMA) on the statute book, Congress has now begun to hold hearings on a Respect for Marriage Act. Defended, respected: what could possibly ail marriage in America?

Plenty. As the revisiting Norman would swiftly discover, Americans today are better at quarrelling about what marriage is and who should be allowed to enjoy its benefits than they are at the more demanding work of getting and staying married themselves. The National Marriage Project at the University of Virginia points to a widening "marriage gap". Traditional family values are enjoying a revival among better-educated Americans, but are fraying in the lower middle class and have collapsed among the poor. As for laws "defending" and "respecting" marriage, these are merely weapons in a battle that has rolled back and forth for more than a decade between those who say that same-sex couples should be allowed to marry and those who abhor the idea.

So far neither side has scored a decisive victory, though each will occasionally claim one. When it was passed, DOMA looked like a solid victory for enemies of gay marriage. Its aim was to nip moves towards same-sex marriage in the bud by defining marriage as a legal union "between one man and one woman as husband and wife". It also stipulated that in the event of an individual state making same-sex marriage lawful, no other state needed to respect the rights or claims arising from such a marriage. To buttress this apparently formidable firewall, three dozen states have imposed constitutional or other legal bans.

And yet gay marriage marches on, scoring its own victories along the way. Among the greatest and most recent was New York's decision last month to become the sixth and most-populous state to allow same-sex marriage. If the Respect for Marriage Act were to become law (though this will need to await a more sympathetic Congress), this would defang DOMA and mark another victory for gay marriage. But DOMA is anyway not the deterrent it once seemed. The ever-cautious Barack Obama, who favours civil unions but says his views on gay marriage are still "evolving", has ordered the Justice Department to stop defending the law, which is under challenge in the courts.

The relentless back-and-forth in Congress, the courts and state legislatures transfixes the minority of Americans who feel strongly about this issue. And yet the cycle of victories and defeats may in the end matter less than one startling underlying fact, which is that America's attitudes to homosexuality appear in recent years to have undergone a dramatic change.

Gallup reported in May that for the first time ever a majority (53% to 45%) of Americans said that same-sex couples should have the same marriage rights as straight couples. In 1996, the time of DOMA, the majority leant 68% to 27% the other way. The controversial policy of "don't ask, don't tell", which banned gays from serving openly in the armed forces, is meanwhile due to expire in September with surprisingly little hue and cry. And when *National Journal* polled political "insiders" this month, it found a majority of Democratic politicos, lobbyists and strategists in favour of making gay marriage legal. No less telling, a majority of their Republican counterparts, while continuing to oppose gay marriage, thought their party should just ignore the issue.

That might make electoral sense. Since it is the young who are most relaxed about gay marriage, standing in its path might cost the Republicans dear in the future. The notion of denying gays the spousal rights available to others makes little sense to a generation that sees marriage at least as much as a union of soul-mates as a formal structure for child-rearing.

To crusaders against gay marriage, however, the issue transcends electoral calculation. They say they are defending both God's will and a vital child-centred institution that is already beleaguered enough. In this election cycle, Michele Bachmann, the Minnesota congresswoman pursuing the Republican presidential nomination, has become a lightning-conductor on gay issues. In spite of having a gay stepsister, she has long put opposition to same-sex marriage at the centre of her politics. In 2004 she likened the gay lifestyle to "personal bondage, personal despair and personal enslavement". The fact that her husband runs a clinic offering to cure gays of their supposed affliction has caused both indignation and merriment among metropolitan types.

Pleading the tenth

Attitudes like Mrs Bachmann's may do her little harm with the Republican base, but strike parts of the wider electorate as antiquated or downright bigoted. That may be why Rudy Giuliani, the former mayor of New York who ran for the presidency in 2008 and may yet do so again, has warned fellow Republicans to "get the heck out of people's bedrooms". It could also explain why Rick Perry, the governor of Texas now pondering a presidential run of his own, says that he has no quarrel with New York's new law. Pleading the tenth (states' rights) amendment, he argues that New York's stand on gay marriage is its own business.

In point of fact, neither Mr Giuliani nor Mr Perry favours gay marriage. Mr Giuliani says civil unions are good enough for gays. Mr Perry has not only been a vehement opponent of gay marriage but also gone so far as to defend Texas's anti-sodomy law, which the Supreme Court has ruled to be unconstitutional. Such men have their beliefs, but they are also seasoned politicians. They can see which way the national mood is blowing. ■

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Health care in Brazil

An injection of reality

SÃO PAULO

Brazil's pioneering state-run health system needs reform if it is to achieve its constitutional mandate of guaranteeing high-quality care for all

"THE best public hospital in São Paulo," boast signs in the state's Instituto do Câncer (ICESP). Last year the state government asked more than 200,000 public-hospital patients to rate their treatment, and the 500-bed institute, which opened in 2008, came top. Equipped with the latest technology, it offers all the most up-to-date treatments—as well as lessons in healthy cooking and stress-relieving origami. Patients who are recovering get intensive physiotherapy. For those who never will, there is a hospice in the countryside.

Looking around ICESP, all seems well with Brazil's Unified Health System (SUS). Created in 1989 from the merger of two state systems, one for those in formal work and the other for everyone else, it is exceptional in Latin America, which by and large continues with the two-tier public system Brazil abandoned. The 1988 constitution declared health care to be the right of the citizen and its provision the duty of the state. ICESP enshrines that promise: according to Paulo Hoff, its clinical director, its patients, both poor and better-off, get care which compares well to that of his private patients at the nearby Sírio-Libanês Hospital.

But there is a gap between the aspirations of SUS and the reality. Funding is an inadequate hotch-potch, part-state, part-federal, and varies wildly from place to place. More than two-thirds of ICESP's budget of 350m reais ($225m) comes from São Paulo's state government. Few other states are rich enough to provide such generous top-ups. SUS's family doctors reach only one Brazilian in two. Another quarter have private-health insurance; the remainder, mostly poor people, live in remote rural areas or violent urban slums where the service is lacking. They must either pay out of pocket or take their chances in crowded hospital emergency rooms.

Despite the constitutional injunction, around 60% of all spending on health care in Brazil is private—a higher share than in most other Latin American countries, and higher even than in the United States. Private provision mainly covers a rich and young minority. Spending on SUS accounts for just 3.1% of GDP.

Brazilians are starting to worry about this. Pollsters say that since 2007 the problems of health care have displaced the economy, to rise to the top of voters' concerns. José Serra, the runner-up in last year's presidential election, tried to capitalise on this by emphasising his record as health minister from 1998 to 2002. It did not lead to his defeating Dilma Rousseff, who was supported by the wildly popular incumbent, Luiz Inácio Lula da Silva. But it was a sign that Brazilian politicians are waking up to voters' concerns over poor public services.

President Rousseff is trying to respond. She has added drugs to treat diabetes and heart disease to the list of those paid for by SUS. The widely admired Family Health Programme is steadily being extended to new regions. Her approach to cutting extreme poverty combines the conditional cash transfers that, under Lula, reached a quarter of the population with public-health measures such as better sanitation and free exercise machines in *favelas*.

Bigger improvements, though, require changes to the way SUS's budget is spent. A recent survey of Brazilian health care published in the *Lancet*, an international journal, argued that SUS gets poor value for the money it spends on drugs, because too much goes on complying with court orders granted to patients who use the constitution's lofty promises to demand expensive treatments not automatically covered by the system. And too much of the budget still goes to hospitals rather than the Family Health Programme, says Michele Gragnolati of the World Bank. Turning more public hospitals over to non-profit bodies, with freedom to hire and fire and link pay to performance, would increase the system's efficiency, he adds.

Others think that really big improvements would require a new relationship with private providers, which far from dying off—as the authors of the constitution imagined—have flourished since the creation of SUS. Insurers have started to market low-cost plans to Brazilians who have recently left poverty; companies such as Diagnósticos da América, which has more than 300 laboratories in 13 states, offer cheap X-rays and blood tests to those whose budgets cannot stretch to the full private package.

"We were very idealistic in 1988," says Bento Cardoso of Insper, a business school in São Paulo that offers an MBA in health-care administration. The state should pay for high-tech and emergency care for all, but should restrict primary provision to those who cannot afford health insurance, he thinks. That would make explicit what is already happening by stealth. ■

Canada and China

Giving the Lai

OTTAWA

Stephen Harper's government changes its tune

JOHN BAIRD, Canada's foreign minister, insists there was no hidden political hand behind his government's deportation on July 23rd of Lai Changxing to Beijing, where he was promptly arrested on charges relating to a multi-billion dollar smuggling ring which acted there with apparent official connivance in the 1990s. The Chinese authorities have been pressing Canada to hand over Mr Lai since 1999. The decision to do so, says Mr Baird, was taken freely by an independent judiciary "and we wouldn't and couldn't intervene."

On the face of things, that is true. The federal court order of July 21st capped a long legal battle between Mr Lai and the immigration authorities that began in June 2000, when Canada decided he was not a legitimate refugee and issued a deportation order. His deportation came only after he exhausted every avenue of appeal, of which there were many.

But dig deeper and the hidden hand appears. Both the immigration official who last reviewed the case and the judge based their decisions on assurances sought and received by the government that Mr Lai would not be tortured, subjected to cruel and unusual punishment or killed if he were sent back.

Giving China the benefit of the doubt on human rights is a relative novelty for Stephen Harper's Conservative government. Shortly after he won office in 2006, Mr Harper pledged that Canada "would not sell out" in talking about human rights with China. His first foreign minister accused China of industrial espionage. When Mr Harper visited China in 2009, his hosts chided him for waiting almost four years before coming.

That visit marked the start of a courtship. China is a friend and "important ally", Mr Baird said when he visited the country this month. Though he stressed that he could not interfere in Mr Lai's case, he added that "the Canadian people and the Chinese people don't have a lot of time for white-collar fraudsters."

This change of tune owes much to Canada's search for new export markets to compensate for the stagnation of its main economic partner, the United States. China's share of Canadian exports has almost doubled in the past five years (though it still amounts to only 3.3% of the total). China has become an important market for Canadian fuels and softwood lumber. Investment by Chinese state companies, once reviled, is now welcomed. This month a Chinese oil company bought OPTI Canada, an ailing tar-sands producer, for C$2.1 billion ($2.2 billion).

Like others, Canada also sees ties with China as a potential source of leverage with the United States. "There is a real sense in Canada now that the Americans take us for granted and that Canada has to strengthen relations with China in order to get more respect in the US," says David Emerson, a former foreign minister who is now a consultant. Delays by the American State Department in granting approval for a cross-border pipeline to carry crude from the tar sands to the Gulf Coast have prompted calls for a pipeline from Alberta to the west coast, for shipment to China.

Mr Baird says the push for business does not mean Canada has abandoned its concern about China's record on human rights. But when provincial leaders join the federal government for a trade mission to China next year, the topic is unlikely to feature on the agenda. Judging from the rapturous official response in China to the deportation of Mr Lai, the mission is likely to get a warm welcome. ■

Censorship in Ecuador

Lèse-presidente

QUITO

Rafael Correa seeks to bankrupt his media foes

FOR a man who calls his country's legal system dysfunctional and corrupt, Rafael Correa, Ecuador's president, has fared remarkably well in the courts. In 2008 he won $600,000 when he sued Banco Pichincha, Ecuador's biggest bank, because it had mistakenly included him in a list of delinquent credit-card holders. On July 20th a judge ordered Emilio Palacio, a former columnist for *El Universo*, one of Ecuador's main newspapers, and three of the paper's directors, to pay Mr Correa the colossal total of $40m in damages, and sentenced all of the four men to three years in jail.

Mr Correa sued over a column, published in February, referring to a controversial incident last year in which, amid a gun battle, troops whisked him out of a hospital where he had sought refuge during a mutiny by police. The president himself claimed he was the victim of an attempted coup. Mr Palacio wrote that Mr Correa, whom he called a "dictator", might some day face criminal prosecution for putting his own safety above anyone else's when he told soldiers they could fire at the mutineers outside a hospital full of people. Mr Palacio implied that this was a war crime, but provided no evidence for his claim.

Mr Correa had reason to feel aggrieved at this slur. But he rejected an offer by *El Universo* to publish a rebuttal. His choice of remedy has cast a chill over Ecuador's independent media. The president attended the court in person. A small crowd of his supporters pelted the defendants and their lawyers with eggs and bottles outside the courthouse. The media were barred from the hearing.

The defendants have appealed, and are seeking to have the case annulled on procedural grounds. (The sentences will not be implemented until after the appeal.) They say the damages would almost bankrupt *El Universo*.

Mr Correa hailed the verdict as ending a "reign of terror" by the media, though he also said he would appeal, seeking the full $80m in damages he originally claimed. He insists he wants justice, not money, and will donate the damages to an environmental scheme. (He spent half the $600,000 from Banco Pichincha—on which the tax office did not ask him to pay income tax—on a flat in Belgium.)

Ecuador's independent media has fallen into the trap of acting as a political opposition to Mr Correa, a popular and powerful president. But Mr Correa has shown a disturbing intolerance of criticism. He is also suing the authors of a book about his elder brother's business dealings with the government. The Inter-American Commission on Human Rights said the ruling against *El Universo* was "contrary to regional freedom-of-expression standards" and would result in self-censorship. The president may be elected, but he is doing his best to live up to Mr Palacio's gibe that he is a dictator.

No news is good news for Correa

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India and Bangladesh

Embraceable you

DHAKA

Growing geopolitical interests push India to seek better relations nearer home

NOT much noticed by outsiders, long-troubled ties between two neighbours sharing a long border have taken a substantial lurch for the better. Ever since 2008, when the Awami League, helped by bags of Indian cash and advice, triumphed in general elections in Bangladesh, relations with India have blossomed. To Indian delight, Bangladesh has cracked down on extremists with ties to Pakistan or India's home-grown terrorist group, the Indian Mujahideen, as well as on vociferous Islamist (and anti-Indian) politicians in the country. India feels that bit safer.

Now the dynasts who rule each country are cementing political ties. On July 25th Sonia Gandhi (pictured, right) swept into Dhaka, the capital, for the first time. Sharing a sofa with Sheikh Hasina (left), the prime minister (and old family friend), the head of India's ruling Congress Party heaped praise on her host, notably for helping the poor. A beaming Sheikh Hasina reciprocated with a golden gong, a posthumous award for Mrs Gandhi's mother-in-law, Indira Gandhi. In 1971 she sent India's army to help Bangladeshis, led by Sheikh Hasina's father, Sheikh Mujibur Rahman, throw off brutal Pakistani rule.

As a result, officials this week chirped that relations are now "very excellent". They should get better yet. India's prime minister, Manmohan Singh, will visit early in September to sign deals on sensitive matters like sharing rivers, sending electricity over the border, settling disputed patches of territory on the 4,095km (2,500-mile) frontier and stopping India's trigger-happy border guards from murdering migrants and cow-smugglers. Mr Singh may also deal with the topic of trade which, smuggling aside, heavily favours India, to Bangladeshi ire.

Most important, however, is a deal on setting up a handful of transit routes across Bangladesh, to reach India's remote, isolated north-eastern states. These are the "seven sisters" wedged up against the border with China.

On the face of it, the $10 billion project will develop poor areas cut off from India's booming economy. The Asian Development Bank and others see Bangladeshi gains too, from better roads, ports, railways and much-needed trade. In Dhaka, the capital, the central-bank governor says broader integration with India could lift economic growth by a couple of percentage points, from nearly 7% already.

India has handed over half of a $1 billion soft loan for the project, and the money is being spent on new river-dredgers and rolling stock. Bangladesh's rulers are mustard-keen. The country missed out on an earlier infrastructure bonanza involving a plan to pipe gas from Myanmar to India. China got the pipeline instead.

Yet the new transit project may be about more than just development. Some in Dhaka, including military types, suspect it is intended to create an Indian security corridor. It could open a way for army supplies to cross low-lying Bangladesh rather than going via dreadful mountain roads vulnerable to guerrilla attack. As a result, India could more easily put down insurgents in Nagaland and Manipur. The military types fear it might provoke reprisals by such groups in Bangladesh.

More striking, India's army might try supplying its expanding divisions parked high on the border with China, in Arunachal Pradesh. China disputes India's right to Arunachal territory, calling it South Tibet. Some Bangladeshis fret that if India tries to overcome its own logistical problems by, in effect, using Bangladesh as a huge military marshalling yard, reprisals ▸▸

from China would follow.

Such fears are not yet widespread. Indeed, India has been doing some things right in countering longstanding anti-Indian suspicion and resentment among ordinary Bangladeshis. Recent polling by an American university among students found a minority hostile to India, whereas around half broadly welcomed its rise. A straw poll at a seminar of young researchers at a think-tank in Dhaka this week suggested a similar mood—though anger remained over Indian border shootings.

For India, however, the risk is that it is betting too heavily on Sheikh Hasina, who is becoming increasingly autocratic. Opposition boycotts of parliament and general strikes are run-of-the-mill. Corruption flourishes at levels astonishing even by South Asian standards. A June decision to rewrite the constitution looks to be a blunt power grab, letting the government run the next general election by scrapping a "caretaker" arrangement. Sheikh Hasina is building a personality cult around her murdered father, "the greatest Bengali of the millennium", says the propaganda.

Elsewhere, the hounding of Muhammad Yunus, a Nobel laureate and founder of the Grameen Bank who briefly flirted with politics, was vindictive. Similarly, war-crimes trials over the events of 1971 are to start in a few weeks. They are being used less as a path to justice than to crush an opposition Islamic party, Jamaat-e-Islami.

It hardly suggests that India's ally has a wholly secure grasp on power. A tendency to vote incumbents out may yet unseat Sheikh Hasina in 2013, or street violence might achieve the same. She would then be replaced by her nemesis, Khaleda Zia, of the opposition Bangladesh Nationalist Party. Mrs Zia's family dynasty, also corrupt, is as against India as Sheikh Hasina's is for it. But India's habit of shunning meetings with Mrs Zia and her followers may come to look short-sighted. When he visits Bangladesh in September, Mr Singh, the Gandhi family retainer, would do well to make wider contact if India's newly improving relations are not one day to take another big dive for the worse. ■

Drones in Pakistan

Out of the blue

ISLAMABAD

A growing controversy over the use of unmanned aerial strikes

ONE day in March an American drone circled above Pakistan's North Waziristan tribal area, zeroed in on a gathering of village men, some of whom were armed, and unleashed three missiles in quick succession. It turned out to be a meeting to settle a dispute over a chromite mine. Most of the 40 or so killed were civilians, according to accounts, though a dozen Taliban also died in the attack, including a local commander, Sherabat Khan. The Taliban nowadays often adjudicate quarrels in the tribal areas, a wild buffer zone that runs along Pakistan's border with Afghanistan.

The attack illustrated two problems with the drone war in the tribal regions: the risk of civilian casualties, and Pakistan's ambiguous attitude towards America's use of drones. Pakistan's army chief, Ashfaq Kayani, called the strike a "complete violation of human rights". For Pakistan, the difficulty went beyond civilian casualties. Khan was a lieutenant of a notable warlord, Gul Bahadur. But Pakistan considers Mr Bahadur to be a "good Taliban", ie, one who has agreed to fight only in Afghanistan, not on Pakistani soil. After the strike, he threatened to tear up the deal.

Relations between the governments in Islamabad, Pakistan's capital, and Washington, DC, are deeply troubled by the issue of drones. Though it publicly denounces the drone strikes, Pakistan certainly does not want all of them stopped. Indeed, the co-operation of Pakistani intelligence is crucial to employing the drones. But the army wants the number of strikes reduced, concentrating on targets both countries can agree on. America has told Pakistan bluntly it must either flush the Taliban and other jihadists out of their safe havens in North Waziristan, or it will continue with what amounts to an assassination campaign there. Pakistan says it cannot launch a ground offensive in North Waziristan because its armed forces are already stretched.

The drone attacks, a supposedly "secret" programme started by the CIA in 2004, have been ramped up over the past three years, with a record 118 strikes last year and 50 so far in 2011. The drones started under President Pervez Musharraf, the former military ruler. There were just nine strikes from 2004 to the end of 2007. According to Pakistani officials, it was supposed to be a highly selective programme for eliminating terrorist leaders in the tribal areas, under an understanding that gave the Americans the use of at least one remote Pakistani air base for the drones. The drones also take off from Afghanistan, but are operated thousands of miles away by a "pilot" at a desk in America, watching a video feed from the aircraft. A successful hit is known in the CIA as a "bugsplat". It is all horribly like a video game.

The New America Foundation, a Washington think-tank, found that up to 2,551 people have been killed in the strikes since 2004. Based on press reports, it estimates that 80% of them were militants, rising to a pretty astonishing 95% in 2010. In recent months, there has been a move away from blowing up compounds to targeting vehicles, where militants can more easily be hit without killing civilians. Even for compounds, smaller missiles are used to try to limit the damage to the separate male living quarters. Perceptions on the ground, however, are often different. The foundation's own poll in the tribal areas last year found only 16% believe the drones accurately target militants. But many locals privately support the strikes against extremists who have overrun their homeland.

Accepting the figure for the success rate in killing militants nevertheless means that fully 500 or so Pakistani civilians have been killed since 2004. Unlike, say, in the war in Afghanistan, there is no investiga- ▸▸

This programme does not exist, and Pakistan does not help it

tion of civilian casualties, and no compensation paid. Transparency and accountability are absent, and some question the legal basis of the attacks. The programme is a charade because the CIA never admits to it and Pakistan pretends that it does not co-operate. A legal action launched this month, initially in Pakistan, with the backing of Reprieve, a campaigning group, seeks the arrest of a former CIA lawyer, John Rizzo, who boasted in a magazine interview this year that he used to approve a monthly list of some 30 individuals to be targeted by the drones.

Whatever the outcome of that case, a debate will grind on about whether the strikes are harming al-Qaeda and related groups, or spurring on Afghanistan's powerful insurgency. According to the New America Foundation, out of the 2,600-odd deaths, 35 were recognised militant chiefs, or just 1.3% of the total. Among the successes was the fearsome leader of the Pakistani Taliban, Baitullah Mehsud, who was the country's number one public enemy. Still, the vast majority of targets have been low-level fighters. All the while, the number of suicide attacks in Afghanistan, many launched from Pakistan, has soared over the past year or more. ■

Japan's hopeless politics

Nuclear options

TOKYO

The uncanny stickability of Japan's prime minister

ALREADY enduring its sixth prime minister in five years, Japan is overdue a seventh. Naoto Kan, the man at present on the inside of the revolving door, only stayed there by promising at the beginning of June to step down soon, in return for a stay of execution at a parliamentary no-confidence vote. For both the opposition Liberal Democratic Party (LDP) and his comrades in the ruling Democratic Party of Japan (DPJ) the way he is lingering over his departure is exasperating.

For rival politicians (a category that includes virtually all of them), it is also rather frightening. As Japan struggles to cope with the disaster at the Fukushima Dai-ichi nuclear-power plant, Mr Kan has nailed his colours to the anti-nuclear mast, arguing that Japan needs to reduce its dependence on atomic energy. Oddly he later watered this down, by saying he was only expressing a personal view not a government policy. But other politicians fear that, rather than quit, he may call an election, campaign on the future of the nuclear industry and (such is the popular hostility to it) win. Goshi Hosono, an avowedly pro-nuclear DPJ technocrat whom Mr Kan appointed as minister in charge of the nuclear mess, says it is "not a good idea" to test the public on this issue.

This week Mr Kan said he had no intention of dissolving parliament early, arguing that the public would not like it and that it would be better to wait until 2013. Even that did not entirely quash rumours that he may use the anniversary on August 6th of the atomic bombing of Hiroshima to make a dramatic anti-nuclear gesture.

A snap election would seem out of character. But Mr Kan has still not set a date for his departure. At the end of June he listed three conditions he wanted met before standing down. One was fulfilled this week, with the passage of a ¥2 trillion ($26 billion) supplementary budget to help pay for recovery from the devastating earthquake and tsunami in March. There is also some progress on the second condition, a law covering the setting of feed-in tariffs for electricity, to encourage the development of renewable energy.

The third, passage of legislation enabling the government to borrow to finance its deficit, may be trickier. In an echo of the showdown in Washington, DC, the LDP wants Mr Kan to drop some of the DPJ's spending promises—such as an allowance for raising children, and the abolition of expressway tolls and tuition fees for public high schools.

Even if that dispute is resolved, Mr Kan may still try to hang on after the end of this parliamentary session on August 31st. This seems remarkable. The political class loathes him; the press relentlessly reviles him; business despises him; and voters want him to go. His approval rating has plummeted to below 20%.

One of his advisers, however, points out that most other politicians score even lower in the polls. Mr Kan's unpopularity is a symptom of a deeper problem: a loss of faith in politics generally. Partisan and intra-party bickering at a time of national emergency has further battered politics' reputation. Mr Kan's government is widely seen as having been inept in disaster-management, and its standing will sink deeper if, as many expect, scares about nuclear-tainted food worsen.

Japan badly needs effective government. The clean-up from the tsunami and earthquake has been impressive. But rebuilding has yet to begin, because big and urgent decisions about what to rebuild where have yet to be taken. Mr Kan's team hardly seems up to the job. But few believe a replacement would be much better.

Desperate to get rid of him, some of his colleagues are whispering of their own weapon of mass destruction: the collective resignation of the cabinet and DPJ hierarchy. That might do the trick in ousting Mr Kan. But it would not lift the contempt in which the political class is held. ■

A train crash in China

A new third rail

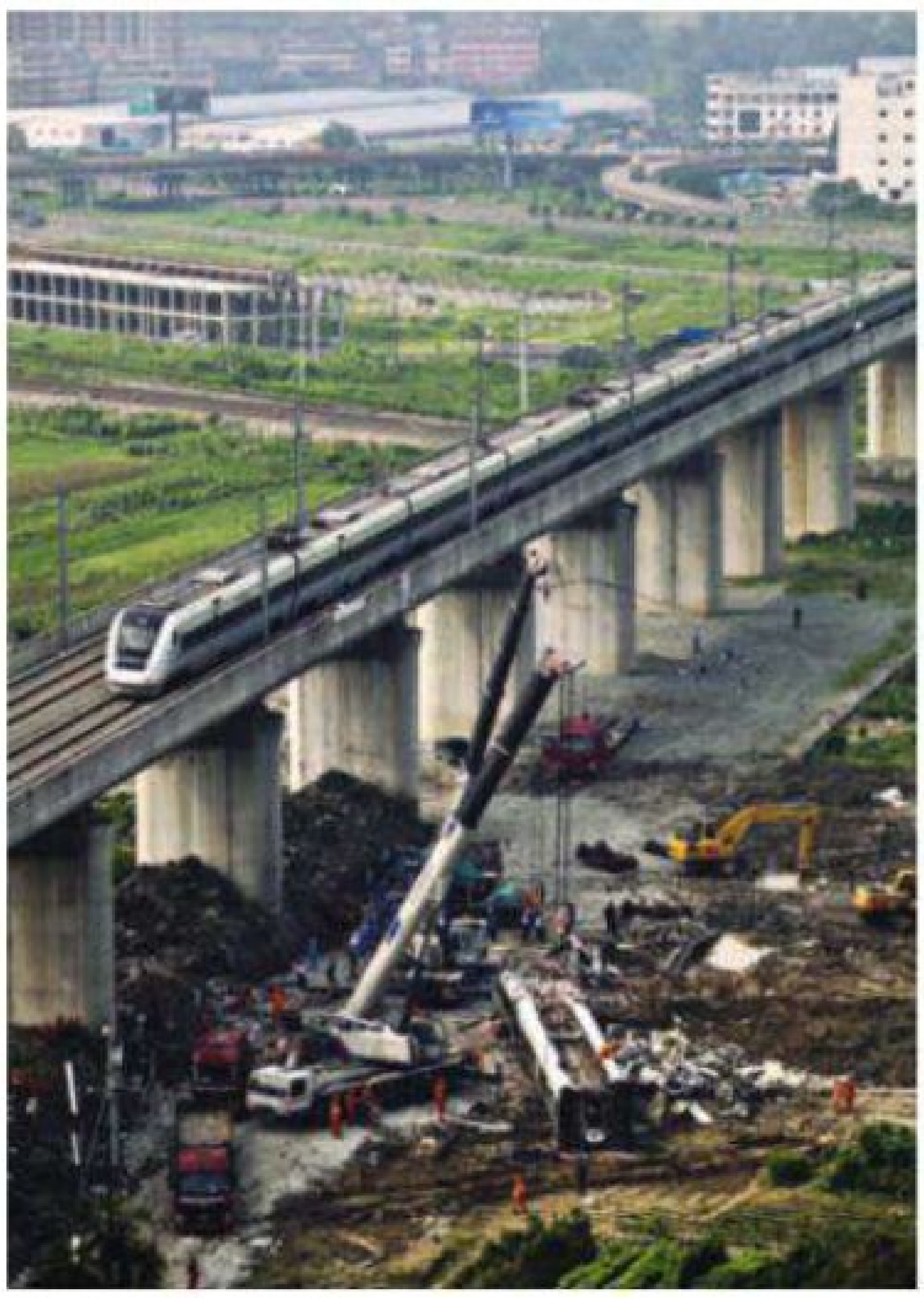
BEIJING

Suddenly the Communist Party's showcase project is in trouble

NO TRANSPORT accident has caused such an outcry in China as did the collision on July 23rd of two bullet trains, in which at least 39 people died. With the accident and the railway ministry's crass response, public grievance is widespread. A cherished project, the rapid expansion of what is already the world's longest high-speed rail network, is in tatters.

The crash on a viaduct near the coastal town of Wenzhou is above all a big embarrassment to the Communist Party itself. Only a few weeks earlier party officials had been crowing about the network's latest, and most expensive, addition: a 1,320km (820-mile) line between Beijing and Shanghai that cost more than $30 billion. Its opening was timed as a celebration of the party's 90th birthday on July 1st. Soon services on the new line were disrupted by power cuts. Angry passengers waited for hours in sweltering heat.

The collision occurred on another line that opened two years ago. It was the four-year-old network's first fatal crash, and the bloodiest train accident since more than 70 people died in 2008. As it did then, the railway ministry responded to this week's fatalities by sacking officials from the region responsible, in this case Shanghai. But as even some state-owned newspapers have pointed out, the man appointed to succeed the bureau's disgraced chief had himself been demoted in connection with the ▸▸



Hard to bury this news

2008 accident.

Twitter-like social-networking services have played a huge role in exposing the government's cack-handed response. These have become enormously popular (Twitter itself is banned). The government often tries to rein them in during crises by blocking the use of sensitive keywords. But in this case the authorities have resisted interfering. Online, many have demanded the dismissal of the new railway minister, Sheng Guangzu. The last one, Liu Zhijun, was sacked only in February for presumed corruption. His removal ushered in a less feverish approach to high-speed rail construction. But many Chinese still complain that the new services are too expensive and that cheaper, conventional services are being cut.

Mr Sheng has certainly failed to improve the typical high-handedness of his ministry. It waited more than a day before holding its first press conference on the accident. Rail officials have been sparing in their expressions of regret. Officials were slow to explain how one train crashed into the rear of the other. On July 28th they finally blamed signal failure. Most astonishingly, the ministry appeared in unseemly haste to remove the wreckage and, mystifyingly, even bury some of it.

In defiance of an order from rail staff, police reportedly persisted with their search through one badly damaged carriage and found a two-year-old survivor hours after the ministry had said there were no more signs of life. A video clip widely circulated online shows what some viewers say were two bodies falling out of carriages as they were being moved away from the line. Officials have also been criticised for allegedly offering victims' families extra money if they agree to quick compensation deals.

The disaster is a setback for the ambitions of Chinese companies hoping to use their experience in building high-speed trains and railways to cash in on demand for such technology abroad. China's relatively low prices will now be less of a selling point. For comparison, Japan has operated bullet trains for 47 years without a fatal accident.

Yet the party will worry most about the political repercussions. Some state-controlled newspapers have defied orders—secret but, as often, leaked on the internet—from the party's powerful propaganda ministry to accentuate the positive, such as tales of heroism and sacrifice in the relief efforts. The *Global Times*, a Beijing newspaper, said the railway ministry was not alone in its "arrogance". Public opinion, it said, could no longer stand this. "The relationship between the government and public is like that of a ship and water. Water can keep the ship afloat or sink it." With even its own media giving such warnings, the party has reason to fret. ■

Xinjiang

Let them shoot hoops

China's turbulent west is unlikely to be calmed by plans for economic development

THE situation in Xinjiang, said a Chinese foreign-ministry official in early July, is "good and stable". Less than two weeks later, on July 18th, the restive region in China's far west was again rocked by violence. Officials say police opened fire on separatist rioters in the oasis town of Khotan, killing 14. Two security officers and two people described as civilian hostages were also killed in the clash, the bloodiest in Xinjiang in two years. Recent government efforts to buy calm with dollops of aid do not appear to be working.

Exactly what happened in Khotan is uncertain. An exile group campaigning for Xinjiang's independence from China said the police fired on protesters who had been peacefully airing grievances about police repression of Uighurs, a Muslim ethnic group of Turkic origin who until recently dominated Xinjiang but now form less than half the population. Officials say the police came under attack by "terrorists" armed with Molotov cocktails, bombs and knives. The assailants, says one official account, stormed a police station and unfurled a banner "promoting separatism". Another account says they had black flags on which were written: "Allah is the only God. In the name of Allah."

The incident must have rattled the authorities, both in Xinjiang and in Beijing, 3,200km (1,990 miles) east of Khotan. The previous large outbreak of unrest, an explosion of inter-ethnic violence in July 2009 in Urumqi, the regional capital, left some 200 dead. That shocked the authorities. For months they shut down the internet in Xinjiang, believing that limiting communications would keep a lid on violence. More recently, however, they have been showing signs of renewed confidence after Xinjiang's Communist Party chief, Wang Lequan, much disliked by Uighurs, was replaced and the internet was switched back on (though still heavily censored). On July 5th, the second anniversary of the Urumqi riots, the new party chief, Zhang Chunxian, like all senior party secretaries a member of China's ethnic-Han majority, visited a Uighur bazaar where he drank beer, ate kebabs and hailed diners with a cheery "Go Xinjiang!".

Officials in Khotan had been celebrating too, with the launch at the end of June of the remote city's first passenger-train service. This, they hope, will enable it to cash in on the boom now being enjoyed by Kashgar, 490km along the new line to the north-west. Kashgar has long been a hotbed of Uighur separatism, a problem the authorities have recently been trying to cure with a big campaign to turn it into a trading boom town in the mould of those along China's coast. Just as prosperity has helped dampen demands in eastern China for political change, officials reckon it can also silence separatism in the west.

In Kashgar they speak of the city's "leapfrog development". Their model is Shenzhen, the grandfather of Chinese boom towns, on the border with Hong ▸▸

Kong. Kashgar, they say, is to become a trading hub and manufacturing centre that will tap markets in South and Central Asia and even Europe with a web of new roads and railways. Its new "special economic zone" (a concept pioneered by Shenzhen) will produce everything from petrochemicals and cars to halal food, they say. "In the east is Shenzhen, in the west is Kashgar," is the new official slogan. Yet the gulf between the two is immense. Kashgar prefecture is one of the poorest parts of Xinjiang, which itself is among the poorest of China's provinces. Shenzhen is China's richest city.

Although he appears more affable than his predecessor, the new party chief is just as tough on separatists. Uighur exiles accuse the local government of tarring any expression of Uighur nationalism with the brush of terrorism. Mr Zhang, like Mr Wang before him, portrays Xinjiang as a target of an al-Qaeda-inspired *jihad*.

For every banner across Kashgar's streets proclaiming its glorious future, a government poster or wall slogan in the back alleys paints a more troublesome story: injunctions against "illegal religious activities" and unauthorised pilgrimages to Mecca; posters calling on "ethnic separatist leaders, violent terrorist criminals, chiefs of religious extremist forces, serious criminals and suspects on the run" to turn themselves in; and urgings for citizens to report audio or video material containing "reactionary" content. In January Kashgar's mayor, Maimaitiming Baikeli, said that the government should "gain the initiative by striking the first blow" against separatists.

Little evidence backs claims of terrorism linked to al-Qaeda. Violence in Xinjiang shows few hallmarks such as suicide bombings or attacks on civilian targets. Security measures in Kashgar hardly suggest a preoccupation with terrorism, but rather an attempt to keep the population cowed. On February 20th, during calls online for a "jasmine revolution" in Chinese cities, Kashgar police stationed water cannon near the city's main mosque, while riot police lurked in a government compound. Plainclothes goons routinely follow and harass visiting correspondents.

Mr Baikeli has made active Muslims a special target of efforts to drum up enthusiasm for Kashgar's economic plans. Their support is critical. Islamic traditions have seen a strong revival in Xinjiang over the past two decades. In Kashgar alcohol is rarely served in Uighur-run restaurants, and many women cover their heads. (The violence in Khotan, some reports say, was fuelled by efforts to curb wearing of the full-length chador.) Officials, the mayor says, should "propagandise the superiority of socialism" in order to bring the "thoughts and actions of the clergy and broad masses of the faithful in line with the excellent situation of big construction, big opening and big development."

Irresistible. Yet Uighurs worry that any wealth that comes Xinjiang's way will be grabbed by Han Chinese. Xinjiang's economy has been growing at double-digit rates, yet Urumqi still erupted with violence in 2009. Unemployed young men from southern Xinjiang, including Kashgar and Khotan, were apparently prominent among the rioters. The authorities accused Xinjiang separatists abroad of stirring up the unrest. But a government researcher says economic factors were "at least half" to blame.

Xinjiang Economic Daily, closely controlled by the government, reports that Kashgar's new zone could create as many as 600,000 jobs, a staggering figure given that only 460,000 people live in the city's core urban area. The government speaks of training thousands of Uighur peasants to help them transfer to factory work. But the newspaper recommends that soldiers

from other parts of China be offered incentives to work in the zone—in effect, continuing a half-century Communist practice of resettling soldiers and other Han Chinese in Xinjiang. The paper suggests that Kashgar's only college be upgraded to a university and provide subsidised places for students from coastal provinces. It says wealthier cities and provinces directed to funnel aid to Kashgar (Shenzhen and Shanghai among them) should send some of their skilled migrant workers to the city. Officials speak airily of boosting Uighur employment by attracting handicraft industries to Kashgar's zone—southern Xinjiang is famous for its carpets. But unless new markets can be found, such businesses will have few prospects.

The government hopes the new rail line between Kashgar and Khotan will promote tourism. But the experience of Lhasa in neighbouring Tibet suggests they should be careful what they wish for. In Lhasa efforts to attract visitors from the Chinese interior backfired badly when anti-Han rioting broke out in March 2008, triggering upheaval across the Tibetan plateau. The rioting was fuelled by resentment towards an influx of Han Chinese after a railway to Lhasa opened in 2006.

Luckily, perhaps, neither Kashgar nor Khotan have the same appeal to Chinese tourists as Lhasa does. A fear of terrorism puts many off. Still, Kashgar is already being transformed by migration, helped by its own first link to the railway network in 1999. It has taken on Lhasa's appearance of a city divided. Great swathes are the spitting image of any provincial Chinese town, with hardly a Uighur to be seen. In older districts, Han faces are equally rare. In one Han area, a woman hands out leaflets advertising a big luxury-housing project. They are printed entirely in Chinese.

Urban renewal, or resentment?

Housing could prove a flashpoint. In 2009 the authorities launched a controversial effort to revamp Kashgar's famous old city, with its labyrinthine alleys of mud-brick houses. Its 200,000 residents are nearly all Uighur. The government said houses would either be rebuilt in a traditional style, but proofed against earthquakes; or, if their occupants agreed, they would be demolished. The government would resettle these people in newly built blocks on the city's edge. It said the space created in the old city would be used to widen roads and improve access for fire engines.

Yet urban renewal programmes anywhere in China stir resentment. In Kashgar they fuel suspicions that the programme is somehow aimed at Uighur culture itself. One Uighur woman says the old city's residents are not convinced of the need to improve building safety. Allah, she says, will protect against earthquakes.

Back in Urumqi the government also hopes that slum clearance will help remove the breeding grounds of ethnic violence. Many Uighurs involved in rioting in 2009 lived in shanty towns. People from these are being moved into new, six-storey buildings. There, many enjoy running water and central heating for the first time. But only those who have lived in Urumqi for at least two years are eligible. In other words, the city is closing down a cheap housing option for the most impoverished new settlers, who often happen to be peasants from the south. This will hardly reduce social tensions.

Tang Lijiu of Urumqi's East-West Economic Research Institute says that creating the right kind of jobs for Uighurs is the key. "Because of their lifestyle, asking them to go into big industrial production, onto the production line: they're probably not suited to that," says Mr Tang, who is Han Chinese. Better, he suggests, to develop something like, well, basketball. That, Mr Tang says, might work in the same way that America's National Basketball Association creates "more job opportunities for blacks". This kind of musing perhaps helps explain why the vast region of Xinjiang remains perilously unstable. ■

Banyan | On a Bali high

Reasons to cheer, even if ASEAN is selling the same horses again

THE ten-member Association of South-East Asian Nations, ASEAN, does not do breakthroughs. The "ASEAN way" involves consensus, bonhomie and progress that is at best incremental and often imperceptible. Yet as this year's meeting of the club's foreign ministers and "dialogue partners" in Bali wound up on July 23rd with the ASEAN Regional Forum, a security talking-shop, ASEAN could at least point to noticeable movement on two of East Asia's perennial sources of tension.

At its meeting with China, ASEAN agreed on "guidelines" for implementing a 2002 declaration on a "code of conduct" to minimise the risk of conflict in the contested waters of the South China Sea. And in the margins of the ASEAN meetings North and South Korea held their first public talks for two-and-a-half years. Prospects of a resumption of talks on getting rid of North Korea's nuclear arsenal rose further when Hillary Clinton, America's secretary of state, used her time in Bali to invite a North Korean negotiator for talks in New York this week.

Meanwhile, Thailand and Cambodia, two ASEAN neighbours whose soldiers this year have been shooting at each other around the disputed border temple of Preah Vihear, kept their differences from souring the mood. All in all the organisation and the host, Indonesia, which holds the rotating chairmanship, could congratulate themselves on a useful set of meetings.

After fraught months even modest progress comes as a relief. In the South China Sea, China, whose maps include dotted lines showing virtually all the sea as Chinese, has been alarming other claimants by throwing its weight around. Vietnam, which claims both the Chinese-controlled Paracel islands in the north and the Spratly chain in the south, has been especially incensed. But just ahead of the ASEAN meeting it moved to end anti-Chinese street protests in Hanoi. In the Philippines activists are less malleable. On July 20th, as the foreign ministers met in Bali, five congressmen landed on a Philippine-occupied island in the Spratlys, Pagasa, to plant the national flag.

China argued, plausibly enough, that this broke the 2002 declaration, which enjoins signatories to avoid provocations. Even so it did sign up to short—and vague—guidelines on turning the declaration into the formal code of conduct promised for nearly a decade now. Even Mrs Clinton, who at last year's ASEAN meetings in Hanoi angered China by declaring an American "national interest" in the sea and offering to act as a mediator, commended China and ASEAN for the agreement, as a "first step".

She also welcomed the breaking of the ice between the Koreas, as Wi Sung-lac, South Korea's delegate to nuclear talks, met his new North Korean counterpart, Ri Yung Ho. The South's demand that the North formally apologise for last year's sinking of a South Korean naval vessel and shelling of civilians was quietly shelved, presumably at least partly at America's urging.

Mrs Clinton's invitation to another North Korean official, Kim Kye Gwan, to come to New York for talks was freighted with the usual stern riders about not rewarding North Korea simply for returning to the table. In fact, for North Korea, which values bilateral contacts with the United States above all other diplomatic prizes, the invitation itself is the reward. America, keen to avoid another Korean crisis, needs to find some way of engaging the North. When the North is being ignored, it tends to resort to crude attention-seeking behaviour—military provocations, missile and nuclear-bomb tests, and the like.

It is not certain that the smiles in Bali will lead to the resumption of six-party talks involving the two Koreas, America, China, Japan and Russia on denuclearisation. Since North Korea does not look like giving up its bombs anyway, not everyone agrees they should resume. In a warning against undue optimism, some observers recalled the equivalent ASEAN meeting in 2002, in Brunei, which North Korea also used to break out of isolation, establishing its first contacts with the administration of George Bush. Nine years, two nuclear tests and countless acts of bellicose aggression later, it is clear that was not a turning-point for the better.

Similarly, the guidelines on implementing the 2002 declaration on the South China Sea are hardly evidence of rapid progress. The promised code of conduct itself has still not materialised—let alone agreement even on a mechanism for tackling the complex mesh of overlapping territorial claims. China still insists it wants to negotiate bilaterally with the ASEAN countries with partial claims, which also include Brunei and Malaysia. ASEAN, China points out, has no role in disputes over sovereignty. But its members fear being bullied if picked off one by one.

The chair of thorns

That ASEAN enables them to try to negotiate from a less weak position is an achievement for the organisation. So is its provision of a forum where regional-security concerns can at least be raised, and where, in the margins, useful bilateral talks can be held. This year has been a relative success, with Indonesia, its biggest and most influential member, in the chair. But there is always the danger in ASEAN that the process of consensus is confused with the substance of actually resolving conflicts.

Concerns about the future, moreover, only grow. The next chairman is Cambodia. Since it seems unlikely that the Preah Vihear dispute will be settled by the end of the year, this could prove debilitating. Potentially even more damaging is Myanmar's demand to take the chair in 2014. To grant its wish would be to suggest that last year's rigged elections under an army-drafted constitution merited international acceptance. It might provoke Western boycotts of some ASEAN meetings, undermining ASEAN's central role in regional security. But to refuse would antagonise the mufti junta in Myanmar and other ASEAN members, such as Laos and Cambodia, and suggest a willingness to follow Western norms. And that would not be the ASEAN way. ■

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Egypt

Torrid post-revolutionary times

CAIRO

The march towards democracy proceeds amid suspicions that generals and Islamists are trying to slow it down

DURING the Egyptian summer tempers rise along with temperatures. Street fights erupt with alarming regularity. Purple faces, bulging veins and blood-curdling threats seem to portend carnage. Yet much of this is theatre, played out in the confidence that passers-by will intervene, separate combatants and make them reconcile.

Emerging from decades in a deep freeze of authoritarianism, Egyptian politics is showing a similar propensity to grow dangerously heated, then subside into calm as cooler heads intervene. In recent weeks the political scene, occupied by scores of passionate new actors produced by the big bang of revolution, has looked frighteningly polarised. It pits mostly secular forces, impatient for sweeping change, against wary conservatives who are backed by the ruling army high command and bolstered, ironically, by Islamist groups that faced repression under the pre-revolutionary regime. The tension has at times risen beyond rhetoric. On July 23rd pro-army vigilantes attacked a protest march in Cairo, leaving more than 300 people injured.

Yet fears that opposing forces may descend on Tahrir Square en masse, provoking open battles in the heart of Egypt's capital, were quickly allayed. Islamists, led by puritan Salafist parties that have emerged as a powerful alternative to the relatively moderate Muslim Brotherhood, were quietly advised to withdraw a threat to call a million-man counter-march to assert Egypt's "Islamic identity". Politicians parlayed a truce, calling instead for a big joint demonstration on July 29th to deliver a short list of common demands to the Supreme Council of the Armed Forces, the body of 19 generals that serves as a collective presidency.

Some of those generals had earlier raised eyebrows by accusing the April 6th Movement, a youth group that played a key part in mobilising thousands of followers during the revolution, of being an agent for foreign powers. The army's annoyance was understandable. April 6th spearheaded a reoccupation of public squares in several cities in early July to push for speedier adoption of revolutionary reforms. Joined by a motley coalition of activists, including Salafist splinters and Muslim Brotherhood factions, the activists have increasingly targeted the generals as obstacles to change.

Their most bitter complaint is that, whereas some 10,000 civilians have been served harsh jail terms by military courts since the revolution, most officials of the former regime have so far escaped justice for decades of corruption and abuse of power, including the widespread use of torture and the killing of more than 800 people during the revolution. The toppled president, Hosni Mubarak, has languished in a fancy hospital in the resort city of Sharm el-Sheikh, hidden from view pending his trial on the feeble charge of having paid too little for a beach house.

Considering that the ruling generals have nurtured an image as neutral guarantors of revolutionary goals, their sudden hostility to one of the revolution's primary instigators has jarred. Some attribute sinister motives to the army, pointing to evidence of attempts to plant plain-clothes agitators in protests and to mute the thriving independent press while encouraging state-owned media to portray protesters as hooligans. There are even whispers of a quiet alliance between the army and Islamist parties, aimed at securing a "Caesar option" whereby military rule will eventually be acclaimed by a weary people as a welcome alternative to chaos.

Such fears are overblown. Egypt's military has little experience or understanding of civilian life, and even less preparation for its current role. Being by nature conservative, xenophobic and more disciplined than Egypt's fissiparous secularists, Islamist groups may seem natural partners in keeping order. Unlike most other parties, the Islamists laud the generals' plan to postpone forging a new constitution until after the election of a parliament, which would then be asked to form a 100-strong constitutional congress. Yet their support does not reflect love for the army. Rather, it stems from confidence that elections will produce an Islamist parliamentary bloc big enough to prevent the adoption of a constitution they would deem too secular.

Such tactics are worrying to the many Egyptians, not just the 8% Coptic Christian minority, who would prefer some separation of religion and state. Still more anxiety ▸▸

stems from the fact that rules for the poll, now set for November, are extremely complex, mixing party lists and individual candidacies. With the army set to ban foreign election monitors, the risk of a flawed or contested outcome has grown.

Despite all this, opinion polls suggest that Egyptians remain broadly hopeful of the future. The government under prime minister Essam Sharaf, a pious professor of traffic management, has generally responded to the revolutionary clamour. It has promised to speed trials of former officials, including Mr Mubarak, and open them to the public. Successive cabinet changes have replaced unpopular ministers. Further purges are expected, including policemen, provincial governors and university administrators. Perhaps, as with Egypt's theatrical street fights, the mood of suspicion and recrimination will prove a prelude to lasting reconciliation. ■

Saudi law

Nothing liberal yet

CAIRO

The Saudi rulers are running against the Arab grain of freedom

WITH 33 people known to have lost their heads so far this year to the executioner's righteous sword, it cannot be said that Saudi Arabia is a sissy about justice. But just to make sure, the kingdom's rulers are making its laws even tougher.

In January the government stretched existing draconian rules regulating the printed press to cover the internet, including blog sites. Then, in April, it announced sweeping amendments to those rules. The almost comically restrictive law now threatens fat fines and summary closure of any organ that dares to commit such breaches as "inciting divisions between citizens", "damaging the country's public affairs", or insulting senior clerics, among a long list of other no-no's. Individual malefactors may be barred indefinitely from writing in any publication or appearing in electronic media.

Yet Saudi lawmakers now seem set on cooking up even stronger stuff. A draft law before the kingdom's all-appointed proto-parliament, the Shura Council, threatens a blistering array of punishments for anyone remotely suspected of financing or engaging in "terrorism". They may be held incommunicado and without charge for 120 days before being put before a special court that could impose further months of detention. Anyone convicted of causing death would be executed. Yet the definition of terrorism extends to such vague things as "endangering national unity" and "harming the interests of the state".

Amnesty International, which released the leaked document, reckons that the wording is so sweeping that it would "in effect criminalise legitimate dissent." Particularly striking is a provision that could impose jail terms of ten years or more on anyone questioning the integrity of the king or crown prince, both of whom currently happen to be ailing octogenarians.

Nayef thinks they're all naive

More than the threat implied by such terminology, however, what worries sensible Saudis is that it bears the imprimatur of a probable future king. Prince Nayef, feared since 1975 as the country's minister of interior, also holds the position of second deputy prime minister, traditionally the runner-up spot for kingship. With his half-brother, King Abdullah, and his full brother, Crown Prince Sultan, likely to leave the scene soon, Prince Nayef's accession appears all but assured. This is a man who denied for months after the 9/11 attacks on America that any Saudis had been involved, but then pursued a campaign to crush al-Qaeda within the kingdom that led to thousands of arrests. While other Arabs are vigorously demanding greater freedom, Saudis may—at least for a while—have to settle for rather less.

Syria's turmoil

Reaching the capital

DAMASCUS

The contagion of democracy has at last begun to infect Damascus

DURING four months of protests that have spread across the entire country, the city that has been most protected from the waves of popular rage is Damascus, the capital itself. Almost all the poor villages and suburbs surrounding it have been affected but the more prosperous central parts of the city have generally been kept off-limits to the protesters. This may now be changing, as the contagion of dissent seeps further into the heart of the capital.

Midan, just south-west of the old walled city, has witnessed protests. The largely Kurdish district of Rukn al-Din, not far from the city centre, then erupted. Protests, so far quite small, have become more frequent in Mezze, to the west, and in the old city itself. On July 15th government forces, who have generally used tear gas and batons in the capital, fired live ammunition, killing at least 20 people. The security forces are now pinning down several districts of Damascus, ringing them with checkpoints. In the past few days they have made a series of raids and arrests.

A stone's throw away, the mood among the regime's supporters, especially in the social stratum that has prospered under President Bashar Assad, borders on the hysterical. Younger members of the elite hold parties into the early hours, singing pro-Assad slogans and gulping down drinks in nightclubs. Loyalists buy flags, baseball caps and T-shirts emblazoned with the president's face. "The last days of the raj," mutters a diplomat. In the Christian district of Bab Touma, many people echo the government's view that the protesters consist of armed gangsters and Muslim extremists. Some Christian leaders grumble about the regime—in private.

As the fasting month of Ramadan approaches on August 1st, the government is bent on retaining the loyalty of the religious leaders of the country's Sunni majority, which accounts for some 75% of the population. Muhammad Bouti, a prominent sheikh, toes Mr Assad's line. But some are egging on the protesters with increasing audacity, ignoring warnings that they should keep off politics in Friday sermons, while others are more surreptitiously subversive. "I'm speaking quietly in people's ears," says an imam from a prestigious scholarly family. The protesters are encouraging people to go onto the streets after praying in the mosques during Ramadan. The coming month promises, in every sense, to be as hot as ever. ■

Swaziland

A king at bay

MBABANE

Africa's last absolute monarchy may be falling apart

THE government has run out of cash, and no one seems willing to lend it any without radical reforms which Mswati III, Swaziland's king, seems loth even to consider. But the pressure is mounting. Civil servants, faced with wage cuts of 10%, are threatening to strike. Schools, deprived of state subsidies, may have to close. In a country with the world's highest incidence of HIV/AIDS, clinics are running out of antiretroviral drugs for want of funds. Government suppliers, owed millions of dollars in arrears, have begun to demand cash on delivery, which the government cannot produce. The 43-year-old king has even cancelled this year's celebrations to mark his 25 years on the throne.

This is the worst crisis that little Swaziland, locked into the north-east corner of South Africa, has suffered since independence from Britain in 1968. Most of its revenue comes from a regional customs union dominated by South Africa. But last year, thanks to an economic slowdown, this income, really a disguised subsidy, fell by almost two-thirds. As government spending usually accounts for nearly half of Swaziland's GDP, this has clobbered the economy. Thousands of businesses went bust as the government slashed spending. Unemployment rose sharply, with some 40% of working-age people already without jobs. Of Swaziland's 1.2m people, nearly three-quarters live on less than $2 a day.

Earlier this year the World Bank offered to help bail the country out—on condition of certain reforms. The government agreed to halve its budget deficit with tax rises and austerity measures, including public-sector job losses. As it has met almost none of these conditions, international loans have been withheld. Because it is not a democracy, Swaziland fails to qualify for budget aid from donors such as the European Union. So the king has had to go cap in hand to his rich neighbour, South Africa.

As a Zulu traditionalist and polygamist like the king, President Jacob Zuma might have been willing quietly to oblige. Moreover, he is formally engaged to one of Mswati's nieces. But the pro-democracy uprising in the Arab world has increased the pressure on Mr Zuma, at home and abroad, to treat despots in his own part of the globe more sternly.

His own political future may even depend on it. In the run-up to next year's conference of the ruling African National Congress (ANC), held every five years, when all the party's leaders come up for re-election, he is anxious to keep on side such powerful critics as the Congress of South African Trade Unions and the ANC Youth League, both of which strongly support Swaziland's pro-democracy movement.

Swazi opposition leaders, who see the economic crisis as a blessing in disguise, have begged Mr Zuma not to hand their embattled monarch any cash unless he promises sweeping democratic as well as fiscal reforms. At a meeting with the king in mid-July, he is understood to have laid down some minimal conditions, including a modicum of political reforms, in return for the $220m-300m Swaziland is believed to have requested. With his back to the wall, the king is pondering his options. ■

Kenya

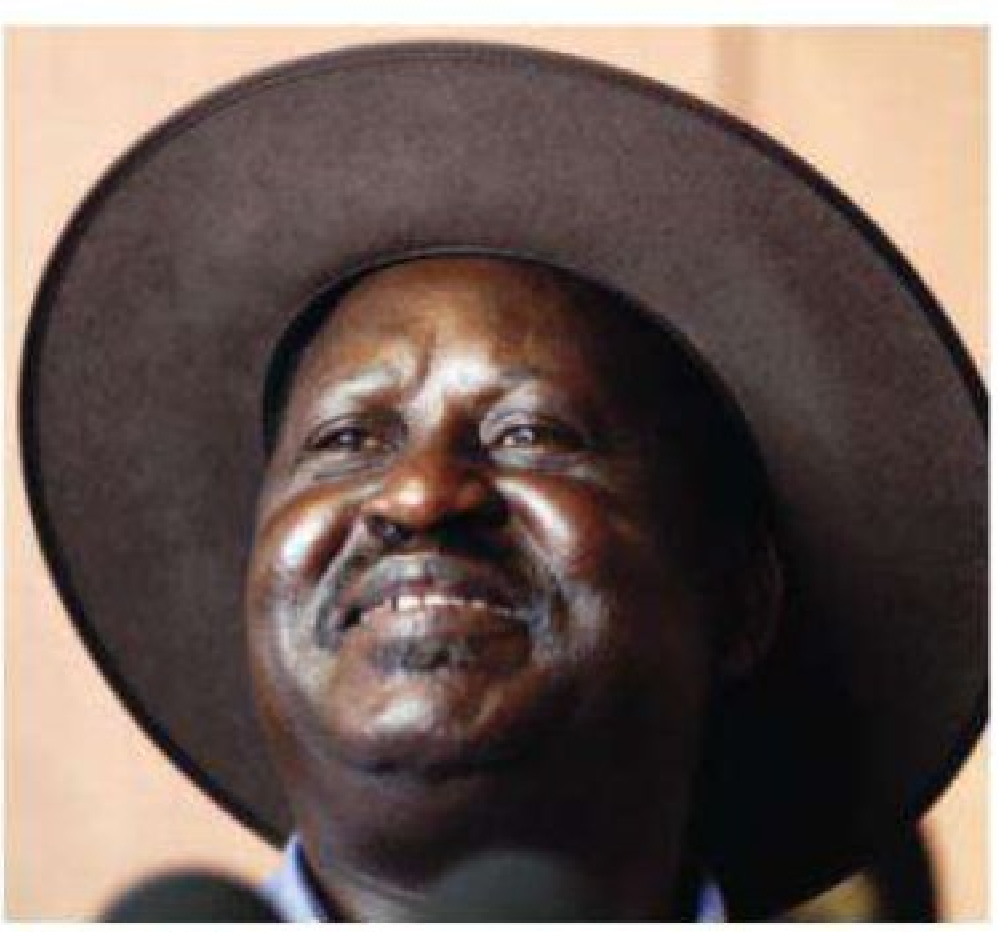
Progress amid trepidation

THIKA

Kenya is doing well, yet dangers still lurk under the surface

FEW African countries have made as much progress in the past year as Kenya. A new constitution is demanding higher standards. Most ministries are doing better. Politicians are more publicly accountable. The media are vibrant and often unabashed. The finger is being pointed at people in high places suspected of drug running. A campaign is under way to shame parliamentarians into paying taxes. The prime minister, Raila Odinga, recently made a point of queuing in a tax office alongside ordinary people to pay his due.

Progress is also being made on vital infrastructure projects, such as a motorway to link Nairobi, the capital, with the town of Thika to the north-east. Under the aegis of the revived East African Community, a regional common market has sharply increased trade. Turnover from fast-growing companies such as Kenya Commercial Bank and Kenya Airways, more than handouts from Western governments, is driving Kenya forward. Tourism is up by 16% this year. Crops sold both in Nairobi and exported are getting high prices. More jobs are being created and more students have graduated from improving universities. Compared with 2008, when Kenya was bitterly divided following a disputed election, the country seems quite harmonious.



Odinga's halo of success

A new generation of administrators well-qualified in accountancy and business are making a stab at overhauling state institutions such as prisons and hospitals. The first batch of high-level appointments sanctioned by the new constitution has been made. Among them was Keriako Tobiko, who now heads public prosecutions, with responsibility to improve the way criminal trials are handled. He was roughly treated in the selection process, probably on the instructions of those who fear courts with sharper teeth. He has already called for more resources. He has 83 prosecutors; he says he needs 1,000.

But there is little cash in the government's till. Inflation is running at 14%. The stockmarket is bearish. The country has had to import maize from southern Africa to feed its people. Northern Kenya faces a food crisis—and, at Dadaab, hosts the largest refugee camp in the world (see next article). A $100m World Bank initiative to clear or clean up slums is good news, if it comes to fruition, but highlights the wickedness of past governments' failure to take urban planning seriously.

For all its recent progress, Kenya still often feels like a country running to stand still. Many Kenyans are sceptical of assurances by outsiders that political risk has diminished. Local tycoons privately say they are worried by a new strain of populist politics, stirred up by jobless young males, as well as by the occasional outbreak of fighting between Kalenjin and Kikuyu people in the crowded Rift Valley. In particular, they fear that the government's failure to tackle land reform and overhaul the police still makes bloodshed in next year's election likely. Too many businessmen shift their profits abroad.

The politics remains messy. An alliance between William Ruto, a Kalenjin sometime cabinet minister, and Uhuru Kenyatta, the finance minister and son of Kenya's founding president, looks shaky. The pair forged an unlikely deal after they were both charged by the International Criminal Court in The Hague. Their supporters aimed to stir up tribal animosity against the court—in vain, since ordinary Kenyans still seem to back it. The careers of Messrs Ruto and Kenyatta are now threatened. If Mr Kenyatta goes to The Hague, Kikuyu kingmakers will work doubly hard to stop Mr Odinga from becoming president. He still has a goodish chance. But Kenya, however buoyant on the surface, still has dangerous eddies swirling below. ■

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NOTICE IS HEREBY GIVEN TO THE HOLDERS OF CERTIFICATES OR NOTES ("CERTIFICATEHOLDERS") UNDER THE 530 COUNTRYWIDE MORTGAGE-SECURITIZATION TRUSTS LISTED IN EXHIBIT A ("TRUSTS") AND OTHER PERSONS POTENTIALLY INTERESTED IN THE TRUSTS. THIS NOTICE CONTAINS IMPORTANT INFORMATION FOR CERTIFICATEHOLDERS AND OTHER PERSONS POTENTIALLY INTERESTED IN THE TRUSTS.

IF APPLICABLE, ALL DEPOSITORIES, CUSTODIANS, AND OTHER INTERMEDIARIES RECEIVING THIS NOTICE ARE REQUESTED TO EXPEDITE RETRANSMITTAL TO CERTIFICATEHOLDERS IN A TIMELY MANNER.

This notice (the "Notice") is given to you by The Bank of New York Mellon ("Trustee"), as trustee or indenture trustee under the Pooling and Servicing Agreements and Indentures and related Sales and Servicing Agreements (collectively, the "Governing Agreements") governing the Trusts.

A settlement has been reached between the Trustee, on the one hand, and Countrywide Home Loans, Inc. ("CHL"), Countrywide Financial Corporation (together with CHL, "Countrywide"), Bank of America Corporation ("BAC"), and BAC Home Loans Servicing, LP, formerly known as Countrywide Home Loans Servicing, LP ("BAC HLS," and together with BAC, "Bank of America"), on the other, concerning CHL's alleged breaches of representations and warranties in the Governing Agreements, and BAC HLS's alleged violations of prudent servicing obligations thereunder (the "Settlement"). The Settlement requires Bank of America and/or Countrywide to pay a total of US$8,500,000,000.00 (US$8.5 billion) into the Trusts (the "Settlement Payment"). It also requires BAC HLS to implement, among other things, a series of loan servicing procedures and improvements. The Trustee has filed a Verified Petition and commenced a special proceeding, *In the matter of the application of The Bank of New York Mellon* (Index No. 651786/2011), in the Supreme Court of the State of New York, County of New York (the "Court") seeking a judgment, among other things, approving the Settlement and ordering that the Settlement is binding on all Certificateholders. The Settlement Agreement is attached to the Verified Petition as Exhibit B.

The Court has scheduled a hearing on the Verified Petition for November 17, 2011 at 2:15 p.m. at the Supreme Court of the State of New York, County of New York, 60 Centre Street, New York, New York 10007. The Court has the right to change the hearing date or time without further notice. At the hearing, the Court will determine, among other things, whether to approve the Settlement and make it binding on all Certificateholders, and will consider other important matters described in the Settlement Agreement. The Settlement, if approved by the Court, will affect the rights and interests of all Certificateholders, and their successors-in-interests and assigns, in the Trusts, including by, among other things, releasing claims on behalf of the Trustee, the Trusts and all Certificateholders in the Trusts and their successors-in-interests and assigns arising out of or relating to (i) the origination, sale, or delivery of mortgages to the Trusts, including representations and warranties made with respect to those mortgages and any mortgage repurchase obligations, (ii) servicing of the mortgages in the Trusts, with certain exceptions, and (iii) documentation of the mortgages in the Trusts, with certain exceptions. (See the Settlement Agreement for a complete description of the releases provided for therein.)

Any Certificateholder or other person potentially interested in the Trusts may object to any aspect of the Settlement and request to be heard at the hearing by submitting a written notice prior to the hearing in the manner explained in the Court's Order dated June 29, 2011 (the "Preliminary Order"). The Court has directed that any objections to the Settlement must be filed with the Court and served upon the Trustee's counsel by August 30, 2011, and that any (i) responses to objections, or (ii) submissions in favor of or with respect to the Settlement, must be filed and served by October 31, 2011. (Further information regarding the methodology for filing and serving papers is contained in the Preliminary Order and available as explained below.) If the Court approves the Settlement, all Certificateholders will be bound by the Settlement and the releases contained in the Settlement Agreement whether or not they appeared in the matter or submitted any objection to the Settlement. The Court has ordered that anyone who fails to object in the manner described in the Preliminary Order shall be deemed to have waived the right to object (including any right of appeal) and shall be forever barred from raising such objection before the Court or in any other action or proceeding, unless the Court orders otherwise. The Court has ordered that it retains jurisdiction over the Trustee, the Trusts and all Certificateholders (and their successors-in-interests, assigns or transferees, whether past, present or future) for all matters related to the Settlement and the special proceeding commenced by the Trustee seeking approval of the Settlement.

This Notice summarizes the special proceeding and the Settlement and is not a complete statement of the special proceeding or the Settlement. The Verified Petition, any papers filed in support of the Verified Petition, any orders entered by the Court in the special proceeding and other information relevant to the special proceeding are available at **http://www.cwrmbssettlement.com**, which will be updated when additional papers are filed or additional orders are entered in the special proceeding. You should also be able to obtain any documents filed with the Court by visiting the Court's website: http://iapps.courts.state.ny.us/iscroll/. If you have any questions, you may call (866) 294-7876 in the United States, +1 (614) 569-0289 outside the United States, or send an email to Questions@cwrmbssettlement.com.

Inquiries should NOT be directed to the Trustee, the Court, or the Clerk of the Court.

MISCELLANEOUS

Certificateholders and other persons potentially interested in the Trusts should not rely on the Trustee, or on counsel or other advisors retained by the Trustee, as their sole source of information. The Trustee neither makes any recommendation generally nor otherwise gives any investment advice herein.

EXHIBIT A

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The Horn of Africa

Chronicle of a famine foretold

NAIROBI

Did the world react too late to signs of famine in Somalia?

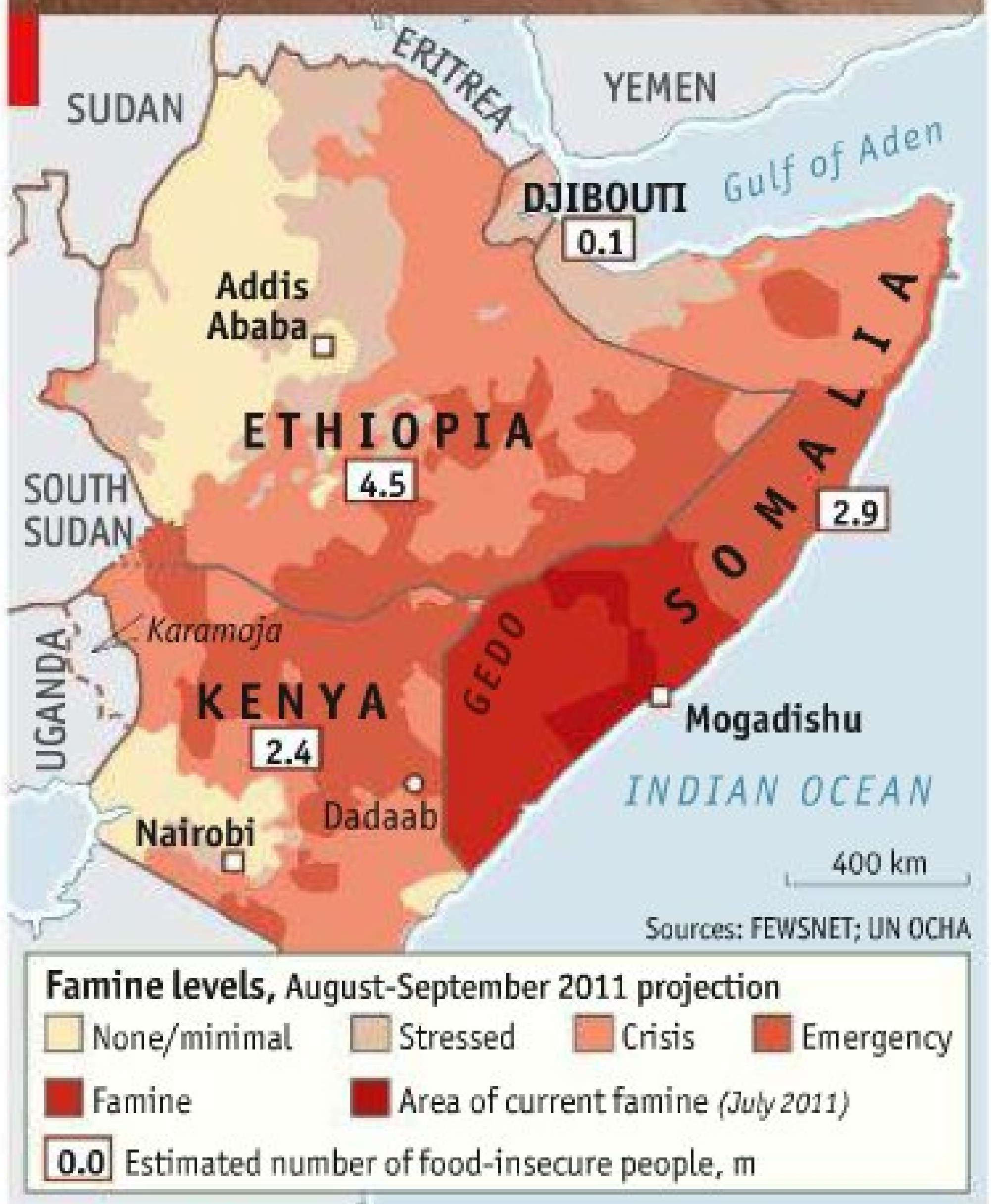
ON JULY 27th, after days of toing and froing, the first aid flight at last landed in Mogadishu, capital of famine-hit Somalia. It carried 10 tonnes of plumpy nut, enough to reverse malnutrition in 3,500 children. The mission seems late. After the 1985 Ethiopian famine America's aid agency set up a Famine Early Warning Systems Network (FEWS Net) to give warning of disasters. It has been forecasting a threat of famine in Somalia since November.

Famine has a technical meaning these days. It is declared when 30% of children are acutely malnourished, 20% of the population is without food, and deaths are running at two per 10,000 adults or four per 10,000 children every day. Parts of Somalia exceed these dreadful thresholds. In three provinces almost a third of people are acutely malnourished, says the UN's World Food Programme (WFP). FEWS Net conducted surveys across southern Somalia this month and found that malnutrition exceeded 38% in most areas—a catastrophic rate. Famine is likely to spread all over the south in the next few months (see map). About 2.8m people are thought to need immediate life-saving help.

Yet famine was not declared until July, eight months after the first FEWS Net forecast. The UN did not issue its first appeal until then, though it made a small provision for expected problems in November. The response by donors has been patchy. In a sign of its growing global role, Brazil has pledged more to Somalia than Germany and France have combined. Italy offered nothing. Of the $2 billion the UN says the region needs, it has received less than half. The cash available for food in southern Somalia looks likely to run out well before the next rains.

Outsiders' caution is linked to the role of the Shabab, an Islamist militia which controls much of southern Somalia and is locked in battle with the internationally recognised but feeble government. The Shabab has banned food aid in most of southern Somalia since 2009, branding Western aid agencies anti-Muslim. The WFP, the biggest provider of food aid, has had 14 staff killed there since 2008. Agencies also worry that militias use food aid to rally their troops—some say this happened in Ethiopia and Eritrea in the 1980s—and do not want to pile into southern Somalia to find they have reinvigorated the Shabab.

Still, things may be changing. One militant group recently said it was willing to let



Interactive: Explore our guide to drought and famine in east Africa at **Economist.com/famine11**

aid convoys in. Another then announced there had been no change in the prohibition and claimed the declaration of famine was a Western ploy to gain influence. Now, convoys are going in and the WFP has begun to move into Gedo, near the Kenyan border, where malnutrition rates exceed 50%. Some, but not all, parts of the Shabab seem to be looking for help.

The Islamists are not the only local rulers ambivalent about the onset of famine. Ethiopia's government will never admit there is famine in the country: to do so would be to say it had failed since 1985. Both it and Kenya's government have responded to public pressure slowly. Most of those affected are ethnic Somalis, nomadic herders and Muslims: marginal groups in both countries, with little political clout.

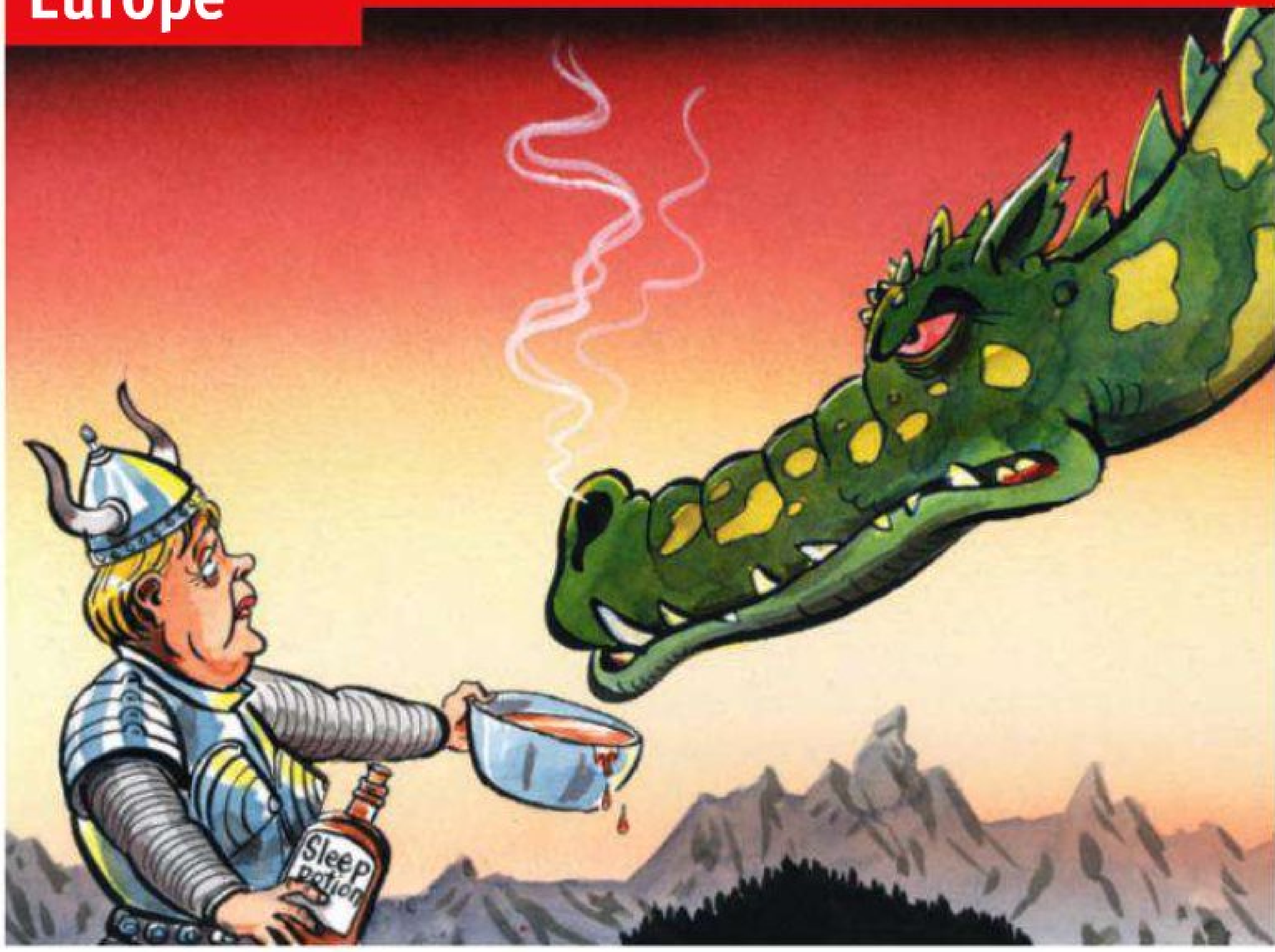
Western donors and NGOs, too, could have done more. FEWS Net may have predicted famine but nothing happened until television cameras showed up, beaming out pictures of fragile children arriving at the huge Kenyan refugee camp at Dadaab in large numbers. Aid officers worry about being criticised by the public and their own bosses if they spend scarce resources before there is an outcry. The result is that donors often ignore their own early warnings. "We're not behaving like good risk managers," worries Duncan Green, the head of research at Oxfam.

Still, the response to the famine has not been a failure everywhere. In some areas, outsiders have learned lessons from the disaster of the mid-1980s. The drought in the Horn of Africa is probably worse now than it was then. FEWS Net says that it is the worst for 60 years, a once-in-a-lifetime event. The number of those affected—the UN puts the figure at 10.8m—is greater than in 1984-85, when about 8m were hit. In the worst-affected regions of Somalia, cereals prices are 260% higher than they were in 2010, comparable to what happened in Ethiopia, when grain prices in famine-stricken northern provinces in mid-1985 were about 300%-350% of their levels the year before.

The WFP says that 5,000-10,000 people could die of starvation in southern Somalia in August. If the famine lasts until the next rains, that means 100,000-200,000 could be at risk there: a dreadful toll. But 1m people died in the Ethiopian famine of 1984-85. The difference does not lie in the severity of the drought. It lies in what local governments and aid agencies have done to bolster people's resilience to it.

For the past few years the Ethiopian government, the WFP and others have been running hunger-relief programmes which give out not only food aid but seeds and help to turn wasteland into productive acres. The result, says Josette Sheeran, the WFP's boss, is that "we have one-third the number of people suffering from the emergency than we might have done [in Ethiopia]." Kenya has kept its school-meal programme running in the drought-stricken areas, so families know their children will get at least a meal a day. In 1984-85 famine ravaged the Karamoja region of eastern Uganda, which shares the same dryland climate as Somalia and Ethiopia. It might well fall into famine again this year. But Karamoja has had a lot of "food aid-plus" projects and so far is not on the WFP's list of places in emergency need. Ungoverned Somalia has few such projects. A lucky few tramp hundreds of miles to food-distribution centres. Most remain under the control of jihadists, at risk of starvation.

Quite apart from the death toll and the misery, this is criminally wasteful. When famine threatened Niger in 2005, the cost of help was put at $7 a head. No one did much; the famine struck; the cost of help ended up at $23 each. Economic incentives and early-warning systems say donors should act early. But the political incentives advise delay—until it is too late. ■



Also in this section

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Germany and the euro

Angela the dragon non-slayer

BERLIN

The German chancellor will probably win approval for the latest euro rescue plan—but it will not be the last such scheme

AS SHE prepared to embark on her summer holiday (Wagner in Bayreuth, walking in the Alps), Angela Merkel had less the aura of a leader who has just saved the euro than the air of an executive who has just cleared her desk. The "yearning for a spectacular coup" to stabilise the single currency is understandable, said the German chancellor on July 22nd, the day after a crisis summit of euro-zone leaders. But the real solution is a "controlled process of successive, agreed steps" that makes progress "toward the core of the problem".

This language is vintage Merkel. Her critics damn her for a lack of European zeal and for dithering when panic took hold in the financial markets. Before the summit, France's Nicolas Sarkozy reportedly accused her of "criminal" egotism. But unbridled passion and excessive haste would not have solved the euro zone's problems at an acceptable political cost, Mrs Merkel believes. Why try to slay Fafner the dragon when you can safely put him to sleep?

The package assembled by the leaders of the 17 euro-zone countries on July 21st adheres firmly to this philosophy. It was bold enough to calm the markets, at least temporarily. The euro had eclipsed unemployment as the prime concern of German voters on the eve of the summit. But it was not so bold as to provoke open revolt from taxpayers who reject a "transfer union" of endless subsidies to Mediterranean countries. Mrs Merkel reckons she can sell the plan to the three parties in her coalition, her own Christian Democratic Union (CDU), its Bavarian sibling, the Christian Social Union (CSU) and the liberal Free Democratic Party (FDP). She should be able to get it through the Bundestag without the need for opposition support.

Yet there is little enthusiasm for it. The deal drags Germany further away from its insistence that well-managed economies should not have to pay for the mistakes of wayward ones. Besides doubling planned help for Greece, it hands new powers to the main bail-out fund and gives those who borrow from it lower rates and easier repayment terms. The euro zone "has taken a big step toward communalising risks," complained the Bundesbank's president, Jens Weidmann. "This weakens the foundations of a currency union based on fiscal responsibility." Such an admonishment from the chief guardian of German financial stability cannot be treated lightly—not least because, before going to Frankfurt in May, Mr Weidmann was Mrs Merkel's main economic adviser in the chancellery.

Yet Mrs Merkel probably achieved enough in Brussels to avoid mutiny in Berlin. Her main success was to secure a "voluntary" €37 billion ($53 billion) contribution by private investors to a reduction of Greek debt, in the teeth of stubborn opposition from Mr Sarkozy and the European Central Bank (ECB). "Finally, the first step toward restructuring," cheered the Young Entrepreneurs' Association, a persistent critic of the government's line.

That makes an unpalatable package tolerable. The bail-out fund will be permitted to buy bonds in the secondary market to shield countries from financial contagion. This breaks with the principle that it should intervene only as a last resort, admits Norbert Barthle, a CDU member of the Bundestag. But it cannot act without the approval of the ECB and all euro-zone countries. And although the bail-out fund will now have more to do, its size is not being increased, another sop to Germany. The new arrangements do not amount to a transfer union, says Mr Barthle, because the aid is not automatic. Only countries that reduce deficits and boost competitiveness will qualify. "The majority of my colleagues can be convinced of the solidity of this compromise," he believes.

Not everyone is persuaded. Frank Schäffler, a rebellious FDP legislator, complains that the bail-out fund's new power to intervene in the secondary market "strips parliament of its right to determine the budget". He predicted that the government would fail to muster a majority. Frank-Walter Steinmeier, parliamentary leader of the Social Democrats, said the coalition might break up over the euro.

On the surface this looks plausible. The coalition parties are backed by little more than a third of the electorate; the FDP might not even get over the 5% threshold for the Bundestag if an election were held now. Anxiety about the euro accounts for much of the discontent. Nearly 90% of voters thought the currency's stability was at risk before the summit; 58% are against more help for Greece, says Forschungsgruppe Wahlen, a pollster. It is not hard to ▸▸

imagine that tension between political panic and a sense of European duty could tear the coalition apart.

Until now, strains over the euro have had little effect on domestic politics, however unpopular the bail-outs may be. "You can neither win nor lose elections" because of the euro, says Manfred Güllner of Forsa, another pollster. This is partly because the main opposition parties are more euro-friendly than the coalition. Unlike some of its neighbours, Germany has no Eurosceptic party worth mentioning. The faltering FDP might conceivably be tempted in that direction so as to claw its way back into the Bundestag. But its chairman, Philipp Rösler, has already signalled support for the summit package.

The bulwark against populism could buckle if there is yet another round of brinkmanship and bargaining. That may well happen. The debt relief for Greece looks insufficient (and participation by private creditors may also fall short of expectations). The euro zone still does not have enough firepower should contagion once again threaten Spain or, worse, Italy. Europe's leaders "are simply buying time," says Ansgar Belke, an economist at the University of Duisburg-Essen. When it runs out, ideas that are unpalatable now—such as issuance of "Eurobonds" backed by all euro countries—may force their way back on to the agenda.

Mrs Merkel departed for Bavaria hoping that the summiteers had done enough to impress the markets and put the euro on a more stable footing. The main item of unfinished business, according to Mr Barthle, is to win citizens' support. They need to be convinced that their own and Europe's prosperity "depends fundamentally on overcoming this crisis." He is right, whether or not Fafner wakes up again. ■

Ireland's prime minister

Church and state

DUBLIN

Enda Kenny scores some palpable hits against Brussels and Rome

WHEN the Vatican recalled its envoy in Dublin, Archbishop Giuseppe Leanza, on July 25th it marked a low point in diplomatic relations between Ireland and the Holy See. The papal nuncio's sudden departure came after an outspoken attack by the Irish *taoiseach* (prime minister), Enda Kenny, on Rome's interference in Irish affairs. Mr Kenny accused the Vatican of undermining the work of an official inquiry into clerics' sexual abuse of children in a Catholic diocese, Cloyne.

Over a 13-year period to 2009, most of the 19 alleged cases of child abuse by priests in Cloyne were not reported to the civil authorities. The Cloyne inquiry report, Ireland's fourth investigation into child sexual abuse by clerics, laid most of the blame on the bishop of Cloyne, John Magee, who resigned in March 2010 (he had been private secretary to three popes). The report found that Bishop Magee had misled an earlier inquiry and failed to implement child-protection procedures set up by Irish bishops in 1996. The Vatican dismissed these procedures as "merely a study document" and, the report claimed, was "entirely unhelpful" to any bishops who wanted to implement them. Last year Pope Benedict XVI apologised to victims of sexual abuse by members of the clergy.

Mr Kenny is a practising Catholic in a country where 87% of the population profess Catholicism. Until quite recently, any attack on the Vatican would have been political suicide. Yet his outspoken remarks won strong support both in parliament and from the public. The Vatican had, he said, played down "the rape and torture of children" so as to uphold the primacy and reputation of the church. The government has asked it to explain why it helped so many priests to ignore child-protection rules. Archbishop Leanza's public recall is without recent precedent in papal diplomacy and shows the extent of the Vatican's dismay over such a public rebuke.

As the government's row with the Vatican deepens, its relations with the Catholic church at home are also worsening. At issue is who should pay for compensation to the victims of clerical sex abuse, which has so far cost the state €1.4 billion ($2 billion). The Catholic church has offered €374m, but it is under pressure to pay half the overall bill—if need be, by signing church property over to the state.

Mr Kenny was elected as head of a Fine Gael-Labour coalition in March with Ireland's biggest-ever parliamentary majority. He has emerged as the new government's surprise success. Just over a year ago his political survival was in doubt, as he fended off a vote of no confidence in his leadership of Fine Gael, then in opposition. But since March, despite Ireland's severe economic problems, he has enjoyed a political honeymoon. His poll ratings are at their highest in nine years. He has become Ireland's dominant political figure, to the astonishment of many in his own party. His row with the Vatican seems only to be boosting his popularity.

One of Mr Kenny's main goals has been to renegotiate the onerous terms of the €85 billion European Union-IMF bail-out, accepted in November 2010 by the previous government. At the euro-zone summit in Brussels on July 21st, he claimed victory when the interest rate on loans to Ireland was cut and their maturity was extended. He saw off pressure from the French president, Nicolas Sarkozy, to raise Ireland's low (12.5%) corporate-tax rate.

Ireland's prime minister has banked useful political capital in his first four months. He may have to draw on it when he has to sell a fresh round of austerity measures to a weary public. Another €4 billion or so in savings must be made in the December budget if Ireland is to meet the targets set by its EU-IMF paymasters. In the past week Mr Kenny has chalked up successes in Brussels and against Rome, but many testing battles lie ahead. ■

End of the receiving line for Enda

Justice in Ukraine

Democracy on trial

KIEV

The case against Yulia Tymoshenko looks political as much as criminal

BRAWLING broke out this week at the trial of Ukraine's former prime minister, Yulia Tymoshenko, when one of her more vocal supporters refused to leave the courtroom in Kiev. Mrs Tymoshenko, who is accused of illegally concluding a gas-price agreement with Russia in 2009, even stood on a bench to film the incident on her mobile phone.

Such farcical scenes have become almost routine in a trial that is being watched closely in Europe and America for signs of selective and politicised justice. Mrs Tymoshenko is no ordinary defendant. She was a leading light in the 2004 "orange revolution". She has twice served as prime minister. She is now Ukraine's most prominent opposition politician. Only last year she narrowly lost a tight presidential election to Viktor Yanukovich, a former mechanic who was kept out of power by the orange revolution. Mr Yanukovich has used his first year as president mainly to cement his own power at home, though he has also tried (not always to great effect) to repair Ukraine's relations with Russia.

Mrs Tymoshenko's case, which has been heard on and off in a stuffy courtroom in Ukraine's capital over the past month, offers a lively but disturbing insight into the country. Mr Yanukovich's government has framed the trial as part of a new anti-corruption drive, insisting that it is not revenge for past political slights. Nor, it claims, is it about torpedoing Mrs Tymoshenko's chances of competing in a parliamentary election next year or in the presidential vote due in 2015.

Yet Mrs Tymoshenko is not facing charges of straightforward graft. Rather, it seems as if her political record and managerial competence are on trial. Specifically, the allegations centre on her second stint as prime minister, from 2007 to 2010, when she was called on to resolve one of Ukraine's perennial gas disputes with Russia, from which Ukraine buys most of the energy that it needs to keep its creaking Soviet-era economy going.

According to state prosecutors, Mrs Tymoshenko exceeded her authority by pushing the gas deal through without consulting her own government, committing a cardinal procedural error. To compound her alleged sins, they accuse her of striking a bad bargain for Ukraine, losing the country almost $200m. She is no stranger either to Ukraine's sharp-elbowed judicial system or to gas: she spent 42 days in jail in

Does this have a get-out-of-jail app?

2001 in a standoff with the then president, and in the previous decade she was known as the "gas princess". Mrs Tymoshenko denies all the charges. Endowed with a flair for the theatrical, she has called the judge a monster and the trial a farce, and merrily flouted court protocol. For his part, the judge has seemed in a hurry, giving her lawyers inadequate time to study thousands of pages of documents.

Mrs Tymoshenko has filed appeal after unsuccessful appeal and changed her legal advisers twice. She has likened the proceedings to a Stalin-era show trial, and accused Mr Yanukovich of trying to turn Ukraine into a Soviet-style prison camp. Although that is hyperbole, it is hard to shake off the impression that her trial is politically motivated. Several of Mrs Tymoshenko's former ministers have been arrested and jailed. She faces a series of other criminal charges besides the present case.

Indeed, Mr Yanukovich's credibility and commitment to democracy are in the dock alongside her. If at the end of it, he is seen to have used the judicial system to settle personal political scores, his espousal of democracy will look hollow. As it is, a trial designed to enhance his authority, risks undermining it. Were Mrs Tymoshenko to be jailed (she faces a maximum sentence of ten years), she is likely to emerge as a political martyr. And Mr Yanukovich would be stuck with precisely the label that he has worked so hard to shed: that of a neo-Soviet autocrat. ■

Latvian politics

Two just men

Two sober men try to calm Latvia's febrile politics

EVEN Latvians' fans rarely call them exciting: with overachieving Estonians to the north and outspoken Lithuanians to the south, the middle one of the Baltic three often struggles for the limelight. Yet Latvian politics is all too lively, with a perilous economic boom and bust, swaggering oligarchs, storms over the anti-corruption agency and persistent fears of Russian meddling.

The latest twist involves a man who epitomises his country's low-key virtues, Valdis Zatlers, the former president. In his final act in office he called a referendum to dissolve parliament, the Saeima, which he said was in the pockets of three powerful tycoons. Furious deputies voted in a friendlier president, Andris Berzins. But on July 23rd, 95% of the voters, on a 45% turnout, backed the dissolution, triggering a new election that is planned for September 17th.

The most likely winner is the severe Mr Zatlers, whose new political party campaigns for reform and against graft. A poll puts it on 17%. New parties often flourish in Latvia—until the messy business of fund-raising taints their image. A slight problem is that the party's logo resembles that of the Red Cross, which is protected by international law against political or commercial exploitation.

The new party is taking votes from the oligarchs' parties (one of which has dissolved itself). But it also draws votes from the shaky centre-right Unity coalition of the prime minister, Valdis Dombrovskis. His downbeat style and steady hand have piloted Latvia back to growth via gruelling austerity, an international bail-out and a steadfast refusal to devalue the lat. Unity's rating is now down to 11%. As president, Mr Zatlers backed Mr Dombrovskis; but he now wants his own man in the job. Foreigners would be sorry to see a change.

Another question is whether a new coalition might, for the first time, include a party mostly backed by Russian voters. Harmony, a mainly moderate leftish grouping, already partly runs the capital, Riga. A share of national power might mean more responsibility as well as promoting the integration of Latvia's large Slavic minority. It may be preferable to including either the radical-right Latvian party or one of the tycoon-backed outfits. "Better good Russians than bad Latvians," say some. But others prefer the well-worn lot whom they know.

Charlemagne | How much closer a union?

The euro zone is moving closer towards an uncertain fiscal union

AT THE emergency meeting of euro-zone leaders on July 21st Jean-Claude Trichet, president of the European Central Bank, circulated a set of charts showing how bond spreads had blown out after every summit over the past year. He also handed out a ranking of countries deemed by markets most likely to default: Greece, Portugal and Ireland were at the top, riskier than Venezuela and Pakistan; Spain was less safe than revolutionary Egypt. Mr Trichet's point was clear. The response to the crisis had been inadequate and often made matters worse, with markets seeing Europe as more of a basket-case even than Africa.

The leaders were determined to reverse this grim trend. So they agreed to slash interest rates on bail-out loans for the most crippled members, and to double their maturities to 15 years (and, if need be, be ready to double them again, to 30 years). The summit promised to keep up the subsidies until Greece could return to the market. Ireland and Portugal got the same terms. Greece's private creditors were asked to pay, but only a bit.

To limit contagion, the leaders gave enlarged powers to the European Financial Stability Facility (EFSF) to extend short-term loans, recapitalise banks and buy bonds of troubled sovereigns in the markets. To France's delighted president, Nicolas Sarkozy, this was the birth of a European Monetary Fund. The markets were pleasantly surprised, even euphoric for a while. Finally, said some analysts, euro-zone leaders were taking the bold steps required. But those taking off on their summer holidays would be wise not to switch off their mobile telephones. Spain and Italy, in particular, have been wobbling yet again this week.

The rescue of Greece is a necessary first step, but it will not end the crisis. Despite everything, the summit did too little to lighten Greece's debt burden, given the political fury and market turbulence caused by demands for private-sector participation. Leaders say they will do "whatever is needed" to save the euro. But what is needed? The options are hard or costly. More money may be wanted for Ireland and Portugal. Many think the EFSF, to be credible, should be doubled or tripled in size. But at some point throwing in money will raise doubts about the creditors. Can enfeebled Italy and Spain afford to pledge tens of billions of euros more? How long before France's AAA rating is at risk?

For some, the time has come to address the underlying design flaw of the euro: a single currency with many different states. Even the sceptical British say that the "remorseless logic" of monetary union is greater fiscal union. Mr Sarkozy sees an opportunity to achieve his vision of "economic governance", with regular summits of the euro zone's 17 leaders producing a more integrated economic policy and progressively breaking away from the wider EU of 27. "I am a federalist," Mr Sarkozy told his colleagues. In joining the euro, countries had to surrender some sovereignty. That such views should be expressed by a former Gaullist, at a time when the EU is unpopular, was perhaps a surprise.

In truth, Mr Sarkozy is trying to amplify France's voice in a smaller core that excludes pesky liberals like the British, Swedes and Poles, and gives greater weight to France's Mediterranean allies. Europe at 17, he thinks, really means Europe *à deux*, with Mr Sarkozy as co-regent alongside Angela Merkel. The German chancellor has tried to resist this, but has relented as the crisis has deepened. Her priority has been to push weaker countries to be more Germanic through reforms to improve their competitiveness. To get some of this, she agreed earlier this year to summit meetings of a "euro-plus" group of the 17 euro members with others ready to abide by the same strictures.

Now Mr Sarkozy wants to push this bargain a stage further. He seems to have the backing of Herman Van Rompuy, president of the European Council (representing leaders), who stands to gain at the expense of the European Commission (the EU's civil service) and the finance ministers, the crown princes of the EU. An idea proposed by Mr Trichet may gain strength: the creation of a "European finance minister" to oversee economic and budgetary policies, supervise the financial sector and represent the euro abroad. Alas, for advocates of the notion, the experiment of an EU "foreign minister" has hardly been a great success.

There will be much blood spilt over institutional changes, especially if they require a treaty amendment that could reopen an argument with Britain over the repatriation of powers from Brussels. In any case, a re-engineered EU will not impress the markets unless they think it will act more effectively. Will the strong then be more likely to stand behind the weak?

Closer bonding

Inexorably, all this leads to talk of a deeper "transfer union" and of issuing joint Eurobonds. Mrs Merkel says this is a matter for future generations: Eurobonds would need both a new EU treaty and a new German constitution. But she may be forced to discuss it quite soon. Spain and Greece, and most Socialist opposition parties, want Eurobonds. The commission will propose them in the autumn. Critics say mutualised debt encourages the profligate to freeride on the virtuous. Might Eurobonds turn to junk bonds? And even if moral hazard can be avoided, will Germany and others not end up paying higher rates on their debt? Much depends on the course of the crisis: if it rages on, more people may come to see Eurobonds as cheaper than more bail-outs.

Euro-zone leaders find themselves buffeted by a crisis they cannot control. How much more fiscal and political integration does the euro need? Nobody knows. Are citizens ready to give up more sovereignty to save the euro? Nobody has asked them. The more leaders try to fix the euro's flaws the more they risk exposing a flaw in the European Union itself: a project of European integration that lacks a strong democratic mandate. ■

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Manufacturing

A tale of two industries

DERBY

The contrast between two adjacent factories in an East Midlands town suggests how British manufacturing might prosper

TRAINS have a particular symbolism in Britain, which invented the railway and exported the technology to the rest of the world. So it is understandable, particularly at a time of sluggish economic growth (see next article), that the threatened closure of the country's only remaining train-making factory has provoked an outcry. In June the coalition government named Siemens, a German engineering company, as the favoured bidder for the £1.4 billion ($2.3 billion) contract to make new trains for the cross-London Thameslink service; Canadian-owned Bombardier, which hoped to produce the 1,200 carriages at its operation in Derby, in the East Midlands, lost out. The firm is cutting 1,400 jobs; its factory is set to run out of work in 2014.

On July 23rd thousands of people marched behind brass brands through Derby's streets to protest against the fact that, as they see it, the government is letting the train industry die. The government says cheaper trains are in taxpayers' interests, and that it was bound by procurement rules set by its Labour predecessor. Critics accuse ministers of failing to back their own call for Britain to make things again, and not rely on frothy finance: though manufacturing constitutes 12% of the economy—a little more than finance—its share has fallen by half since 1990.

"Train building is in the DNA of Derby," says Philip Hickson, Conservative leader of Derby council. The slate roofs of the Bombardier factory testify to its Victorian heritage: rolling stock has been manufactured at the site since the mid-19th century. But the role of trains in Britain's industrial rise does not make them essential to its future. As it happens, a few hundred yards away is a more promising outfit: Rolls-Royce, an engine manufacturer for the aerospace, marine and energy sectors (its chairman, Sir Simon Robertson, also sits on the board of *The Economist*). The contrast between the two suggests how British manufacturing can hope to prosper in the 21st century.

Running out of steam

Superficially, the aerospace industry is similar to train manufacturing: both involve large but occasional deals to make bulky, pricey goods. In the past decade both have been pounded by recession, rising fuel prices and demand for greater energy efficiency. Yet the outcomes for the two operations in Derby are strikingly different: Rolls-Royce has become the world's second-largest maker of jet engines; Bombardier can't persuade the government to buy the trains it makes in Britain.

Bombardier blames its troubles in Britain on Whitehall bungling. Demand for new trains has always been prone to peaks and troughs, but that inconsistency has worsened. Several factories shut during a three-year ordering hiatus when the rail network was ineptly privatised in the 1990s; contracts have become ever scarcer as the government parcels up rolling-stock procurement into huge purchases. No new deal has been closed in Britain since 2009.

Still, all manufacturing firms depend on their order book. Aerospace companies have found an alternative source of profit: servicing the goods they make. Rolls-Royce already gleans 51% of its revenue from servicing its engine fleet: its Trent jet engines are continuously assessed from a slick operations room at Derby. That figure is set to increase, the company says. For Bombardier's global transport division, by contrast, the share of revenue from services went down between 2007 and 2010, from 21% to 14%.

Moreover, aerospace—including making the guts of aircraft engines, as Rolls-Royce does—is a global industry with standardised technologies. Only the paint job and interiors differ between planes made for different countries. Train production, by contrast, has until recently been largely national, which made it hard for manufacturers to achieve scale or make widely marketable goods. While Rolls-Royce hawks its wares around the world, Bombardier's facilities (across Europe and North America, as well as in Derby) have depended on single contracts to build local rolling stock. Each type of train Bombardier produces at its various sites is a different size and specification; fewer than 10% of trains made at Derby are exported.

That insular model has now begun to change—but not to Bombardier's advantage. Standardisation of technology is increasing and the industry is consolidating. Despite the popular stereotype that continental Europeans favour their own national suppliers, protectionism is loosening: in ▸▸

2010, France's state-owned Eurostar agreed to buy German-built Siemens trains; Spain's Renfe also uses German express vehicles. That means the Bombardier factory in Derby can no longer rely on its status as Britain's sole trainmaker. (Already in 2005 Hitachi won a deal for the British railway but shipped the fully assembled trains from Japan; the company will soon open a new facility in Britain but the carriage casings will still be made in Japan.)

Wrong side of the track

Meanwhile Rolls-Royce has sought to insulate itself from the quirks of procurement by applying its design to other industries: 80% of the gas-turbine technology used in its best-selling jet engines is the same for the energy and marine sectors. All of which leaves Rolls-Royce less reliant on the British market: over 85% of its revenues are from exports.

Rolls-Royce's resurgence would not have been predicted 40 years ago: in 1971 it ran out of cash and was nationalised by a Conservative government. Like Bombardier and other manufacturing firms it has shed staff in Britain—it has 20% fewer workers now than in 2001—but, unlike Bombardier, it still has a full order book.

In essence Rolls-Royce makes one piece of kit, with multiple applications, to a world-class standard. The reasons for its success—the quality and adaptability of its products, its expansion into services and global reach—could offer lessons for Britain's other industries, even if it is too late for its trainmakers to catch up. ■

Economic stumbles

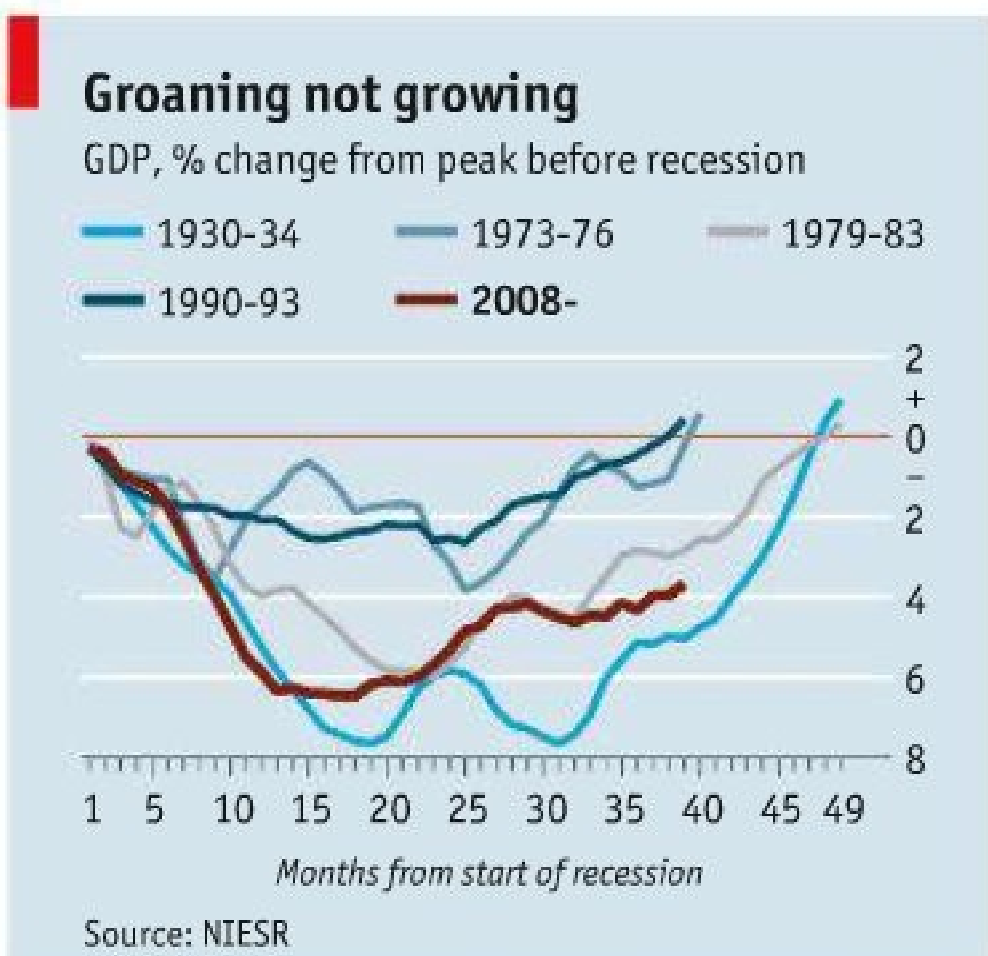
Some safe haven

Lacklustre growth has provoked renewed attacks on the government's plans to slash the deficit

BRITAIN'S economy shrank by 6.4% between the first quarter of 2008 and the fourth quarter of 2009. It has grown by just 2.2% since then. Output in America and Germany has surpassed its pre-financial crisis level, and France's is not far off it, but British GDP is still almost 4% lower than it was three years ago.

The announcement by the Office for National Statistics (ONS) this week that growth in the second quarter of 2011 was just 0.2%, and expansion in the year to June a measly 0.7%, confirms that recovery from the recent recession may well be the slowest since the 1930s (see chart). It has also reignited a bitter debate over whether the government should focus less on cutting the deficit and more on fomenting growth.

George Osborne, the chancellor of the exchequer, greeted the figures with some relief, as some forecasts before the official release had included negative numbers. The figures showed that the economy was growing and creating jobs, he said. Spurning suggestions that he backpedal on reducing the deficit, he called Britain "a safe haven in the storm" of worldwide instability, in which sovereign-debt worries threaten America and the euro zone.



Ed Balls, the Labour shadow chancellor, thought Mr Osborne "breathtakingly complacent": instead of insisting on savage fiscal tightening, he should reverse the increase in VAT (a consumption tax, raised in January to 20%) and slow public-spending cuts. Mr Balls was not alone in advocating renewed stimulus. Vince Cable, the coalition government's Liberal Democrat business secretary, urged the Bank of England to return to quantitative easing (printing money to buy securities). Boris Johnson, the Conservative mayor of London, talked of cutting employment taxes as well as the top 50% rate on personal income.

Mr Osborne will undoubtedly ramp up the pro-growth rhetoric when Parliament reconvenes in the autumn, not least because he is likely to have to announce the fourth downgrading of the Office of Budget Responsibility's 2011 growth forecast (currently 1.7%). He may come up with concrete new proposals, too, including more incentives for firms to hire and invest. But the commitment to serious fiscal consolidation will not change unless future GDP figures remain limp.

Are they likely to? The ONS thinks that one-off factors—an extra bank holiday, the tsunami in Japan, a heatwave in April—may have knocked 0.5% off activity in the second quarter. If so (and not everyone is convinced) that might mean some activity was deferred to the third quarter. Kevin Daly of Goldman Sachs thinks there are modest grounds for optimism: the sectors that shrank most this time, such as oil and gas, are notoriously volatile, whereas those that grew, such as services, may be seeing sustainable improvement. And the overall figure could well be revised upward: other indicators—private-sector job creation and tax receipts—are positive.

Just why growth is proving so slow is unclear. For all the talk of fiscal stringency, tax rises and spending cuts are only beginning to bite. Some reckon the economy has been knocked on to a lower, less productive path. Others blame weak demand, as high inflation, falling real wages and fears for the future discourage household consumption. Both may be true.

To date the best growth strategy, if an involuntary one, has been letting sterling depreciate, by about 25% from its 2007 peak. But salvation through exports is faltering, partly because Britain sells mainly to tired rich-world countries where demand is also muted rather than to exuberant developing ones. A depressing detail this week was the 0.3% fall in manufacturing output.

For the Treasury, as for the central bank, policymaking is about balancing risks. On the fiscal side, the question is whether loosening policy to favour growth will raise borrowing costs; on the monetary side, it is whether slackness will stoke inflation. No single quarter's GDP can point to the right course. Recovery from a recession as savage as this one will be bumpy as well as long. ■

Nothing to write home about, George

The phone-hacking scandal

The hunt continues

The damage from the News of the World's implosion is still spreading

THE excitement caused by their appearance before a parliamentary committee on July 19th may be fading, but James and Rupert Murdoch are still politically radioactive. This week MPs indulged in a kind of negative one-upmanship, accusing each other of spending too much time with the media tycoons over the past few months (by this measure George Osborne, the chancellor of the exchequer, and Michael Gove, the education secretary, come off particularly badly). And the fallout from the phone-hacking scandal continues to rain down on News Corporation and others.

A key question is why News International, the British newspaper arm of News Corporation, took so long to acknowledge widespread wrongdoing at the *News of the World*. Until recently it stuck doggedly to the line that phone-hacking was limited to a single reporter, Clive Goodman, who was jailed in 2007.

In 2008 a civil lawsuit brought by Gordon Taylor, a football executive, brought to light an e-mailed transcript of phone messages, which seems to have been intended for another journalist at the paper—an early hint that the "rogue reporter" claim was nonsense. In Parliament James Murdoch was asked if he had been aware of this e-mail when he authorised a large settlement with Mr Taylor, which in effect prevented the document from being widely disclosed. He said he had not been. Two days later two former News International executives issued a statement saying they had told him about it. The committee may summon Mr Murdoch to explain himself.

Meanwhile other newspapers are becoming embroiled. On July 20th the *New York Times* claimed that five unnamed former employees of the *People* had described phone-hacking taking place there in the late 1990s. And James Hipwell, a former *Daily Mirror* employee, told two other newspapers he had witnessed phone-hacking at his former paper. Trinity Mirror, which owns both publications, denied the allegations. So did Piers Morgan, the *Daily Mirror*'s editor from 1995 to 2004.

Louise Mensch, a Conservative MP who sits on the committee that interrogated the Murdochs, has tried to focus attention on the *Daily Mirror*. But Tom Watson, the committee's star inquisitor (such a star that he is to write a book about the phone-hacking scandal), wrote that he had seen no evidence of wrongdoing at the Trinity Mirror newspapers. Trinity Mirror has announced an internal review of standards, but this will not delve into the past. The Daily Mail and General Trust has said its newspapers had not published stories based on hacked messages.

Trinity Mirror is a less tempting target than News Corporation: it is much smaller and lacks the political heft of the New York-based firm. But even if no wrongdoing at its papers is proved, they could still suffer collateral damage. The *Sunday Mirror* seems to have picked up many of the *News of the World*'s 2.7m readers. One might expect the company's share price to have soared. And it did—when the *News of the World* closed. But it has since slipped back. The fear now is that advertisers, many of whom had already come to see newspapers as less valuable than television or the internet, may conclude all newsprint is toxic. The scandal that began at the *News of the World* could, in the end, harm every British paper. ■

Amy Winehouse

A losing game

The tragically predictable end of a fragile star

IN A way, Amy Winehouse, who was found dead at her home in north London on July 23rd, lived her career backwards. Barely out of her teens when she released her first album, "Frank", in 2003, she already had the knowing tone of a performer with a lifetime of heartbreak behind her. Then, in her 20s, she set about acquiring the tragic worldliness that the timbre of her voice conveyed.

Compared with the anodyne, identikit bands churned out by talent shows, Ms Winehouse was an unusual pop idol. She started off close to jazz before switching to soul with her second album, "Back to Black" (2006). Her new sound, tailored by her producer Mark Ronson and nodding to her hero Ray Charles, was out of step with the fashion, but that helped to broaden her appeal. She wrote most of the songs on "Back to Black", and they made her a global success.

But the writing was already being scrawled on the wall. The refrain of the album's opening track—"They tried to make me go to rehab, I said 'no no no'"—sounded at once like an ironic comment on celebrity excesses and a straight bit of autobiography. Ms Winehouse had begun her long, terminal spiral of booze, drugs, a bad relationship that became a worse marriage, arrests, overdoses and, despite the famous lyric, occasional bouts of rehab. It was a familiar narrative, this time played out at gruesomely high speed and chronicled remorselessly by the tabloids.

She died of a suspected overdose at 27. Towards the end she was almost unrecognisable from the bouncy, suburban young woman who first rose to fame: stick thin (apart from the surgical enhancements), with an erratic beehive hairdo and multiple tattoos; a cartoon of immoderate loucheness. She hadn't released an album for five years. Her recent comeback tour was cancelled, after an agonisingly shambolic performance in Belgrade.

What a waste

Her recorded output being so small and her life so short, commentary on Ms Winehouse's death quickly turned to broader issues, such as the relationship between creativity and suffering ("Back to Black" was made during a separation from her dissolute partner), the dangers of drugs and of their open consumption by celebrities (though her habits looked less like hedonism than wilful self-destruction). In Camden Square, where Ms Winehouse lived, beer cans, vodka bottles, cigarettes and photos of her carousing in local hostelries were this week crassly scattered among the usual paraphernalia of public 21st-century mourning: flowers, cards, teddy bears, people taking photos of themselves.

Perhaps above all, her life was a lesson in the dangers of early, overwhelming fame—and an admonition to a popular culture that, like a primitive religion, revels in the destruction of its gods.

Sanitation

Cholera and the super-loo

ADDIS ABABA AND NAIROBI

Solving the sanitation problem is within reach, and it could avoid many deaths

"CHOLERA most forcibly teaches us our mutual connection. Nothing shows more powerfully the duty of every man to look after the needs of others." So said Titus Salt, a Victorian wool baron who worked to put an end to cholera in Yorkshire. It was cholera, as much as the great stink, which led London's masters to build vast sewers, install toilets, and promote hygiene. Cholera struck fear into 19th-century cities, sweeping away the rich along with the poor. America's President James K. Polk died of the disease after a visit to New Orleans. His successor, Zachary Taylor, may also have succumbed.

The liquid diarrhoea and vomit jetted out by a body infected by the bacterium *Vibrio cholerae* is a reminder, in extreme form, of the danger lurking in the excrement which flows from every human settlement, creating a problem few want to go near. Not all human waste has the deadly bacterium; but all of it is dangerous and better disposal of faeces would go a huge way to stopping cholera and other deadly intestinal diseases.

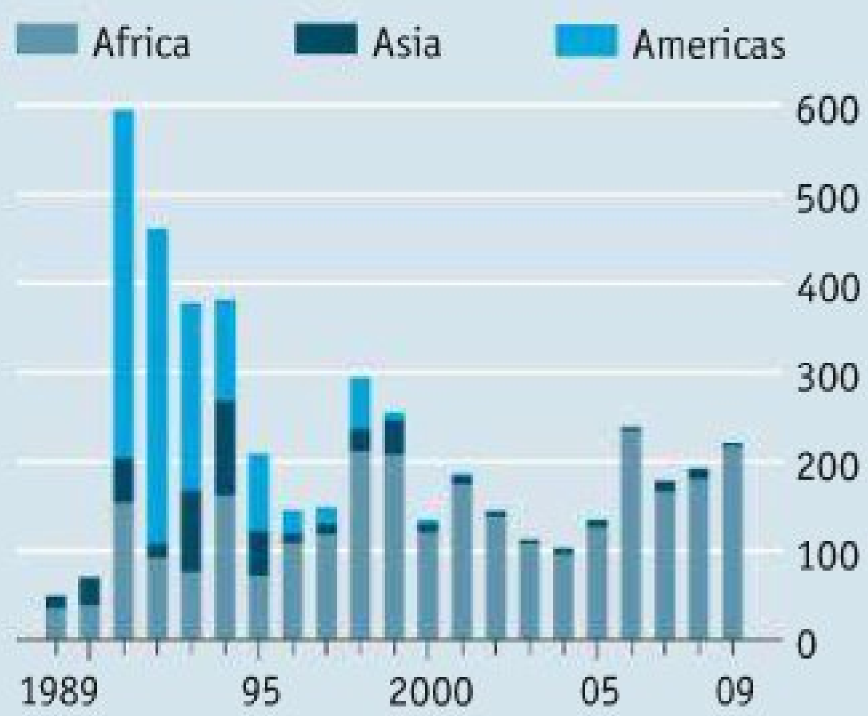
And with the urban population in poor countries soaring, cholera is still a pressing concern. In Haiti the health ministry recently announced that 5,800 people had died of cholera since October last year. Another 250,000 had recovered, often after having lost work or schooling. Those numbers do not include Haitians believed to have died, helpless, in remote places.

Epidemiologists think the Haitian outbreak was caused by Nepalese peacekeepers dumping their sewage into a water source. An independent report says the Nepalese should have been screened for *V. cholerae*. But nobody is pointing fingers at the troops; the ultimate cause was bad sanitation and hygiene among Haiti's poor.

The World Health Organisation says that out of 3m-5m cholera cases a year, 100,000 people die. The outbreaks are spread over 40-50 countries. Their severity typically reflects the level of development: the more squalid a country, the more virulent the cholera. The Haitian epidemic spread to the Dominican Republic where 13,000 people were infected, but better governance and health care kept deaths there to a handful. Cholera appears even in industrialised countries. But such outbreaks, like one this month near Donetsk in Ukraine, are soon stopped by disinfectants and bottled water. The disease is fairly easy to halt with simple rehydration fluids.

Undefeated

Number of cholera cases reported to the World Health Organisation, '000



Source: World Health Organisation

The river systems of India and Bangladesh are rife with diarrhoeal disease. Some cases arise from drinking filthy water, most are from ingesting traces of faeces from the hands or in food. Climate change may raise water levels, further contaminating drinking sources in Dhaka and Kolkata. Yet progress is being made in both countries on an oral vaccine against cholera, said to offer protection to infants. A large trial is under way. The Indian makers of one version say they can get the cost of treatment below $3, cheap enough to limit outbreaks.

Nine out of ten cholera cases are in Africa. Worst-hit are Ethiopia, Mozambique, Zimbabwe and Congo. Some 5,000 lives were lost to an outbreak of cholera in Zimbabwe that began in 2008. There have been 50,000 cases of acute watery diarrhoea in Somalia this year as pastoralists drink dirty water instead of the milk they used to get from animals, which have starved to death.

There is much concern about Congo, where a cholera outbreak is spreading down the Congo River from the city of Mbandaka. Some 280 have already died, out of 10,000 cases. The number could grow 20 times if cholera gets to the capital.

Because of its virulence, cholera is the ailment that catches the headlines, but the other diarrhoeal diseases kill 1.5m children a year. These illnesses "account for half of all hospitalisations in the developing world," says Prince Willem-Alexander of the Netherlands, who chairs a UN board on sanitation. ▸▸

What can be done? Andrea Rinaldo of Switzerland's Polytechnic of Lausanne points out that cholera has the "advantage" of using water pathways to disperse pathogens. By mapping water in cities along with population movements and expected rainfall, it should be possible to predict where cholera will spread.

The WHO favours money for vaccines. It wants more clinical research on hand-washing, and more taps close to latrines. Simply washing hands, without soap, can stop cholera. Less clear is how to make hand-washing a norm. Campaigns such as Wash United, which uses footballers to promote the practice, do help. So would a drop in the price of water in the poorest slums. Some pundits think early warnings for cholera could be more sophisticated.

A blessing in need of reinvention

The WHO also points out that 2.6 billion people around the world lack access to a latrine that is not overflowing, that is affordable and that has a tap nearby to wash hands. Some 1 billion defecate outdoors. This is the cat method, where faeces are rolled in sand or dirt next to the village. That attracts flies and spreads disease, like eye infections. A solution entails better sanitation for all; that means reinventing the WC. Frank Rijsberman heads the sanitation effort at the Bill and Melinda Gates Foundation. Gates plans to spend $266m over the next five years on toilet initiatives. The toilet, Mr Rijsberman asserts, has saved more lives than any other health device. But a flush loo is no option in slums where rain is the only form of flushing.

Nor have clunky biogas projects, which first appeared in the 1970s, proved to be a panacea. The excitement is over cheap but advanced technologies—such as "zapping shit in a pit" by using microwaves to vaporise excrement, generating some electric power too. Other ideas include extracting water and leaving a dry residue for use as fuel or fertiliser, or making latrines into fly traps, hence cutting the spread of disease.

Some 22 universities around the world are working with Gates. The goal is to make a toilet that is robust, easy to clean, water- and energy self-sufficient, and costs a user less than five cents a day. This would be a feat, mixing design, engineering and biochemistry and microbiology. But sanitation and prevailing against diarrhoea must also involve sociology (getting women to help) and better handling of waste for those who do have toilets. Why, for instance, do water users in a megacity like Lagos not pay an extra charge to get cesspits pumped out? The practice in most African and some Asian cities is for private lorries to suck up human waste and dump it in rivers. But town halls could find better ways to handle the stuff, and make money. In tackling the shit problem, economics could well be a clincher. ■

Face recognition

Anonymous no more

SAN FRANCISCO

You can't hide—from anybody

IF YOUR face and name are anywhere on the web, you may be recognised whenever you walk the streets—not just by cops but by any geek with a computer. That seems to be the conclusion from some new research on the limits of privacy.

For suspected miscreants, and people chasing them, face-recognition technology is old hat. Brazil, preparing for the soccer World Cup in 2014, is already trying out pairs of glasses with mini-cameras attached; policemen wearing them could snap images of faces, easy to compare with databases of criminals. More authoritarian states love such methods: photos are taken at checkpoints, and images checked against recent participants in protests.

But could such technology soon be used by anyone at all, to identify random passers-by and unearth personal details about them? A study which is to be unveiled on August 4th at Black Hat, a security conference in Las Vegas, suggests that day is close. Its authors, Alessandro Acquisti, Ralph Gross and Fred Stutzman, all at America's Carnegie Mellon University, ran several experiments that show how three converging technologies are undermining privacy. One is face-recognition software itself, which has improved a lot. The researchers also used "cloud computing" services, which provide lots of cheap processing power. And they went to social networks like Facebook and LinkedIn, where most users post real names and photos of themselves.

Not quite lost in the madding crowd

In their first experiment, the researchers collected images from 5,000 profiles of people on a popular American dating site in a particular city—most of whom used pseudonyms. They fed the pictures into an off-the-shelf face-recognition programme that compared them with 280,000 images they had found by using a search engine to identify Facebook profiles from the same city. They discovered the identity of just over a tenth of the folk from the dating site.

That might not seem a big percentage, but the hit rate will get better as face-recognition software improves and more snaps are uploaded. The researchers did a second experiment: they took webcam photos of 93 students on Carnegie Mellon's campus, with their assent. These were fed into the face-recognition software along with 250,000 photos gleaned from publicly available profiles on Facebook. About a third of students in the test were identified.

But the most striking result was from a third experiment. By mining public sources, including Facebook profiles and government databases, the researchers could identify at least one personal interest of each student and, in a few cases, the first five digits of a social security number. All this helps to explain concerns over the use of face-recognition software by the likes of Google and Facebook, which have been acquiring firms that specialise in that technology, or licensing software from them. (Google recently snapped up Pittsburgh Pattern Recognition, the firm which owns the programme the researchers used for their tests.) Privacy officials in Europe have said they will scrutinise Facebook's use of face-recognition software to help people "tag", or identify, friends in photos they upload. And privacy campaigners in America have made a formal complaint to regulators. (Facebook notes that people can opt out of the photo-tagging service by altering their privacy settings.)

Given the sensitivity, Google decided not to release a face-recognition search engine it had made. Eric Schmidt, the executive chairman, has said it took the decision because "people could use this stuff in a very, very bad way, as well as a good way." But face-recognition methods may still spread. As Mr Acquisti says, sharing named photos online has "opened the floodgates" to a new, privacy-sapping world. Shutting them will be hard. ■

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French newspapers

The revolution at Le Monde

PARIS

A battle looms between an iconic paper and a powerful print union

WHEN the managers of *Le Monde* introduced computers to the paper's print works in the early 1990s, they hoped for greater efficiency and lower costs. But this was not the priority of the Syndicat Général du Livre et de la Communication Ecrite, a trade union which controls the printing of French national newspapers. It demanded that for each new computer, *Le Monde* should pay for one print worker to type on the keyboard and another simultaneously to watch the screen. It got its way.

French papers are as badly bullied by print unions as British papers were until Rupert Murdoch, a media baron who has recently had other troubles, helped to break their power in the 1980s. France's Syndicat du Livre has controlled the printing and distribution of national daily newspapers since 1947. Like the old British unions, it is a closed shop; only its workers are allowed to print and distribute national titles. When it goes on strike, newspapers don't appear. With circulation and ad revenue halted, they lose money like a man with a vacuum cleaner in his wallet.

Le Monde is a highbrow centre-left paper before which mere politicians tremble. (John Elkann, one of its directors, is also a director of *The Economist.*) Last year *Le Monde* faced bankruptcy, until three businessmen, Xavier Niel, an internet billionaire, Matthieu Pigasse, an investment banker, and Pierre Bergé, the former business partner of Yves Saint Laurent, rescued it. Now Mr Niel, the wealthiest of the three and the most closely involved with the business, is tackling the union head on.

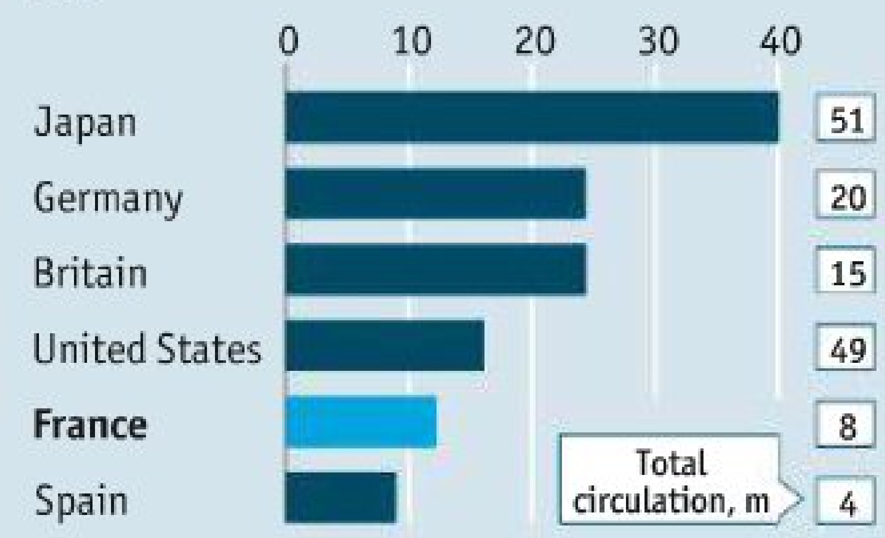
"The difficulties of the printing works are a cancer eating away at *Le Monde*," he says. The new owners have cut editorial and business costs (by addressing, for instance, the fact that some journalists write only one story a year). Overall, excluding the print business, the group will make €5m-10m ($7.2m-14.4m) in 2011, a big improvement after years of losses. The print plant, which loses €3m a year, will wipe out much of the profit. It has some contracts to print papers other than *Le Monde* itself. But these are all leaving, meaning that losses will soon leap to €10m a year.

Mr Niel plans to lay off up to 220 of the 260 workers at the plant. That is nearly a quarter of all the members of the Syndicat du Livre. Because *Le Monde*, an afternoon paper, is obliged to print chiefly at its own plant near Paris, readers in the regions get it a day late. The firm plans to shut two out of its three Parisian presses and start using regional plants to reach readers on time.

Those French intellectuals

Daily newspapers, circulation per 100 people

2008



Sources: OECD; Economist Intelligence Unit

When Mr Murdoch (and a fellow tycoon, Eddie Shah) humbled Britain's print unions by setting up presses that shut them out, they revived the entire British newspaper industry. Papers suddenly found they could cut the cost of production, improve quality and launch new products. Mr Niel, too, could lead France's industry out of bondage.

The Syndicat du Livre has used its power to demand ever higher staffing levels and pay. Louis Dreyfus, chief executive of Le Monde Group, compares staffing levels at *Le Temps*, a Swiss daily, which employs 24 print workers to produce the paper, to 110 print workers for *Le Figaro*, France's leading right-of-centre paper, and 260 workers for *Le Monde*. French papers cost on average 40% more to print than those elsewhere in Europe, says Arnaud de Puyfontaine, who in 2009 took part in an inquiry launched by Nicolas Sarkozy, France's president, into why the country's newspapers are so weak. Titles must charge high cover prices to compensate. That leads to low circulation (see chart). Many rely on subsidies to survive.

The battle has started: in June, alongside strike action, 200 union workers stormed the headquarters of Iliad, the company founded by Mr Niel, demanding to see him. *Le Monde* expects the union to start a long strike in September when ad revenue returns after the summer break, just when the paper has the most to lose.

The stakes are high. The union is fin- ▸▸

Horrible Bosses

Truth is nicer than fiction

A horrible film is generating a lame debate

HORRIBLE bosses come in many flavours. There are psychopaths, bullies and prats. Incompetent bosses are irksome, too. The bosses at New Line Cinema are not incompetent, in that their films make money, but they are still villains. For "Horrible Bosses", their latest offering, is a crime against art and common sense. The viewer is expected to believe that being propositioned by Jennifer Aniston is so traumatic that it would drive a man to plot her murder. Kevin Spacey (pictured) plays a more convincing psychoboss. But his talents are wasted on a lame script.

Greetings, underlings

To make matters worse, the film has inspired a torrent of management drivel. OfficeTeam, a recruiter, warns of "Horrible Boss Syndrome", which "can have serious implications" for morale. An American survey finds that 46% of employees have worked for an unreasonable boss at some point. Nell Minow, a critic, says the film reflects "the bitterness of the post-meltdown era".

All this fuss suggests, not that bosses are growing more horrible, but that employees expect them to be more agreeable. Laws ban discrimination, the internet allows people to air their complaints and the prevailing management culture emphasises sensitivity.

The monsters of the past knew no such checks. John Henry Patterson, who founded the National Cash Register Company in 1884, would set the desks of inept employees on fire. To find similarly forceful bosses today, one must look East. When Zhang Ruimin took over Haier, a Chinese white-goods company, in 1984, he smashed one of the company's products to pieces with a sledgehammer to show what he thought of its quality. Hollywood could use a few bosses like Mr Zhang.

ished as a political force if it accepts an 85% job cut. Other newspaper bosses would then demand big layoffs. And *Le Monde* risks destroying its business, even if it wins the fight. Mr Niel is not ready to use tactics as drastic as those employed by Mr Murdoch. Mr Niel and his co-investors will not shut down existing printing plants and open new ones as a way to bypass the print union. The last time a paper tried to fire large numbers of Syndicat du Livre workers was in 1975, when *Le Parisien Libéré*, a morning daily, announced 200 layoffs. During a violent, months-long strike, *Le Parisien* lost half of its circulation and never got it back.

As France's eighth-richest man, Mr Niel should be able to endure months of strikes, even at an estimated cost to the company of at least €200,000 a day. Another weapon is his status as an internet entrepreneur. All of his other journalism investments are online. He has part-funded several influential French news websites such as Mediapart, Electron Libre and Bakchich. *Le Monde*'s new managers intend to integrate the paper's print operation with its website—for now the two are mostly separate. When the Syndicat du Livre goes on strike, *Le Monde* puts the full print version online. "The union is aware that there's a risk that a long strike could accelerate the process of going fully digital," says Mr Dreyfus.

On the other hand, Mr Niel may lack one of Mr Murdoch's key advantages. Margaret Thatcher, Britain's prime minister, made sure that the police protected "scab" workers at his new plant in Wapping from union violence. Mr Sarkozy, by contrast, is wary of Mr Niel and will not welcome a dust-up with a powerful union in the run-up to an election. But he knows that France's national newspapers are in even worse shape than titles elsewhere. Making the industry viable again would strike a blow for freedom of expression. For that, a temporary stopping of the presses seems a price worth paying. ■

Keeping employees healthy

Trim staff, fat profits?

NORWALK, CONNECTICUT

American firms are offering staff carrots to stay fit. Soon they will wield sticks

ONE of the bosses in the film "Horrible Bosses" (see box) announces that it is time to "trim some of the fat". He then tries to fire the fat employees. In real life, companies are more humane. But they do worry about their employees' health, and the effect this has on productivity and insurance premiums. Many are trying to nudge their staff to keep fit.

At GE Capital's office in suburban Connecticut, for example, employees may not smoke on company property. The office gym has personal trainers and flyers with recipes for kale and quinoa salad. Outside the cafeteria, a sign warns of the calorific peril of the chicken pot pie; inside, the salad bar has colour-coded tongs to convey which salad toppings should be used "freely" or "sparingly".

Health premiums in America have more than doubled in the past decade. The proportion of adults who are not merely chubby but clinically obese has more than doubled since 1980, to a third. Small wonder more firms are offering wellness programmes. This year 73% of employers surveyed by PWC said they offered some type of wellness initiative; of those with more than 5,000 workers, 88% did.

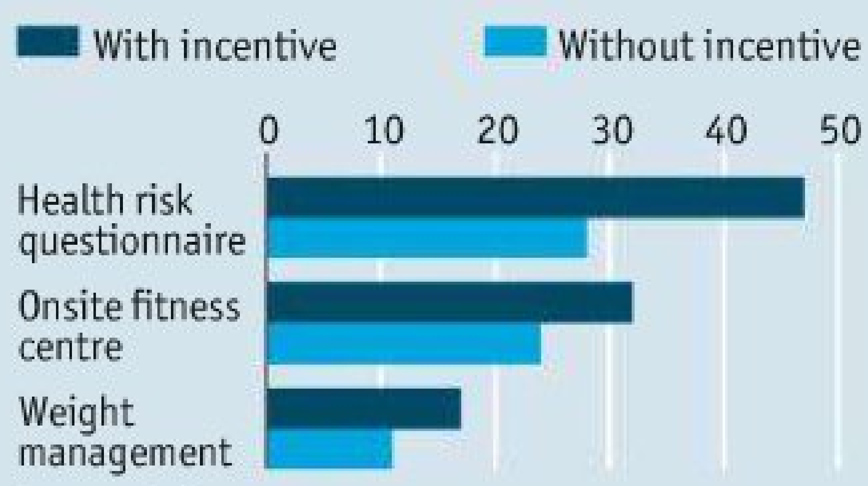
Such programmes used to involve little more than a few leaflets urging staff to exercise, eat less and quit smoking. Now they are pushier. Many firms ban smoking on the premises. Many also offer incentives for living healthily. This can mean cash, or something more complicated.

This month Humana, a health insurer, launched a programme to reward healthy behaviour with points that can be used towards hotels and electronic gadgets. The trendiest human-resources departments subscribe to the theory, peddled by behavioural economists, that people are not rational actors—given the choice between good health later and a doughnut now, the ▸▸

No payin', no gain

Staff taking part in US company wellness programmes

%



Source: PwC survey, 2011

doughnut will usually win. But people can be manipulated to act more wisely.

Large firms are often the most ambitious. At IBM, employees receive a $150 bonus for exercising, eating nutritious meals and so on. One such bonus is designed not just for an employee but for his entire family. According to IBM's own data, caring for a diabetic child is six times costlier than caring for a healthy one. One study of the exercise bonus scheme showed that participants' annual health costs grew 19% more slowly than those of non-participants. In any other field such results would be dismal. IBM considers it a triumph.

GE has experimented with various tactics. In 2009 it worked with UnitedHealthcare, an insurer, to give diabetics cheaper drugs and nutritional programmes, an effort to avert costly complications. A new health plan, meanwhile, aims to wring value from health spending. GE pays for 100% of preventive care but tries to steer employees toward cheaper, more effective treatment. "This isn't about big brother telling people what to do," says John Rice, GE's vice-chairman, "but helping them make better choices."

More and more firms are jumping on the wellness bandwagon. United last year announced a partnership with the YMCA, a gym, and Walgreens, a pharmacy, to prevent those at risk of diabetes from acquiring it. Express Scripts, which manages drug plans, has a lab that studies how workers use (legal) drugs and how they might be nudged to take the right ones at the right time. It calls this "Consumerology®". Healthways, which helps employers create health programmes, offers workers different incentives to take their medicine. (For example, one diabetic may be persuaded by $3. Another may require $20. Others may simply do it because not taking your medicine can lead to complications such as having your foot amputated.)

It is unclear how many of these programmes actually work. Some appear to. United's intervention for pre-diabetics is an expansion of a model tested by the National Institutes of Health, which reduced the likelihood of developing diabetes by 58% over three years. Kevin Volpp, the director of the Centre for Health Incentives at the University of Pennsylvania, found that GE's anti-smoking incentives prompted 9.4% of smokers to remain smoke-free after 18 months. Without incentives, only 3.6% of those who tried to quit succeeded. A review published in *Health Affairs* last year found that firms saved $3.27 for every dollar they spent on health programmes.

However, Dr Volpp sounds a note of caution. Companies with programmes that flop are less likely to broadcast their results. Some initiatives reward healthy employees for activities they might have done anyway. Others prompt only temporary change. "Short-term weight loss is not a particularly big trick," says James Pope, the chief science officer for Healthways. "Long-term weight loss is." PWC's survey found that more than half of employers with wellness programmes judged them to have had only a minimal effect. Nevertheless, a healthy 89% planned to expand their programmes.

In future, some firms may stop offering health insurance, dumping employees on new state exchanges created by Barack Obama's health law. Those who continue to offer insurance may try controversial means to keep it affordable. A growing number of Healthways's clients want to use sticks as well as carrots, says Dr Pope. At Safeway, a grocery chain, the premium that employees pay for their health insurance falls if they keep their weight and cholesterol under control. In other words, the unhealthy are penalised. GE first offered incentives to employees who stopped smoking; now those who still smoke must pay $650 more for their health insurance. Companies may be nudging now, but in future they may shove. ■

Germany's Mittelstand

Beating China

BERLIN

German family firms are outdoing their Chinese rivals. Can they keep it up?

ELECTRIC pumps are like burgers, reckons Christian Haag. They should be made at the last possible moment and delivered to the client precisely as he specified. Mr Haag runs a unit of KSB, a German firm that produces pumps and the motors that power them. His business is typical of the *Mittelstand* (Germany's legion of small and medium-sized family firms). Its products are well-engineered and built to last. They are not cheap, yet they are holding their own against Chinese competition.

Speed helps. By stripping the manufacturing process to its leanest, ensuring that no component is hanging around for long, Mr Haag reckons he can deliver his products at least a month quicker than any Chinese rival. Quality helps, too. In an uncertain world, many clients opt for German reliability. *Mittelstand* firms have refined their supply chains, factories and distribution networks to reach far-flung markets more quickly.

Mittelstand companies have long relied on the enviable network they already have at home. German universities work hand in glove with researchers at local firms. Suppliers cluster round big manufacturers. Owner-managers rub shoulders with workers. The *Mittelstand* model works well, but globalisation is forcing it to adapt.

Many family firms have sales and service outlets and even factories abroad. Even if they have developed their niche and are sticking to it, they cannot compete by staying still. "Companies in emerging markets have a much quicker growth potential," says Peter Englisch, a partner at Ernst & Young, an accounting firm. "There's no area of business now that is safe from competition." To compete, *Mittelstand* firms need to hire foreign staff and raise new capital, perhaps via private equity, he says.

Others caution against leaving a comfy niche and entering a hypercompetitive mass market. "Look what happened to the photovoltaic industry," says Thomas Kautzsch, a partner at Oliver Wyman, a consultancy. Small German start-ups jumped into the sizzling global market for solar cells. They prospered for a while. But the Chinese government deems solar power "strategic", so before long huge, well-capitalised Chinese firms had put them into the shade. There are sectors that the *Mittelstand* should simply avoid in China, such as machinery for construction, energy or raw-materials extraction, unless the machines are extremely sophisticated, says Mr Kautzsch.

Wittenstein, a maker of high-quality gears and drive systems in Baden-Württemberg, has steered a sensible middle course. Exports make up 57% of its €200m ($287m) annual sales, with most going to Europe and North America, and 9% to Asia. It is expanding its footprint slowly, opening one plant in Romania and another in Switzerland. "We're not replacing our core production in Germany," says Manfred Wittenstein, the chairman of the board and a son of the founder. Being in Switzerland gives the firm access to ETH

Zurich, a fine technical university, Mr Wittenstein says. It is also a testing-ground for a possible move into China or elsewhere.

Mr Wittenstein was briefly tempted to leave the company's secure niche and venture into "electro-mobility" (ie, electric cars, buses and bicycles). "But it's growing at such a pace it's not for us," he concluded. "There are other niches." Mr Kautzsch at Oliver Wyman reckons that China, where millions ride electric bicycles, is already winning the electro-mobility battle.

Despite, or perhaps because of, its caution, the *Mittelstand* is booming. Sales are reckoned by some to be growing at nearly 12% a year. As René Obermann, the boss of Deutsche Telekom, recently remarked, this "is faster than the Chinese economy." ■

Retail in Japan

Turning silver into gold

TOKYO

Stealth marketing to the elderly

THE Ueshima coffee shops that dot Tokyo seem like any other chain. But look more closely: the aisles are wider, the chairs sturdier and the tables lower. The food is mostly mushy rather than crunchy: sandwiches, salads, bananas—nothing too hard to chew. Helpful staff carry items to customers' tables. The name and menu are written in Japanese *kanji* rather than Western letters, in a large, easy-to-read font. It is no coincidence that Ueshima's stores are filled with old people.

Ueshima never explicitly describes itself as a coffee shop for the elderly. But it targets them relentlessly—and stealthily. Stealthily, because the last thing septuagenarians want to hear is that their favourite coffee shop is a nursing home in disguise.

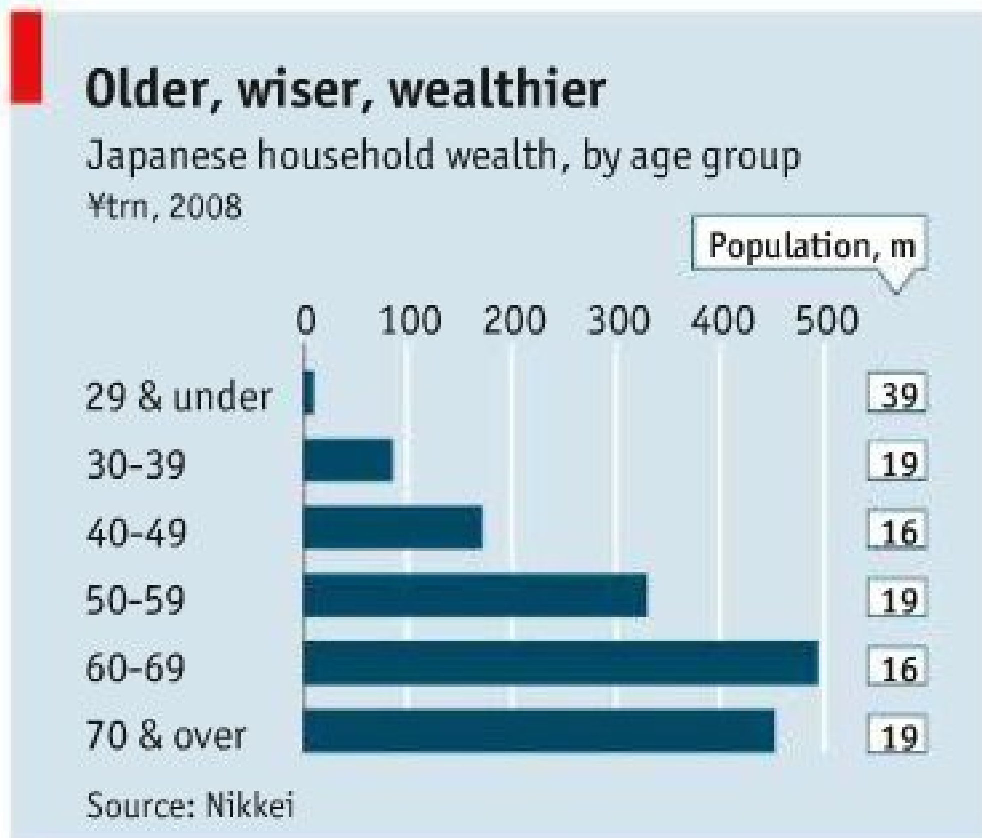
Japan is greying fast: already a fifth of its people are over 65. And the "silver generation" has gold to spare. The incomes of middle-class working folk have declined in the past decade, but seniors are sitting on a vast pile of savings. Almost a third of the nation's household wealth, some ¥450 trillion ($5.8 trillion), is in the hands of those aged 70 and older (see chart). In the West, the elderly pinch pennies, but Japan's seniors pay extra. At Ueshima a medium-sized coffee is ¥380, about 10% more than at Starbucks.

Many firms tailor their services to silver shoppers without letting on, explains a marketing specialist. Consider the Keio department store. On the outside, nothing warns you that it is a mecca for the mature. But inside there are chairs for weary shoppers. Signs are in large fonts. Many salespeople are in their 50s and 60s, since elderly customers trust such people more than whippersnappers. The food hall promotes good old-fashioned Japanese noodles more than newfangled foreign muck.

The shelves are lower, so older people can reach them. (Because of wartime food shortages, the elderly are much shorter than their juniors in Japan.) Loyalty cards at Keio award points not according to what you buy, but according to how often you visit. "Seniors have a lot of time on their hands," the marketer explains.

Marketing to the elderly is tricky. The direct approach—say, calling your product "the soap for the over-70s"—does not work. And traditional advertising fails. "You can't use TV adverts: they forget them," groans the 30-something executive. "We show it again and again and again—and they still can't recall it," he sighs. Word-of-mouth is the only way.

Decades ago it was rarely profitable to market products to seniors, since by the time anyone had reached the age of 70 they probably had only a few years left to



live. But Japanese people now live so long—life expectancy for women is 86; for men it is 80—that wooing them is lucrative.

Some firms try to hook them in their 60s, to build brand loyalty early. Others approach them via their children. One cosmetics firm pitches its wrinkle-removal cream to middle-aged women, in the hope that they will recommend it to their mothers. Filial piety comes in many forms. ■

After a lifetime of saving, it's time to party

Indian firms abroad

Under the radar

MUMBAI

Godrej, an Indian conglomerate, goes global its own way

THE world is used to big Indian firms planting flags in foreign fields. Now the subcontinent's medium-sized firms are venturing abroad, too, and often proving quicker and nimbler than their peers in other emerging economies.

Take the Godrej Group, a family-controlled conglomerate based in Mumbai. The firm began as a lockmaker in 1897. While the Indian economy was closed it could not expand abroad much, so it diversified wildly: into soap, typewriters, forklift trucks, animal feed and talcum powder. When India opened up in the 1990s, it had to become less jumbled and to shape up, says Adi Godrej, the chairman. "We put our thinking caps on."

After a false start experimenting with joint ventures with foreign firms, the group has settled on having clearly defined divisions, typically fully controlled. Together they have sales of $3.3 billion, with the largest being Godrej Consumer Products, a sort of mini-Unilever that cranks out soap, detergent, hair products and weapons for waging war on creepy-crawlies. This unit has led the foray overseas, with deals in Ni- ▸▸

Correction: In our article on women in business ("Still lonely at the top", July 21st 2011) we referred to a study of 20,000 assessments of INSEAD's executive students. We said these assessments were made by faculty; in fact they were by the students' work colleagues. Sorry.

geria, Indonesia, Argentina, Britain and South Africa since late 2005. It has spent about $1 billion, says Mr Godrej, and now makes about a third of its sales outside India. In June it announced the acquisition of Darling Group, which sells hair extensions in 14 countries in Africa.

If a Western firm did this, it might be clobbered by fund managers for being too thinly spread. Indian investors have been more open-minded: Godrej Consumer's shares have more than tripled since the end of 2007, valuing the firm at $3.2 billion. Mr Godrej says the key is to pick niche products with sizeable local market shares which pass under the radar of big global rivals. Aware of its limited pool of managers and knowledge of new countries, Godrej grants the acquired firms autonomy. Its financial disclosure is surprisingly poor, but the deals have all boosted earnings, it says, and more are likely.

Godrej will eventually face a universal problem: how to marry ambition with family control. Two big holding companies sit above Godrej Consumer. Such fiddly holding chains can cause problems if the family is unwilling or unable to fund new investments or accept the alternative of losing control. Godrej may be different, though. The holding companies are not mere shells, but maintain profitable operations in their own right, have manageable debt and are sitting on a vast plot of land in Mumbai that could eventually be worth billions of dollars.

So the family probably has the resources to fund expansion without resorting to financial engineering. All that's left is for them to agree with one another. Today Mr Godrej supervises the firm peacefully along with his brother and cousin, while employing a cadre of professional managers. The next generation is making its way up the ladder. By tradition all family members on the payroll are expected to meet for lunch on Thursdays. It's likely they will be more jet-lagged and stressed than in the past, but with luck there won't be any food fights for a while. ■

The oil business

Should BP split?

The pros and cons of slicing oil giants apart

A COMPANY that rakes in profits of $5.6 billion in three months might expect congratulations. But BP's second-quarter results, unveiled on July 26th, disappointed. Asset sales after last year's Gulf of Mexico disaster (see picture) have hit production. A botched attempt at an asset swap and arctic exploration deal with Russia's Rosneft has added to BP's woes. Some investors are calling for the firm to be split up. Does this make sense?

Other oil firms, such as Statoil and Marathon, have done it. And on July 14th ConocoPhillips announced that in 2012 it would separate its profitable "upstream" oil exploration and production business from the low-margin "downstream" jobs of refining and marketing.

Jim Mulva, ConocoPhillips's boss, outlined some compelling grounds for a corporate divorce. He reckons that it will help to bring a sharper focus to managing both businesses and that the difficulties of allocating capital internally to different types of enterprise will disappear. And investors, apparently baffled by the task of valuing integrated oil firms, will be able to work out more easily what each bit is worth and allocate cash accordingly.

On paper, the rewards look immense. JPMorgan Cazenove, an American bank, reckons that BP's market capitalisation of $145 billion is a whopping $100 billion less than its assets are worth individually. Europe's big integrated oil firms suffer some of the worst conglomerate discounts (see chart). Many were once state-owned national champions, which valued size over profitability. Brazil's Petrobras is keeping the tradition alive: on July 26th it revealed plans for big spending on projects that have little to do with drilling.

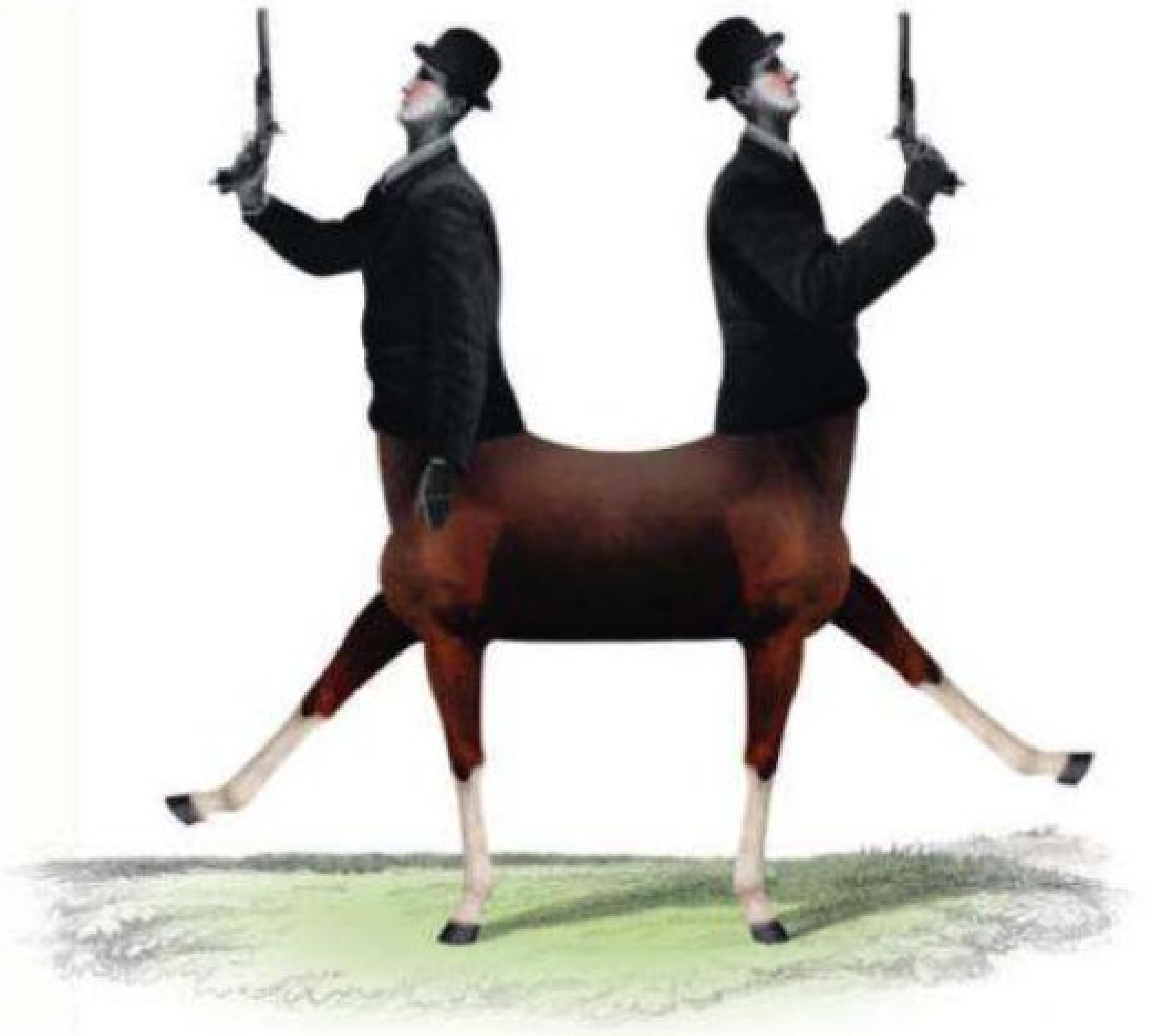
If breaking up is so lucrative, why do more oil firms not do it? In the 1990s many merged to gain the financial muscle to take part in giant energy projects in the developing world. The theory was that integrated oil companies needed to offer both oil-field development and refining to the countries that owned the oil. The exploration and production arms of these huge bureaucratic organisations cannot now hope to be valued as highly, per dollar of profit, as smaller, nimbler rivals such as Premier Oil or Tullow.

Splitting would be tricky, however. Oil firms' jumble of less profitable sidelines—from renewable energy to shipping—might be hard to sell in one go. Analysts may put hefty price tags on refineries, but chronic overcapacity means that margins will stay thin. Rather than splitting in two, a better bet would be to sell assets one by one to Asian or Russian oil firms with deep pockets and global aspirations.

As BP's Russian debacle showed, there are few quick fixes in the oil business. ConocoPhillips's shares have sagged since it announced a split; Statoil still trades at a discount to the value of its assets. As Royal Dutch Shell has discovered, the way back to health is less flashy: stick to oil projects that offer the highest returns on capital. That's what Exxon Mobil has been doing for years, which is perhaps why it is the world's most profitable oil company. ■

Schumpeter | The trouble with outsourcing

Outsourcing is sometimes more hassle than it is worth



WHEN Ford's River Rouge Plant was completed in 1928 it boasted everything it needed to turn raw materials into finished cars: 100,000 workers, 16m square feet of factory floor, 100 miles of railway track and its own docks and furnaces. Today it is still Ford's largest plant, but only a shadow of its former glory. Most of the parts are made by sub-contractors and merely fitted together by the plant's 6,000 workers. The local steel mill is run by a Russian company, Severstal.

Outsourcing has transformed global business. Over the past few decades companies have contracted out everything from mopping the floors to spotting the flaws in their internet security. TPI, a company that specialises in the sector, estimates that $100 billion-worth of new contracts are signed every year. Oxford Economics reckons that in Britain, one of the world's most mature economies, 10% of workers toil away in "outsourced" jobs and companies spend $200 billion a year on outsourcing. Even war is being outsourced: America employs more contract workers in Afghanistan than regular troops.

Can the outsourcing boom go on indefinitely? And is the practice as useful as its advocates claim, or is the popular suspicion that it leads to cut corners and dismal service correct? There are signs that outsourcing often goes wrong, and that companies are rethinking their approach to it.

The latest TPI quarterly index of outsourcing (which measures commercial contracts of $25m or more) suggests that the total value of such contracts for the second quarter of 2011 fell by 18% compared with the second quarter of 2010. Dismal figures in the Americas (ie, mostly the United States) dragged down the average: the value of contracts there was 50% lower in the second quarter of 2011 than in the first half of 2010. This is partly explained by America's gloomy economy, but even more by the maturity of the market: TPI suspects that much of what can sensibly be outsourced already has been.

Miles Robinson of Mayer Brown, a law firm, notes that there has also been an uptick in legal disputes over outsourcing. In one case EDS, an IT company, had to pay BSkyB, a media company, £318m ($469m) in damages. The two firms spent an estimated £70m on legal fees and were tied up in court for five months. Such nightmares are worse in India, where the courts move with Dickensian speed, or in China, where the legal system is patchy. And since many disputes stay out of court, the well of discontent with outsourcing is surely deeper than the legal record shows.

Some of the worst business disasters of recent years have been caused or aggravated by outsourcing. Eight years ago Boeing, America's biggest aeroplane-maker, decided to follow the example of car firms and hire contractors to do most of the grunt work on its new 787 Dreamliner. The result was a nightmare. Some of the parts did not fit together. Some of the dozens of sub-contractors failed to deliver their components on time, despite having sub-contracted their work to sub-sub-contractors. Boeing had to take over some of the sub-contractors to prevent them from collapsing. If the Dreamliner starts rolling off the production line towards the end of this year, as Boeing promises, it will be billions over budget and three years behind schedule.

Outsourcing can go wrong in a colourful variety of ways. Sometimes companies squeeze their contractors so hard that they are forced to cut corners. (This is a big problem in the car industry, where a handful of global firms can bully the 80,000 parts-makers.) Sometimes vendors overpromise in order to win a contract and then fail to deliver. Sometimes both parties write sloppy contracts. And some companies undermine their overall strategies with injudicious outsourcing. Service companies, for example, contract out customer complaints to foreign call centres and then wonder why their customers hate them.

When outsourcing goes wrong, it is the devil to put right. When companies outsource a job, they typically eliminate the department that used to do it. They become entwined with their contractors, handing over sensitive material and inviting contractors to work alongside their own staff. Extricating themselves from this tangle can be tough. It is much easier to close a department than to rebuild it. Sacking a contractor can mean that factories grind to a halt, bills languish unpaid and chaos mounts.

So far and no further

None of this means that companies are going to re-embrace the River Rouge model any time soon. Some companies, such as Boeing, are bringing more work back in-house, in the jargon. But the business logic behind outsourcing remains compelling, so long as it is done right. Many tasks are peripheral to a firm's core business and can be done better and more cheaply by specialists. Cleaning is an obvious example; many back-office jobs also fit the bill. Outsourcing firms offer labour arbitrage, using cheap Indians to enter data rather than expensive Swedes. They can offer economies of scale, too. TPI points out that, for all the problems in America, outsourcing is continuing to grow in emerging markets and, more surprisingly, in Europe, where Germany and France are late converts to the idea.

Companies are rethinking outsourcing, rather than jettisoning it. They are dumping huge long-term deals in favour of smaller, less rigid ones. The annualised value of "mega-relationships" worth $100m or more a year fell by 62% this year compared with last. Companies are forming relationships with several outsourcers, rather than putting all their eggs in few baskets. They are signing shorter contracts, too. But still, they need to think harder about what is their core business, and what is peripheral. And above all, newspaper editors need to say no to the temptation to outsource business columns to cheaper, hungrier writers. ■

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The euro crisis

Bazooka or peashooter?

Greece's new bail-out helps, but should have gone further

WHEN Henry Paulson, America's then treasury secretary, readied a plan to prop up Fannie Mae and Freddie Mac, two teetering housing agencies, in the summer of 2008, he spoke of having a "bazooka" in his pocket. In their response to the sovereign-debt crisis, Europe's policymakers have tended to favour the peashooter. Their latest salvo in defence of Greece on July 21st produced some favourable initial reports, but the bang has faded. In a strange inversion of the crisis to date, the new bail-out plan seems to have helped the weaker peripherals and hurt the stronger ones.

The latest Greek bail-out consists of two main elements. The first is the promise of an extra €109 billion ($158 billion) in official lending to Greece from other members of the euro zone (apart from Ireland and Portugal) and the IMF. Greece will get more time to repay its loans; Europe is also cutting the interest rate it charges Greece, to about 3.5% from 5.5%. In effect, the euro zone is allowing Greece, its flakiest member, to borrow at rates similar to those paid by Germany, its most creditworthy one.

The second element of the plan involves asking Greece's private creditors to shoulder some of the rescue burden. Bondholders are being asked to choose from a bewildering menu of options under which they can sell bonds at a discount or swap them for 15- or 30-year bonds, either now or when they mature. Under the proposals, which were negotiated with the Institute of International Finance (IIF), a club of the world's biggest banks, €135 billion in Greek bonds are meant to be exchanged between now and 2020. Combined with official support the plan could allow Greece to steer clear of bond markets for the rest of the decade.

The IIF reckons the plan will cut the value of the bonds held by banks and insurers by 21%. That number is a little misleading: the plan neither reduces Greece's debt burden to private-sector creditors by 21% nor does it necessarily imply a 21% write-down on the value of the debt by those who hold it. The menu of options seems to have been tailored to suit the accounting regimes of various creditors. Some holders of Greek debt may even be able to write its value back up as a result of the deal. "Now the negotiations are with the auditors," says a banker who was close to the talks.

These accounting debates could mean the difference between all of the equity in the Greek banking system being completely wiped out (and a recapitalisation of €10 billion-15 billion from the bail-out pot) and more manageable hits to capital of €3 billion-6 billion. "The package is on balance pretty good for the Greek banks, although shareholders could be diluted down by 30-50% if the accounting treatment is harsh," says Alexander Kyrtsis of UBS.

Although European leaders no longer seem too bothered about avoiding a verdict of default from the ratings agencies, signing up to the plan is still "voluntary" in order to avoid payouts on credit-default swaps. The IIF is targeting a participation rate among Greece's creditors that would ▸▸

Problem shared, not halved 1

Greek gross government debt, % of GDP

Source: Barclays Capital

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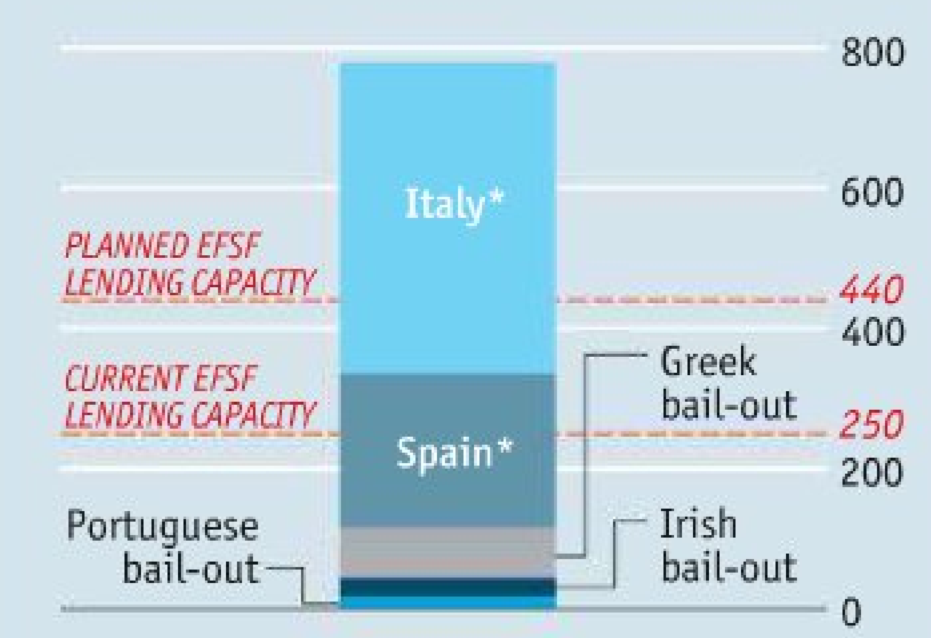
Pot lack 2

Actual and potential EFSF bail-out costs, €bn



Sources: EFSF; Bloomberg; *The Economist*

*If EFSF covers two-thirds of bond redemptions to 2015

Interactive: Compare world debt levels over time with our Debt Guide at **Economist.com/debtguide11**

affect 90% of the country's privately held debt. Such participation rates have been achieved on similar swaps in the past—Uruguay reached 93% participation in a 2003 exchange—but mainly because the alternative seemed to be certain default.

In the case of Greece, smaller investors with soon-to-mature bonds may be tempted to hold out if they reckon Europe's leaders wouldn't dare impose a forced restructuring. Even so, enough big institutions seem to have signed on to get close to the 90% figure, according to senior bank executives involved. "Institutions are big enough and connected enough that they can see the big picture," says one. "Whether they were subject to enough political pressure or it was from enlightened self-interest, both arrows point in the same direction."

The second bail-out will improve Greece's debt burden, although improvement is an elastic concept. The new package will stabilise Greek debt at about 150% of GDP over the next ten years (see chart 1 on previous page), according to Barclays Capital. Many assume that a third bail-out or another restructuring will be needed to reduce Greece's debts to 80-90% of GDP, although some are more sanguine. "There is at least a fighting chance now that there won't be another bail-out," says Gilles Moec of Deutsche Bank.

In cutting the interest rates paid by Ireland and Portugal on their bail-outs, the new rescue package also reduces the risk that these two economies will need more help. Ireland reckons it will save €900m a year on interest payments, for instance. Irish and Portuguese bond spreads came down after the summit (although Cyprus, whose banks are heavily exposed to Greek debt, is heading the other way).

The plan allows the European Financial Stability Facility (EFSF), the euro zone's bail-out fund, to offer precautionary lines ▸▸

Buttonwood | Running out of options

Governments in the rich world have painted themselves into a corner

ECONOMIC policy in the developed world over the past 25 years has followed one overriding principle: the avoidance of recession at all costs. For much of this period monetary policy was the weapon of choice. When markets wobbled, central banks slashed interest rates. A by-product of this policy was a series of debt-financed asset bubbles. When the last of those bubbles burst in 2007 and 2008, the authorities had to add fiscal stimulus and quantitative easing (QE) to the policy mix.

The subsequent huge rise in budget deficits was largely the result of a collapse in tax revenues that had been artificially inflated by the debt-financed boom. Britain and America ended up with deficits of more than 10% of GDP, shortfalls that were unprecedented in peacetime.

Those deficits may have been necessary to avoid a repeat of the Depression. Economists will probably still be debating this issue in 75 years' time, just as they still discuss whether Franklin Roosevelt's New Deal programme was effective in the 1930s. But the "shock and awe" approach to Keynesian stimulus has an unfortunate consequence. Any decline in the deficit, even to a still whopping 8% of GDP, acts as a contractionary force on the economy: either the government is spending less or taxing more.

As a result governments are reluctant to cut the deficit too quickly for fear of sending their economies back into recession. But unless there is a rapid recovery, the debt will keep piling on, making the ultimate problem harder to solve.

Turning to monetary policy, interest rates are 1.5% or below in most of the developed world and are negative in real terms (the Bank of England kept rates at 2% or more for the first 300 years of its existence). In a normal recovery central

banks would be looking to increase rates from crisis levels by now. But high debt ratios (particularly in the household sector) make central banks very uneasy about raising interest rates for fear of ushering in another round of the credit crunch. With the big exception of the European Central Bank, most have repeatedly postponed the moment at which monetary policy is tightened. The parallels with Japan, where interest rates have been at rock-bottom for a decade, are striking.

As for QE, it is hard to tell how successful it has been as a strategy in reviving the economy although it certainly seems to have helped to prop up equity markets. Central banks seem reluctant to push it much further at the moment. But there is no suggestion that the economy is strong enough for them actively to unwind the policy by selling assets back to the markets.

In all three cases the story is the same. Governments and central banks have thrown a lot of stimulus at the economy and the result has been a fairly sluggish recovery. They have painted themselves into a corner. They cannot go forward, in the sense that there is little political or market appetite for more stimulus. But it is also hard for them to go back.

Withdrawing stimulus is not just risky economically, but hard politically, too. In Britain a sluggish second-quarter growth rate of 0.2% has led to talk that the coalition government needs to slow the pace of its austerity programme. But if you actually look at the data, the government has barely begun its deficit-cutting work. In the first three months of the fiscal year public spending is £5.2 billion ($8.5 billion) higher than in the same period of 2010-11, or £3.6 billion higher if interest payments are excluded. An increase in joblessness, leading to higher benefit payments, is not the cause: the unemployment rate is lower than it was a year ago. A rise in value-added tax may have eaten into consumer demand (tax revenues are £5.3 billion higher than in the same period of 2010-11) but VAT also rose in January 2010 and GDP jumped by 1.1% in the second quarter of that year.

The danger for Britain is not just that its deficit-cutting strategy may have an adverse effect on growth. It is also that sluggish growth may prevent it from cutting its deficit significantly. Tim Morgan of Tullett Prebon, a broker, calculates that if the British economy grows at 1.4% annually, half the expected rate, the budget deficit will still be more than 8% of GDP in 2015.

In a sense, the bill has come due for the past 25 years. A policy of avoiding small recessions has resulted in the biggest downturn since the 1930s. Public finances turned out to be weaker than politicians thought. As a result, they have used up all their ammunition tackling the current crisis. Governments in the rich world will have very few options left if the economy weakens again.

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of credit to countries that are not yet on life support, and to recapitalise their banks. Given that most investors worry about Spanish banks more than about the Spanish government, that may help the country insulate itself. But the EFSF's new powers still need to be ratified, and its lending capacity, currently €250 billion and soon to be €440 billion, was not expanded. It would be stretched if Spain really lost the confidence of markets, overwhelmed if Italy did (see chart 2 on earlier page).

The region's bigger bond markets remained unsettled this week (America's debt-ceiling wrangle will not have helped, of course). The spreads, or extra interest, paid by Spain and Italy to borrow compared with Germany inched back towards their highest levels in more than a decade. American money-market funds, an important source of short-term borrowing for European banks, are stealing away. Banks are losing their nerve: Deutsche Bank has cut its net exposure to Italian government debt to less than an eighth of its 2010 level, mainly by insuring against default.

So are governments. Italy has cancelled a scheduled auction of long-term debt in mid-August, saying it doesn't need the money (and, anyway, most people are on the beach). Bond traders think it was more about avoiding a poor result. "We would have preferred the auction to go ahead," says one senior Italian banker, who frets that postponement has rattled nerves. More weaponry looks necessary. ■

Deutsche's new leadership

Troika at the top

BERLIN

A flawed succession plan for Germany's leading bank

DEUTSCHE BANK's solution to its succession problem has not pleased everyone. According to a plan announced this week Josef Ackermann, the bank's globe-trotting chief executive, will step down next May to be replaced by two people: Anshu Jain, the bank's Indian-born, London-based investment-banking boss, and Jürgen Fitschen, the head of Deutsche's German business.

Two at the top of a firm is a bit of a crowd: according to a survey in the *Journal of Business & Economic Studies*, having joint chief executives does nothing for a firm's share price. But in theory the pair should make a good duo, with the impressive Mr Jain and his team continuing to run the bank's major profit centre while Mr Fitschen looks after the domestic front and glad-hands German politicians on behalf of the country's only national banking champion.

The real problem lies with the other part of the leadership reshuffle. Clemens Börsig, head of Deutsche's supervisory board, has agreed to leave a year early to make way for an upward move by Mr Ackermann. That bothers corporate-governance folk. A new securities law, passed last year, requires a two-year cooling-off period before a chief executive moves to the supervisory board, unless more than 25% of shareholders propose such a move. Firms whose chairmen come from outside tend to outperform those who have already run the shop as chief executive.

Is Mr Ackermann's continued presence at the bank really so vital? True, Deutsche's boss has appeared to be indispensable recently as German politicians wrestle with the euro area's debt crisis. But he may make Deutsche more difficult to control for his successors.

Mr Ackermann's lingering involvement also suggests that Deutsche's strategy will not change markedly. The acquisition of Postbank, a German retail bank, has made Deutsche a more balanced institution but Mr Jain's investment-banking group still accounts for the lion's share of profits. That business now promises less, thanks to a retreat from risk-taking and higher capital requirements. If Deutsche needed to shift gears, would Mr Ackermann really push for change?

America's fiscal union

Greek Americans

Which American states enjoy the biggest fiscal transfers?

IN MAKING their latest deal to save the euro on July 21st, the 17 members of the single currency took another small step towards a fiscal union. America made that leap 220 years ago, when the new federal government took on the debts incurred by individual states in their revolutionary war against Britain. That debt, wrote Alexander Hamilton, America's greatest treasury secretary, was "the price of liberty".

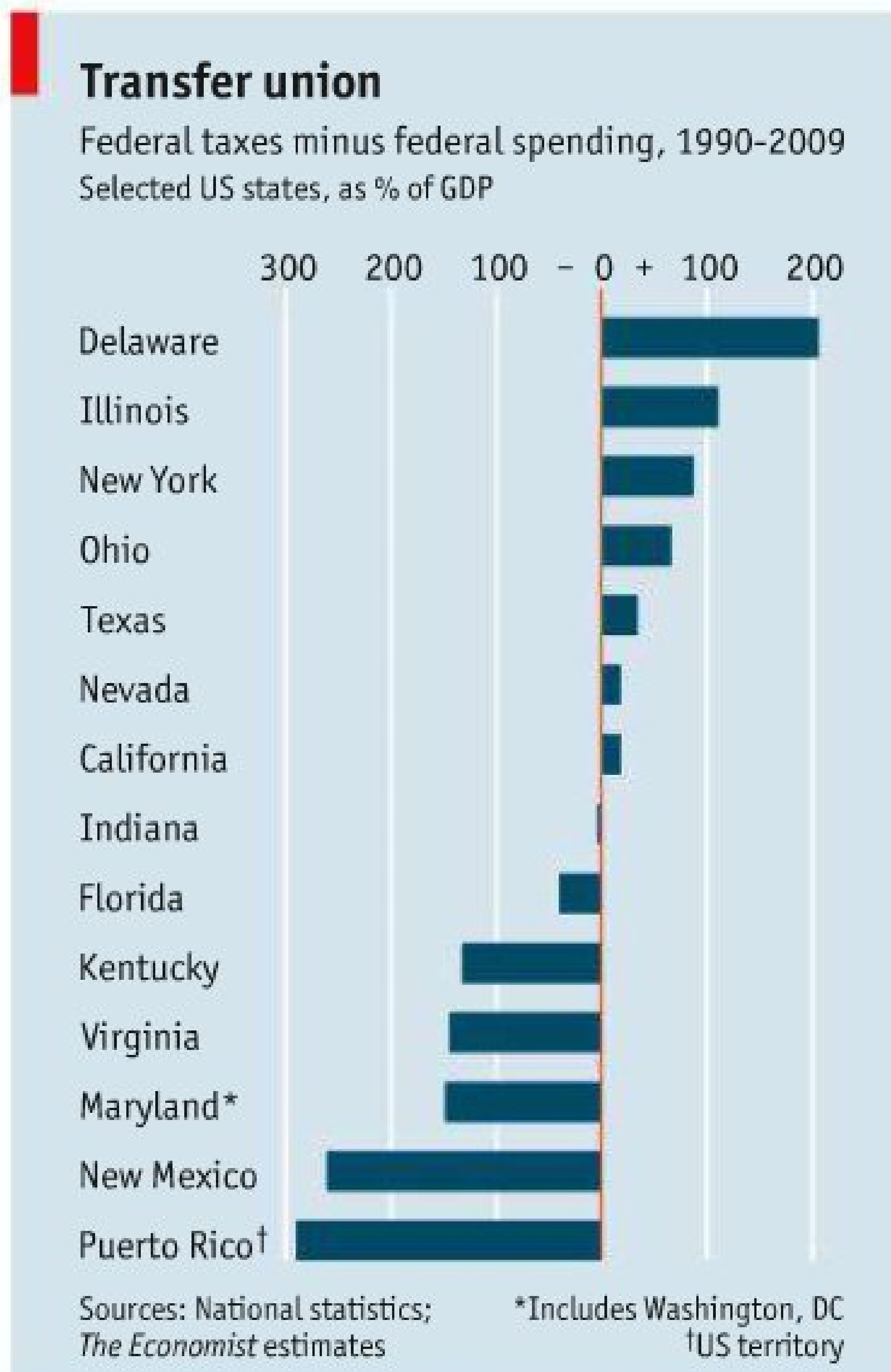
Ever since, federal debt has been backed by the full faith and credit of the entire United States (state debts are a different matter). America's good credit has survived war and depression. It is holding up even as Republicans in America's House of Representatives threaten not to increase the congressional limit on federal borrowing. That would force the government to choose between paying its bondholders and its pensioners. If the ceiling does not rise, the roof may fall.

Europe still has a long way to go before it is as fiscally united as America. It could not contemplate anything like the transfers that America's federal system allows. Take Virginia, for example. In 2009, according to the Census Bureau, the federal government spent $155.6 billion in this state where the revolutionary war was won. But the Internal Revenue Service collected only $58.6 billion in federal taxes. Virginia, in effect, ran a deficit of $97 billion. Indeed over the 20 years from 1990 to 2009, according to calculations by *The Economist*, it ran a cumulative deficit of over $590 billion.

That amounts to about 145% of Virginia's 2009 economic output, similar to the debt-to-GDP ratio of Greece. If America were like the euro area, Virginia would have to bear the burden itself. But as part of a fiscal union, it can rely on others to help.

Virginia is not however the most "indebted" of America's states, according to these calculations (see chart). That honour falls to New Mexico, which has a 20-year deficit worth over 260% of its GDP. Puerto Rico, which is a territory, rather than a full state, has an even bigger debt ratio.

Twenty American states have paid more in federal taxes than they have received in federal spending. The biggest "creditor", relative to the size of its economy, is Delaware, which has a 20-year surplus of almost $125 billion, more than twice its GDP. Its contribution is perhaps flattered by the taxes paid by the many firms incorporated in the state. Ironically, creditor states have also elected the three ▸▸



Democrats most involved in trying to raise the debt ceiling: Harry Reid, a senator from Nevada, Nancy Pelosi, a congresswoman from California, and Barack Obama, once a senator from Illinois.

These transfers are already far bigger than anything the Europeans could match, but the figures actually understate matters. For example, they exclude any interest payments on federal debt, which add up to over $4 trillion since 1990. If those payments were made by debtor states in proportion to their cumulative deficits, the debts of states like New Mexico and Mississippi would rise to over 500% of GDP.

Debtor states enjoy enormous fiscal transfers, backed by taxes raised elsewhere and bonds the whole union must repay. That commitment to repay has never been questioned. Even now bondholders remain remarkably sanguine about the risk of default. But the political impasse may have done more subtle damage. When the national debt is "an object of established confidence", Hamilton argued, "it answers most of the purposes of money." Money-market funds have recently been busy swapping Treasuries, especially one-month bills, for cash. More than 220 years after Hamilton made his case for a fiscal union, America's national debt no longer answers all of the purposes of money. ■

South Korea's longest banking strike

Rebels without a cause

SEOUL

Standard Chartered takes on disgruntled employees

A SIGN on the ground floor of SC First Bank's headquarters in Seoul reads "Here for good". "Here for better or worse" might be more appropriate. The boss of Standard Chartered's Korean subsidiary, Richard Hill, is locked in a battle with unionised workers over the introduction of performance-related pay. Over 2,500 of his 6,500 staff have been on strike since June 27th, making this the longest walkout in Korean banking history.

What do we want? A gerontocracy

The idea of remunerating staff on their performance is hardly revolutionary, other parts of the South Korean economy included. But Korean bank staff are typically paid and promoted according to age and time served. The result is an uncompetitive and sluggish industry, at odds with the dynamism of the economy as a whole. The bank workers' umbrella union has expressed support for the strike, raising concerns that the trouble will spread. Small wonder that bosses of other banks express support for Mr Hill only in private.

Having bought Korea First Bank (KFB) from Newbridge Capital, a private-equity firm, for $3.3 billion in 2005, Standard Chartered has made South Korea one of its biggest bets. Since renamed, SC First Bank has 392 branches across the country (although 43 are closed due to the strike). The vehemence of today's dispute has deeper roots, in the 1997 Asian financial crisis.

That was the year KFB collapsed, leading to an eventual takeover by Newbridge. Staff numbers were cut dramatically, ending the old jobs-for-life culture. The sense of fear felt during that period has bred a lasting scepticism of foreign ownership which extends throughout much of the Korean banking industry. Any tinkering with what remains of the cosy pre-1997 system stirs up anger among those who were at KFB before what is known to Koreans as "the IMF period".

It is difficult to muster much sympathy for the workers, however. The average unionised employee at SC First Bank earns the equivalent of $65,000 a year, around three times GDP per person. The kind of public support seen for workers involved in other industrial disputes has been distinctly lacking.

Strike leaders flew to London this week, to deliver a letter to Peter Sands, Standard Chartered's boss. That the trip was paid for from a union war chest meant to tide over strikers has provoked a mixed reaction even among supporters. A decision to lodge the entire group of strikers at a holiday resort in the coastal town of Sokcho was an even greater misstep: "I don't know who does their PR," remarks Mr Hill.

The union still talks a tough game but Mr Hill is adamant he will not back down over performance-related pay. With the walkout now in its second month, the costs to both sides are mounting. If the strikers are the first ones to blink, it will be the better outcome. ■

The language of bubbles

Word herd

NEW YORK

Financial journalists' writing becomes more homogenous as markets rise

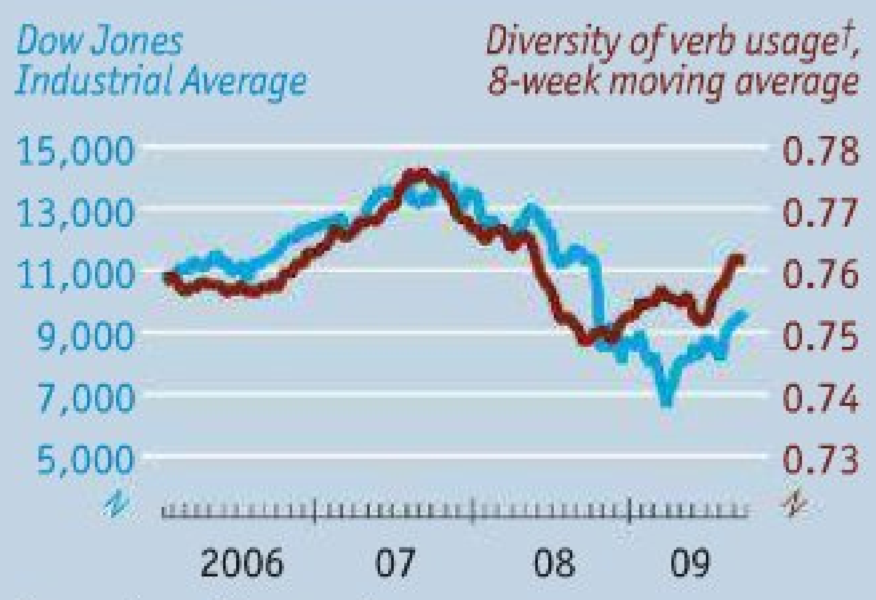
WORD frequency follows a mathematical relationship known as a power law. Some words, like "man", are very common. Some, like "recidivism", make up a very long tail of words that are used less often.

In a recent paper Aaron Gerow of Trinity College, Dublin, and Mark Keane of University College Dublin, found that changes in the frequency distribution of English words can be helpful in identifying stockmarket bubbles. The researchers looked at thousands of articles from the *Financial Times*, the *New York Times* and the BBC that were published over a four-year period starting in 2006. They found that journalists' language became less diverse when stockmarkets were rising, with certain common nouns and verbs like "rise", "fall", "close" and "gain" becoming more common still. Like investors, journalists move in a herd when markets are frothy.

Oddly, the same does not apply when markets are falling: then, journalists' language becomes less homogenous. The authors have no real explanation for this, although Mr Keane echoes a suitably well-worn Tolstoy quote to surmise: "Maybe it's a bit like happy families are all happy in the same way, but unhappy families are unhappy in many different ways." A run-up in markets focuses on a few companies, indices and events, in other words; a crash sends waves of disparate, dismal stories through the economy. Perhaps. Or it may just be that when the consensus fractures, language does, too.

Stocks and hacks

Word frequency in finance articles*



Source: Aaron Gerow and Mark Keane, "Mining the Web for the 'Voice of the Herd' to Track Stock Market Bubbles"

*Financial Times, New York Times, BBC

†Lower value=more diversity

Hedge funds in Texas

Stetsons and spreadsheets

DALLAS

The Lone Star State attracts plenty of financial whizzkids

FOR a state more closely associated with cattle and cowboys, Texas is home to a surprisingly big herd of hedge funds. They manage around $40 billion, making Texas the fifth-largest US state for hedge-fund assets (after New York, Connecticut, Massachusetts and California), according to the Blue Heron Group, a research firm. Some of the industry's biggest names, like Lee Ainslie of Maverick Capital and Eddie Lampert of ESL Investments, have ties to the state or Texan investors.

Many Texans like to trace the industry's vibrancy to the state's risk-taking traditions. A century ago "wildcatters" put everything they had on the line to drill oil wells, hoping to discover a gusher. Some made millions; others lost everything.

More important than the idea that there is something entrepreneurial in the water is the state's tremendous wealth, much of which comes from oil and gas. Around 10% of Americans worth over $30m are in Texas, according to WealthX, which tracks rich investors. The Bass brothers in Fort Worth were among the first to invest in hedge funds—in the 1970s, after they inherited some of the family fortune—and to bring talented managers down to run arbitrage strategies. Texans today also prefer investing in trusted local managers.

Being close to the oil and gas industries also gives managers an investment edge. Take Centaurus Advisors, a $5 billion energy hedge fund run by John Arnold, once a natural-gas trader at Enron. Or BP Capital Management, founded by T. Boone Pickens, an oilman. There are dozens of energy-focused private-equity firms.

These are not the only draws for hedge funds. The costs of living and of operating a business are cheap. Corporate taxes are low and there is no state income tax, which is why Texas has also become so popular as a headquarters for big companies. Managers have to pay a maximum rate of only 0.7% on their fund's management fee. That's much less than the 9% their peers in New York state have to pay on both their management and performance fees, says Vicki Martin-Odette of Haynes and Boone, a law firm. This may be why Mr Ainslie's Maverick keeps its official headquarters and back-office operations in Dallas but its main executive team in New York.

Texans also like to point to the sage of Omaha, Warren Buffett, as proof that isolation can be a big benefit. "You're not caught up in the groupthink as much," says Clint Carlson of Carlson Capital, a $6.7 billion Dallas-based fund. "You're not constantly bombarded with other people's opinions." Investors say this independent streak helps Texans pick stocks to short because they're not afraid to go against the grain. Mark Hart of Corriente Advisors and Kyle Bass of Hayman Capital (no relation to the Bass brothers) both bet against the housing bubble early and won big, for example. Contrarian thinking colours political attitudes, too. Mr Bass has a painting on the wall of a conference room of a zero dollar bill with Lenin's face in the centre, with the "United Socialist States of America" emblazoned on it.

Texas holds them

Biggest Texan hedge funds

	Strategy	Assets*, $bn
Maverick Capital	long-short equity	11.0
Carlson Capital	multi-strategy	6.7
HBK Capital	multi-strategy	5.9
Centaurus Advisors	energy	>5.0
Kleinheinz Capital	macro	2.6
Q investments	credit	2.5
Highland Capital	credit	2.4
BBT Capital Management	multi-strategy	2.0
AAA Capital Management	commodity trading advisors	1.5
Highside Capital	long-short equity	1.3

Source: *The Economist* *Estimated

Luring capital to launch a fund can be hard (although new plans by Maverick to provide seed capital for start-ups may be a boon to Texan managers). There may be lots of local money but international investors don't make a habit of stopping in Dallas or Houston. Besides Maverick, whose traders are almost all in New York, the biggest Texan fund is Carlson Capital, which also has offices in New York and London (see table). If Texan funds that have a strong record, like Kleinheinz Capital, were based in New York, they would already be much larger.

Unusually for Texans, hedge-fund managers don't appear to crave hugeness. Teton Capital Partners, a $362m long-short equity fund that has posted annualised returns of 21% a year since 2001, is in effect closed to outside investors because its founder, Quincy Lee, apparently doesn't want to get bigger. Bradbury Dyer, who founded Paragon Associates, Dallas's second hedge fund, in 1972, feels the same way: "I believe there are inefficiencies the larger you get." That suits some investors fine. "We're attracted to the smaller managers and you run into the smaller managers locally," says John Boone of Belmont Global Advisors, a family office in Dallas.

A few optimists expect a gradual hedge-fund migration from New York and Connecticut to Texas as states hike tax rates. There are more immediate incentives to set up shop. In June Rick Perry, the state's governor, signed a bill into law that allows Teachers Retirement System of Texas (TRS), a $109 billion pension fund, to double its allocation to hedge funds, to 10%. TRS's chief investment officer, Britt Harris, is a former boss of Bridgewater, the largest US hedge fund, and a big fan of Texan funds: "I'd rather have people who are important in my investment network closer to me." Statements like that may tempt Yankee funds to saddle up and head south. ■

Miss Ellie's stat arb strategy was the talk of the ranch

Economics focus | Beefed-up burgernomics

A gourmet version of the Big Mac index suggests that the yuan is not that undervalued

THE Big Mac index celebrates its 25th birthday this year. Invented by *The Economist* in 1986 as a lighthearted guide to whether currencies are at their "correct" level, it was never intended as a precise gauge of currency misalignment, merely a tool to make exchange-rate theory more digestible. Yet the Big Mac index has become a global standard, included in several economic textbooks and the subject of at least 20 academic studies. American politicians have even cited the index in their demands for a big appreciation of the Chinese yuan. With so many people taking the hamburger standard so seriously, it may be time to beef it up.

Burgernomics is based on the theory of purchasing-power parity (PPP), the notion that in the long run exchange rates should move towards the rate that would equalise the prices of an identical basket of goods and services (in this case, a burger) in any two countries. The average price of a Big Mac in America is $4.07; in China it is only $2.27 at market exchange rates, 44% cheaper. In other words, the raw Big Mac index suggests that the yuan is undervalued by 44% against the dollar. In contrast, the currencies of Switzerland and Norway appear to be overvalued by around 100%. The euro (based on a weighted average of prices in member countries) is overvalued by 21% against the dollar; sterling is slightly undervalued; the Japanese yen seems to be spot-on. For the first time, we have included India in our survey. McDonald's does not sell Big Macs there, so we have taken the price of a Maharaja Mac, made with chicken instead of beef. Meat accounts for less than 10% of a burger's total cost, so this is unlikely to distort results hugely. It indicates that the rupee is 53% undervalued.

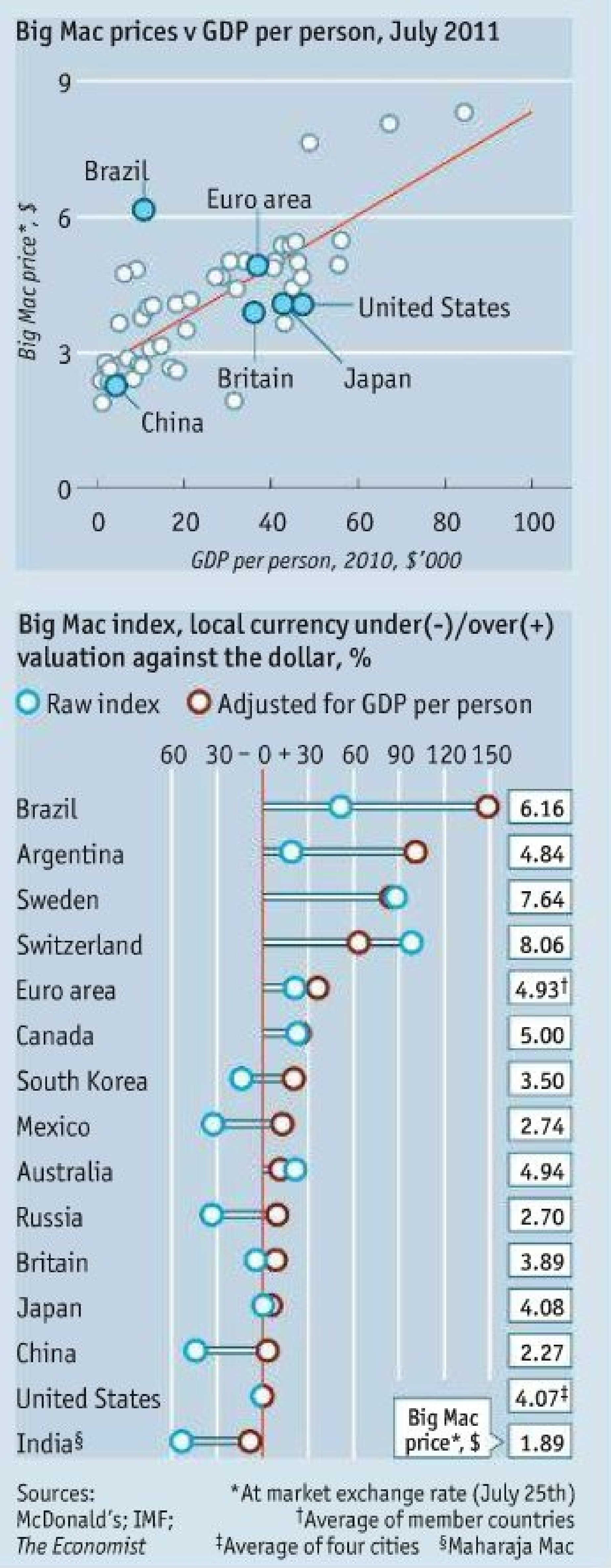
Ketchup growth

Some find burgernomics hard to swallow. Burgers cannot easily be traded across borders, and prices are distorted by big differences in the cost of non-traded local inputs such as rent and workers' wages. The Big Mac index suggests that most emerging-market currencies are significantly undervalued, for instance (Brazil and Argentina are the big exceptions). But you would expect average prices to be cheaper in poor countries than in rich ones because labour costs are lower. This is the basis of the so-called "Balassa-Samuelson effect". Rich countries have much higher productivity and hence higher wages in the traded-goods sector than poor countries do. Because firms compete for workers, this also pushes up wages in non-tradable goods and services, where rich countries' productivity advantage is smaller. So average prices are cheaper in poor countries. The top chart shows a strong positive relationship between the dollar price of a Big Mac and GDP per person.

China's average income is only one-tenth of that in America so economic theory would suggest that its exchange rate should be below its long-run PPP (ie, the rate that would leave a burger costing the same in the two countries). PPP signals where exchange rates should be heading in the long run, as China gets richer, but it says little about today's equilibrium rate. However, the relationship between prices and GDP per person can perhaps be used to estimate the current fair value of a currency. The top chart shows the "line of best fit" between Big Mac prices and GDP per person for 48 countries. The difference between the price predicted by the red line for each country, given its income per head, and its actual price offers a better guide to currency under- and overvaluation than the PPP-based "raw" index.

This alternative recipe, with its adjustment for GDP per person, indicates that the Brazilian real is still badly overcooked, at more than 100% too dear (see lower chart). The euro is 36% overvalued against the dollar, and our beefed-up index also throws useful light on the uncompetitiveness of some economies within the euro area. Comparing burger prices in member countries, the adjusted Big Mac index shows that the "exchange rates" of Italy, Spain, Greece and Portugal are all significantly overvalued relative to that of Germany. As for China, the yuan is close to its fair value against the greenback on the adjusted measure, although both are undervalued against many other currencies.

Burger thy neighbour



Super-size jubilee

In trade-weighted terms our calculations suggest that the yuan is a modest 7% undervalued, hardly grounds for a trade war. That is less than previous estimates of a 20-25% undervaluation, based on models that calculate the appreciation in the yuan needed to reduce China's current-account surplus to a manageable level of, say, 3% of GDP. Even this surplus-based method now points to a smaller yuan undervaluation than it used to because China's surplus has shrunk. Several private-sector economists forecast that it could drop below 4% of GDP this year, down from nearly 11% in 2007. As its productivity rises over time China must continue to allow its real exchange rate to rise (either through currency appreciation or through inflation), but our new burger barometer suggests that the yuan is not hugely undervalued today.

A quarter of a century after its first grilling, burgernomics is still far from perfect, but if adjusted for GDP per person it becomes tastier. All the more reason to keep putting our money where our mouth is. ■

To see data on the Big Mac index in more countries, visit www.economist.com/bigmac0811

An internet with Chinese characteristics

HANGZHOU

Online business in China is growing even faster than the offline sort. Local tastes and needs, as well as the state, are endowing it with distinctive features

WHEN Huang Bing graduated from university in 2005, he promised himself he would make his first 1m yuan (about $155,000) within three years. It took him a bit longer, but no matter: if his business, a collection of online cosmetics stores, maintains its current trajectory, he will soon count his first billion. In a few years he expects annual revenues to reach 10 billion yuan.

Mr Huang's company, United Cosmetics International, is only one of thousands on Taobao Mall, a huge online shopping centre. He spotted a demand from women in China's hinterland for branded cosmetics—and advice on how to use them. "A lot of women in rural areas don't have access to quality products," he explains, guiding visitors through the firm's headquarters in the outskirts of Hangzhou, two hours' drive south-west of Shanghai. On several floors, at desk after desk, "beauty consultants" busily type answers for customers.

As goes United Cosmetics, so goes the Chinese internet. It is growing by leaps and bounds (see chart 1, next page), as ever more people log on from phones, homes or offices, or in huge internet cafés (pictured). The China Internet Network Information Centre reckons that the online population, already the world's biggest, has risen by 6% to 485m this year. And almost two-thirds of people are not yet online.

Just as striking, as the country's internet grows larger it also grows more distinctly Chinese. "The beauty of the internet is that it easily adapts to local conditions," says Paul Zwillenberg of the Boston Consulting Group (BCG). The Chinese internet is the best example of the argument that, far from creating uniformity, the global network is shaped by local forces.

Consumers, firms, economy and state

Those forces can be divided into four: the demands of Chinese consumers; the attitudes of Chinese entrepreneurs; China's offline economic development; and the role of the state. Start with consumers. China's internet users are younger than the Westerners who first logged on about 20 years ago. They are hungry for entertainment and mostly poor (but fast becoming richer). Foreign internet companies have struggled to replicate their success in China (though they have done quite well as investors, a current quarrel between Alibaba Group, one of China's internet giants, and America's Yahoo! notwithstanding). Chinese firms, most of which began by copying Western models, prospered when they devised clever adaptations.

Take Tencent, China's second-biggest internet firm by market capitalisation. It started as a clone of ICQ, a chat service, but quickly outgrew the original by offering China's youthful masses a cheap way to communicate and have fun. Tencent's chat service, which boasts 674m user accounts, and most of its other offerings are free. The firm makes most of its money by selling virtual goods (a dress for an avatar, a weapon in an online game) for play money that users buy with real cash.

Similarly, Taobao, which is owned by Alibaba, was launched to compete with the Chinese service of eBay, an auction site. It quickly overtook its rival by not charging transaction fees. But its main achievement has been to overcome perhaps the biggest barrier to online shopping in China: lack of trust. Alibaba's online payment system, Alipay, the world's largest by value of transactions, has an escrow function that withholds payment until goods have been received (most deals are still cash on delivery). Taobao today boasts 370m registered users. It accounts for three out of four online sales in China and reportedly one out of two packages posted.

Vancl, a start-up that intends to go public soon, is satisfying both consumers' desire for instant gratification and their growing brand-consciousness (or dislike of pirated goods). Its well designed but cheap clothes and shoes can only be ordered on its website. In the big coastal cities they are often delivered the same day—a service most big e-commerce sites now offer.

A recent addition to this innovative group is Sina Weibo. Run by Sina, another leading internet firm, it is often billed as the "Twitter of China", but it allows users to attach comments, pictures and even videos to their messages. Sina has also recruited thousands of celebrities to use the service.

China's internet entrepreneurs are different, too. There are lots of part-timers. Students have taken en masse to selling on Taobao: many university dormitories double as storerooms for goods awaiting orders. Full-time entrepreneurs may have less experience than their Western counterparts, but make up for that with sheer effort. "They do not want to miss their chance to make it big—which is why they work like crazy and practically abandon life," explains Kai-Fu Lee, who used to run Google China but now heads Innovation Works, a start-up incubator in Beijing.

This drive to win explains why Chinese online entrepreneurs are often more pragmatic than Western ones and do not mind adapting something invented elsewhere, says Hans Tung of Qiming Ventures, a venture-capital firm. They tend to be less enamoured of technology. At Google in Silicon Valley, maths problems are pinned to some toilet doors, so that brains need never be idle. The headquarters in Beijing of Baidu, which has 75% of China's search market, feels much less dominated by engineers. "We're focusing more on products and satisfying our users' needs," says Robin Li, Baidu's boss. He is making a big bet on what he calls "box computing", which turns Baidu's search box into a window to all kinds of applications and services.

The will to win and the abundance of venture capital make China's internet a "ferociously gladiatorial environment", says Richard Robinson, an American who has founded several start-ups in Beijing. Rivals spring up literally overnight. There are 80 social networks, 200 online-video services and 2,000 online-coupon sites. Questionable business practices, such as kickbacks for online advertisements, add to the competitive frenzy.

The founders of companies that come out ahead in this battle often prefer to enjoy their new wealth rather than become serial entrepreneurs, as successful Silicon Valley folk are wont to do. Others set out to build sprawling online empires, which is one reason why China's biggest internet companies, more than their Western counterparts, fight each other directly and on several fronts. Alibaba, Baidu and Tencent are becoming internet conglomerates offering similar sets of services.

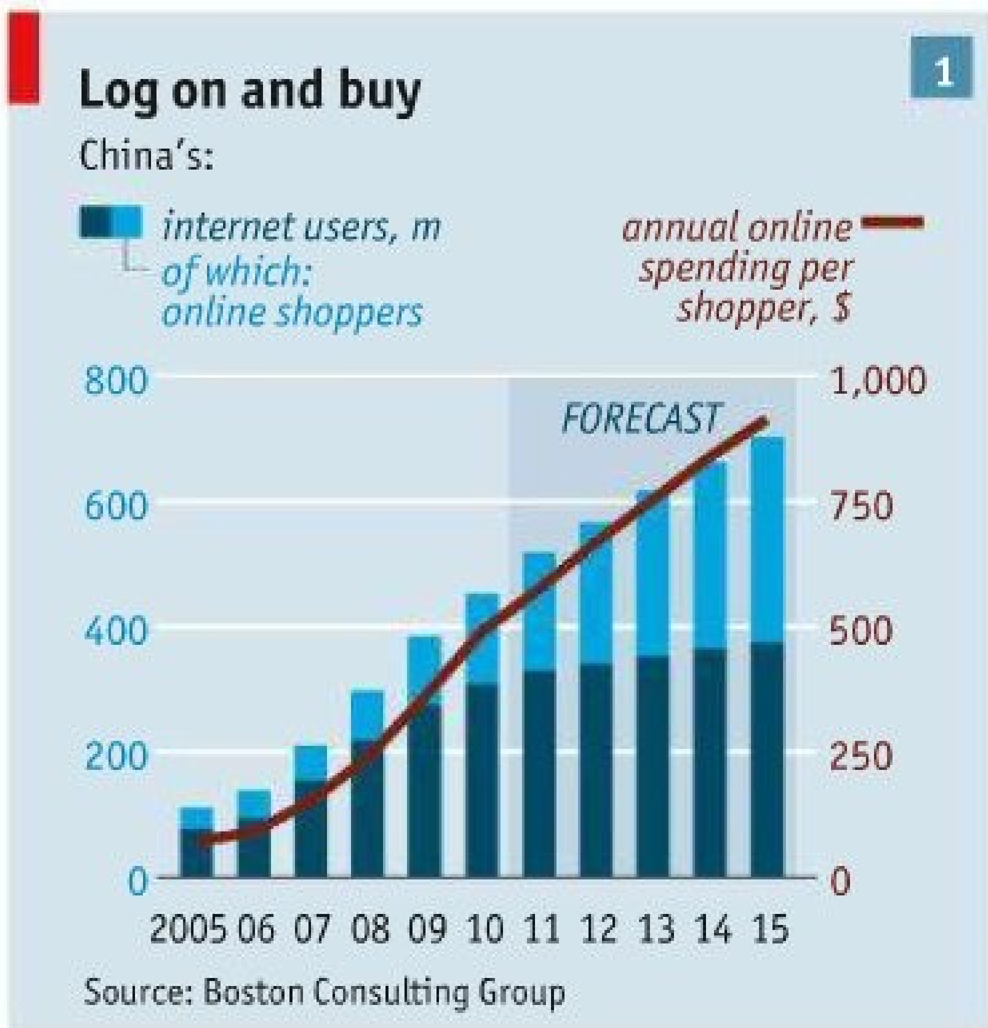
Filling the void

China's relatively underdeveloped economy also plays a role. In the West online companies often disrupted existing industries. In China they are more likely to fill a void. "The internet will be a much more robust force in China because offline businesses are much less efficient," argues Duncan Clark of BDA, a telecoms consultancy in Beijing.

Except in big cities near the coast, conventional retailing is fragmented and underdeveloped. Yet much of the country has been covered by fast internet pipes. A basic broadband connection costs less than 100 yuan a month. The result will be a "huge leapfrog effect", says David Michael of BCG. The consulting firm recently predicted that the annual value of China's e-commerce market would quadruple by 2015, to $305 billion. It may then be the world's largest (see chart 2).

The size of the market makes it possible to try new business models. Although Taobao and its sister site Taobao Mall, where only professional sellers are allowed, somewhat resemble eBay and Amazon, their executives have a grander ambition. They want to build an "operating system for e-commerce", as Richard Wong, a Taobao executive, puts it. Taobao sells no goods, but supplies the services that make it easier for others to trade: payment, instant messaging and even logistics. In January Alibaba said it would invest up to 30 billion yuan in new warehouses.

The media industry, with its lumbering state giants and fragmented private sector, has created another opening: for online-video sites, such as Youku. It looks (and sounds) much like YouTube, but Victor Koo, its boss, likens it to Hulu and Netflix, American sites that deliver television programmes and films over the web. Since most Chinese are just discovering digital video, says Mr Koo, users generate only about a quarter of Youku's content. The rest is made professionally, for instance by television stations or Youku itself.



Log on and buy

Source: Boston Consulting Group

Youku also illustrates the fourth feature of China's internet: the role of the state. Until 2007 regulation was rather lax, allowing start-ups to dominate the industry, notes Bill Bishop, a longtime China-watcher. Yet as the internet's economic and social importance has grown, so has political intervention. In June 2010 the government published a white paper outlining its regulatory plans. In May it said it had created a central agency to oversee the internet.

Regulation mostly involves licensing and self-censorship. Youku needs several licences. The rules on censorship are vague, and firms err on the side of caution. "You have to know what is sensitive," says an executive at a big internet firm. Youku has developed a sophisticated monitoring system: dozens of editors watch new material and classify it, building a video database that can be used to find good content, but also to block undesirable clips.

Even though complying with such rules can be costly, hardly anyone complains, even in private. Regulation also makes life harder for would-be competitors, foreign or Chinese. "People take the government as a given," says Mr Lee of Innovation Works. He adds that he had to think more about censorship at Google.

Virtually overtaking

Source: Boston Consulting Group *Forecast

Some big internet firms even seek the government's input before launching a service, in effect involving it in product development. When designing Weibo, Sina apparently worked closely with regulators. The service is capable of quickly stopping certain users from logging on and blocking posts containing certain terms. When protests broke out in Inner Mongolia in May, the name of the province could no longer be searched for. At the same time the state sees benefits in microblogging and social networks. They allow citizens to vent their grievances and give prompt warning if, say, corruption in a provincial city is getting out of hand. "Beijing has a political interest in keeping China's internet commercially healthy," Mr Bishop wrote in his blog, DigiCha, in February.

Will China's internet continue to have distinctively Chinese characteristics? Some differences from the West's will fade as the industry and China's economy mature and the country's internet population grows older and richer. Other features will probably persist, for example the dominance of three digital conglomerates, Alibaba, Baidu and Tencent.

The influence of the state is likely to reinforce these "three mountains". They are well versed in dealing with state agencies and they can spread the costs of regulation over a broad revenue base. If anything, the three will probably become even more dominant. Rather than buying promising start-ups, they tend to build their own version of a popular new service. Western firms build too, but also buy. If Chinese start-ups are likely to be crushed, finance will be hard to come by. Sina, boosted by the success of its microblogging service, is considered a test case for whether smaller firms can catch up with the big three at all.

Abroad, China's internet firms are largely untested. Tencent is the most daring: it owns a stake in Mail.Ru, a Russian portal, for instance. Baidu is planning to offer its services in a dozen other languages. "We are going to expand into many other markets," Mr Li said recently.

Expanding abroad will not be easy. Being Chinese, a cultural advantage at home, may be a disadvantage elsewhere. Still, China's internet will have global influence. In some ways it already has. Tencent has made money from virtual goods and currencies; Silicon Valley is following. Twitter has been looking at what Sina Weibo does. Some European e-commerce sites are said to be interested in Vancl's model. Expect more of China's online characteristics to be adopted in the West. ■

Also in this section

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The evolution of generosity

Welcome, stranger

The human impulse to be kind to unknown individuals is not the biological aberration it might seem

THE extraordinary success of *Homo sapiens* is a result of four things: intelligence, language, an ability to manipulate objects dexterously in order to make tools, and co-operation. Over the decades the anthropological spotlight has shifted from one to another of these as the prime mover of the package, and thus the fundament of the human condition. At the moment co-operation is the most fashionable subject of investigation. In particular, why are humans so willing to collaborate with unrelated strangers, even to the point of risking being cheated by people whose characters they cannot possibly know?

Evidence from economic games played in the laboratory for real money suggests humans are both trusting of those they have no reason to expect they will ever see again, and surprisingly unwilling to cheat them—and that these phenomena are deeply ingrained in the species's psychology. Existing theories of the evolution of trust depend either on the participants being relatives (and thus sharing genes) or on their relationship being long-term, with each keeping count to make sure the overall benefits of collaboration exceed the costs. Neither applies in the case of passing strangers, and that has led to speculation that something extraordinary, such as a need for extreme collaboration prompted by the emergence of warfare that uses weapons, has happened in recent human evolution to promote the emergence of an instinct for unconditional generosity.

Leda Cosmides and John Tooby, two doyens of the field, who work at the University of California, Santa Barbara, do not agree. They see no need for extraordinary mechanisms and the latest study to come from their group (the actual work was done by Andrew Delton and Max Krasnow, who have just published the results in the *Proceedings of the National Academy of Sciences*) suggests they are right. It also shows the value of applying common sense to psychological analyses—but then of backing that common sense with some solid mathematical modelling.

Be seeing you

Studying human evolution directly is obviously impossible. The generation times are far too long. But it is possible to isolate features of interest and examine how they evolve in computer simulations. To this end Dr Delton and Dr Krasnow designed software agents that were able to meet up and interact in a computer's processor.

The agents' interactions mimicked those of economic games in the real world, though the currency was arbitrary "fitness units" rather than dollars. This meant that agents which successfully collaborated built up fitness over the period of their collaboration. Those that cheated on the first encounter got a one-off allocation of fitness, but would never be trusted in the future. Each agent had an inbuilt and heritable level of trustworthiness (ie, the likelihood that it would cheat at the first opportunity) and, in each encounter it had, it was assigned a level of likelihood (detectable by the other agent) that it would be back for further interactions.

After a certain amount of time the agents reproduced in proportion to their accumulated fitness; the old generation died, and the young took over. The process was then repeated for 10,000 generations (equivalent to about 200,000 years of human history, or the entire period for which *Homo sapiens* has existed), to see what level of collaboration would emerge.

The upshot was that, as the researchers predicted, generosity pays—or, rather, the cost of early selfishness is greater than the cost of trust. This is because the likelihood that an encounter will be one-off, and thus worth cheating on, is just that: a likelihood, rather than a certainty. This fact was reflected in the way the likelihood values were created in the model. They were drawn from a probability distribution, so the actual future encounter rate was only indicated, not precisely determined by them.

For most plausible sets of costs, benefits and chances of future encounters the simulation found that it pays to be trusting, even though you will sometimes be cheated. Which, if you think about it, makes perfect sense. Previous attempts to study the ▸▸

evolution of trust using games have been arranged to make it clear to the participants whether their encounter was a one-off, and drawn their conclusions accordingly. That, though, is hardly realistic. In the real world, although you might guess, based on the circumstances, whether or not you will meet someone again, you cannot know for sure. Moreover, in the ancient world of hunter-gatherers, limited movement meant a second encounter would be much more likely than it is in the populous, modern urban world.

No need, then, for special mechanisms to explain generosity. An open hand to the stranger makes evolutionary as well as moral sense. Except, of course, that those two senses are probably, biologically speaking, the same thing. But that would be the subject of a different article. ■

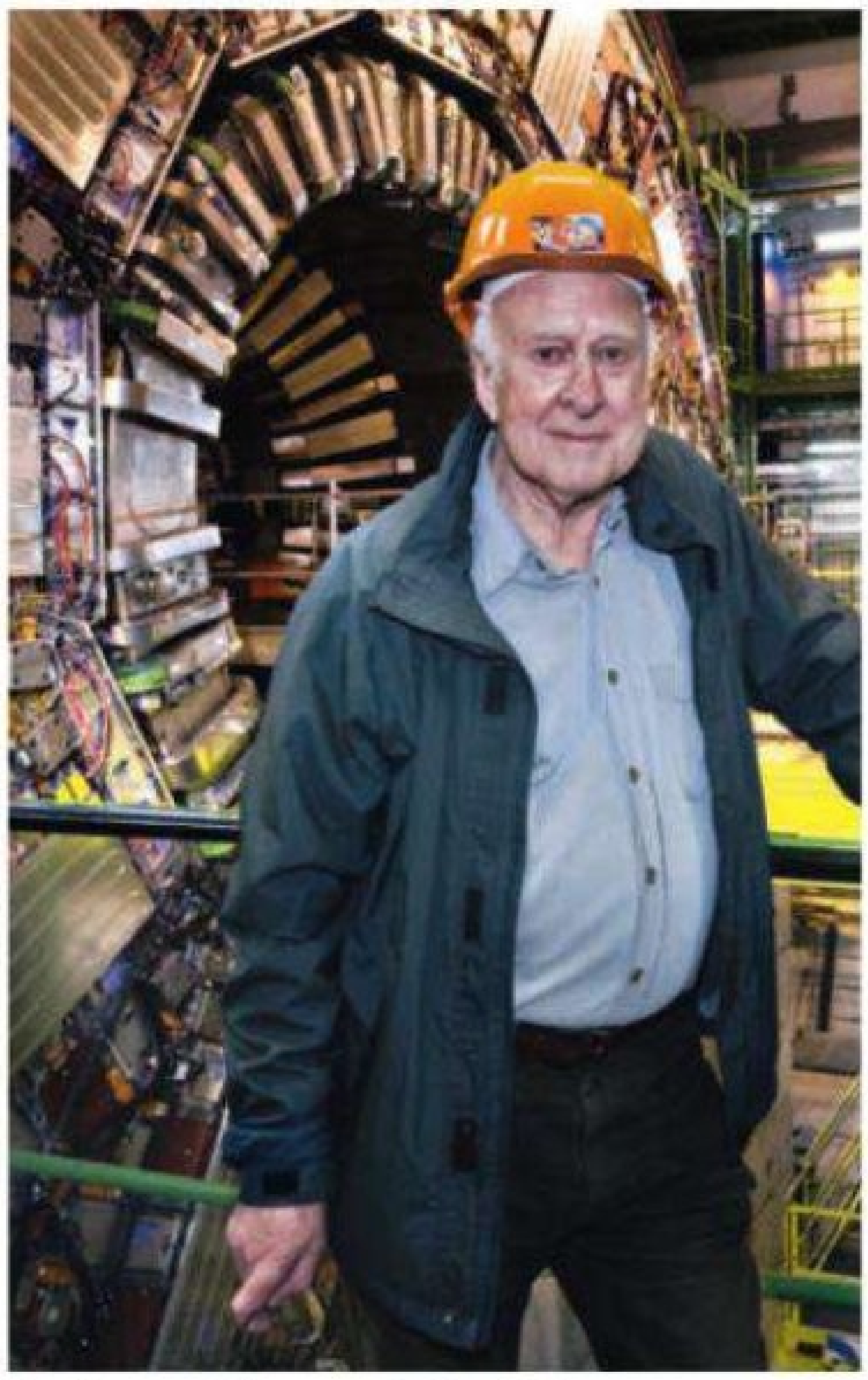
Looking for the Higgs

Enemy in sight?

GRENOBLE

The search for the Higgs boson is closing in on its quarry

ON JULY 22nd two teams of researchers based at CERN, Europe's main particle-physics laboratory, near Geneva, told a meeting of the European Physical Society in Grenoble that they had found the strongest hints yet that the Higgs boson does, in fact, exist. The Higgs (named after Peter Higgs, a British physicist who predicted its existence) is the last unobserved part of the Standard Model, a 40-year-old theory which successfully describes the behaviour of all the fundamental particles and forces of nature bar gravity. Mathematically, the Higgs is needed to complete the model because, otherwise, none of the other particles would have any mass.



Professor Higgs and the LHC

The problem with the elusive boson is not creating it in the first place. Two of the world's particle accelerators, the Large Hadron Collider (LHC) at CERN and its American rival, the Tevatron at Fermilab on the outskirts of Chicago, each have more than enough oomph to conjure up the Higgs—at least if it looks anything like theory suggests it should. The difficulty, rather, is spotting signs of it in the jetsam of subatomic debris these machines produce.

Both laboratories use similar approaches: smashing particles called hadrons into each other. The LHC collides beams of protons. The Tevatron works with protons and antiprotons. In each case the particles concerned are accelerated to within a whisker of the speed of light before they are forced, head-on, into each other. During such a collision, their kinetic energy is converted into other particles (since, as Einstein showed, energy and mass are but two sides of the same coin). The more kinetic energy there is, the heavier these daughter particles can be. Unfortunately hadrons, such as protons and antiprotons, are made of smaller bits called quarks. As a result, hadron collisions can be messy and difficult to interpret.

If a Higgs were to be made in such a collision, the complexity of hadrons means that other particles would be created along with the boson. Both it and its companions would then decay almost instantly into a plethora of less fleeting bits, some of which could be detected. In theory, analysing this shower of daughter particles should give away whether or not a Higgs was involved. But other sorts of subatomic process that do not involve the Higgs can produce precisely the same final readings as those the missing boson is predicted to generate. Finding a Higgs-like signal among the daughters is therefore not, by itself, enough to say you have discovered the Higgs. What is needed is an unexpected abundance of such signals. And it is just such excess that two separate experiments at the LHC, known as CMS and ATLAS, have detected.

Individually, each team's result could be a statistical fluke. Neither reaches the exacting standard of proof that particle physicists require to accept a result unequivocally—namely one chance in 3.5m that it occurred by accident. Instead, they each achieved a significance of somewhere between one chance in 1,000 and one in six, depending on which statistical test you use. What set the scientists gathered in Grenoble aflutter, though, was that both experiments ascribed the excesses they observed to the same putative decay pattern—one involving W bosons, which mediate the weak nuclear force that is responsible for certain types of radioactive decay. Both teams also ascribe the same mass to their putative Higgses, namely 130-150 gigaelectron-volts (the units in which particle physicists measure mass). That is at the low end of the predicted range.

Sadly, even taken together these results are far from robust enough to claim the Higgs's discovery. With a little tweaking, the Standard Model might explain them in other ways. Guido Tonelli and Fabiola Gianotti, who head CMS and ATLAS respectively, therefore urge caution. Their goal is to have enough data by the end of the year either to say definitely that the Higgs has a mass of 130-150 gigaelectron-volts, or that if it exists at all, then it must be heavier than that. If this is the case, the hunt will continue at higher and higher energies (and therefore masses) until either the thing is found, or there is nowhere left in the energy landscape for it to be hiding. ■

Prospecting for oil

Grains of truth

HOUSTON, TEXAS

Putting rocks in medical scanners may help the search for oil and gas

STRIKING oil is one thing. Getting it out of the ground in economic quantities is quite another. Doing so depends on understanding the granular structure of the rock it is trapped in, and analysing that is a tedious business of placing countless samples in pressure vessels to assess their capacity to hold hydrocarbons and to estimate the flow rate of those hydrocarbons through them. This can take years.

Help, though, is at hand. Computerised tomography (CT) scanning has been used in medicine for several decades. Now it is being applied to geology. In alliance with electron microscopy, the geological use of CT scanning has given birth to a new field, digital rock physics. The field's proponents believe it will let oil companies decide far more quickly than they could in the past which strikes are worth exploiting, and which should be abandoned.

One of those proponents is Amos Nur, chief technology officer at Ingrain, a company based in Houston, Texas. His firm is one of three independent digital-rock-physics laboratories in the world. (The other two are Numerical Rocks in Trondheim, Norway, and Digitalcore in Canberra, Australia.) According to Dr Nur, the new technology is capable of creating three-dimensional pictures of a sample's structure with a resolution of 50 nanometres. That is ▸▸

enough to work out how oil and gas trapped in the pores between the grains of such a rock might be expected to behave.

Most of the samples analysed by Ingrain start as cylindrical cores brought up from deep below the Earth's surface by drills. A typical core is several metres long, so it is first subject to a rough and ready CT scan using a standard medical scanner. The scanner is fitted with calibration rods made of a proprietary material whose properties provide reference points for the creation of an image. This initial scan yields a picture that has a resolution of about 500 microns (in other words, the smallest object it can distinguish is 500 microns across).

That done, sections of the core 2-3cm long, whose porosity is of particular interest, are subject to further study. This involves scanning them in a special micro-CT machine, of a sort developed originally to look at computer chips. The sample is placed on a turntable and rotated inside this microscanner. The result is a 3D image with a resolution of 40 microns. This allows sections requiring further study to be identified.

These sections are dissected, using a laser, into slices a millimetre or less thick, and then scanned again, either with the micro-CT or with a scanning electron microscope. That brings the resolution to half a micron, or 500 nanometres. Finally, the image is cleaned up by a computer program and the 50-nanometre-resolution picture emerges. This image, which shows the porosity of the rock, and the channels between the pores, is then subject to a computer analysis that reveals how easily hydrocarbons will flow through it under pressure—and thus the likely productivity of a well dug at that site.

Whether digital rock physics will actually replace traditional methods is unclear. Sceptics, such as Anthony Kovscek of Stanford University, think the claims being made for it are exaggerated. Though analysis of a rock's structure in this way will, in his opinion, be able to tell you that a strike is unlikely to yield a commercial return (because not enough oil or gas could possibly be trapped in it), the reverse is not true. He does not believe that the technique can predict flow rates, even from rock that contains a lot of hydrocarbons—and flow rates are crucial to an oil field's economics.

The new discipline of digital rock physics has, nevertheless, attracted considerable attention within the industry. Smaller oil companies are using the facilities of Ingrain, Numerical Rocks and Digitalcore. Larger ones, such as BP, Chevron and Shell, are setting up their own digital-rock-physics laboratories. As the supply of crude oil dwindles and the price thus rises, anything that makes the process of prospecting new wells cheaper is to be welcomed. This new technique may be such a thing. ■

Art criticism and computers

Painting by numbers

Digital analysis is invading the world of the connoisseur

JUDGING artistic styles, and the similarities between them, might be thought one bastion of human skill that machines could never storm. Not so, if Lior Shamir at Lawrence Technological University in Michigan is correct. A paper he has just published in *Leonardo* suggests that computers may have just as good an eye for style as humans do—and, in some cases, may see connections between artists that human critics have missed.

Dr Shamir, a computer scientist, presented 57 images by each of nine painters—Salvador Dalí, Giorgio de Chirico, Max Ernst, Vasily Kandinsky, Claude Monet, Jackson Pollock, Pierre-Auguste Renoir, Mark Rothko and Vincent van Gogh—to a computer, to see what it made of them. The computer broke the images into a number of so-called numerical descriptors. These descriptors quantified textures and colours, the statistical distribution of edges across a canvas, the distributions of particular types of shape, the intensity of the colour of individual points on a painting, and also the nature of any fractal-like patterns within it (fractals are features that reproduce similar shapes at different scales; the edges of snowflakes, for example).

All told, the computer identified 4,027 different numerical descriptors. Once their values had been established for each of the 513 artworks that had been fed into it, it was ready to do the analysis.

Dr Shamir's aim was to look for quantifiable ways of distinguishing between the work of different artists. If such things could be established, it might make the task of deciding who painted what a little easier. Such decisions matter because, even excluding deliberate forgeries, there are many paintings in existence that cannot conclusively be attributed to a master rather than his pupils, or that may be honestly made copies whose provenance is now lost.

To look for such distinguishing features, Dr Shamir programmed the computer to use a statistical method that scores the strength of the distance between the values of two or more descriptors for each pair of artists. As a result, he was able to rank each of the 4,027 descriptors by how useful it was at discriminating between artists.

Surprisingly, the values of 19 of the 20 most informative descriptors showed dramatically higher similarities between Van Gogh (left below) and Pollock (right) than between Van Gogh and painters such as Monet and Renoir, who conventional art criticism would think more closely related to Van Gogh's oeuvre than Pollock's is. (Dalí and Ernst, by contrast, were farther apart then expected.)

What is interesting, according to Dr Shamir, is that no single feature makes Pollock's artistic style similar to Van Gogh's. Instead, the connection is based on a broad set of image-content descriptors which reflect many aspects of the two artists' styles, including a shared preference for low-level textures and shapes, and similarities in the ways they employed lines and edges.

What was intended, then, as a way of improving the ability to distinguish between different hands has also thrown up a new way of looking for stylistic similarities. Whether Pollock was actually influenced by Van Gogh, or merely happened upon a similar way of doing things through a similar artistic sensibility, is not clear. But it gives art historians a new line of investigation to pursue.

I wonder if they are by any chance related?

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New fiction

Bird's eye view

Teju Cole, a Nigerian-born novelist, is a surprising new voice in fiction

Open City. By Teju Cole. *Random House; 272 pages; $25. Faber and Faber; £12.99*

ON HIS voyages of discovery across New York, Julius, the hero of Teju Cole's first novel, "Open City", sets off by night from the Cathedral of St John the Divine down the path to Morningside Park, from which it is only 15 minutes to Central Park. Or else he meanders from Morningside Park west to Sakura Park and then northward along the Hudson river to Harlem. Along the way he opens up for the reader new vistas on love, race, identity, friendship, memory, dislocation and Manhattan bird life.

Julius's nocturnal wanderings stand in contrast to his busy days at the hospital where he is finishing a psychiatry project researching affective disorders in the elderly. It is "a regimen of perfection and competence" that neither allows improvisation nor tolerates mistakes. Without drawing breath, the author acknowledges the idea of walking-as-therapy and moves on, his eyes set on a more distant horizon.

Like his hero, Mr Cole was raised in Lagos. He went to America in 1992 when he was 17. It was a moment when many Nigerians despaired of their country. A brief interregnum of inept civilian government had been squeezed in between two long periods of increasingly corrupt military rule that, despite repeated hollow promises, showed no sign of coming to an end. Anyone with resources or contacts tried to leave, and in the early 1990s clever, educated, young Nigerians, like Mr Cole, or Julius, his alter ego, were turning up in their thousands in Europe and America.

Mr Cole's independent spirit seems to have taken flight in America. He became a photographer and a professional historian of early Netherlandish art, as well as something of an expert on the brutal Dutch colonists of Manhattan Island. "Open City" is dedicated to the "protector of my solitude". Julius lives alone and walks alone, conscious of how much he is affected by the light of the seasons. This solitude is important for it makes the reader his only companion.

As part of the journey they visit Professor Saito, whom Julius describes as "the oldest person I know". The professor had once taught Julius English. He has lost his gay lover and is now waiting to die, living out his days in a flat inhabited by Polynesian masks and large-hipped carers. The short time left is a palpable regret. The reader is also offered a meditation on the singular portraits of John Brewster, who, profoundly deaf, painted mostly children who also couldn't hear, and an introduction to an albino whale that swam into the Hudson in 1647, bringing, the local residents believed, a message from the deep.

Such an arcane form of narrative will be familiar to readers of W.G. Sebald, a German writer who, until his death in 2001, mused so much about his British home in Norfolk. In lesser hands it would surely end up disjointed and pretentious. Mr Cole, though, is an exceptional writer. "Open City" has been a surprise word-of-mouth bestseller since it was published five months ago in America. It is about to come out in Britain, and later in France and in Spain.

There are three reasons why the book is so compelling, and the quality of translation will be vital if this success is to continue in other languages. In the precision with which Mr Cole chooses words or phrases he is not unlike Gustave Flaubert, who sometimes took a week to write a single paragraph. Thus New York's horses are "blindered", its flocks of birds "take auspices" as birds did in Roman times, the traffic on Sixth Avenue "with its rush-hour gladiators testing each other's limits" are a stark contrast to the quietude of the American Folk Art Museum where Julius first encounters Brewster's portraits.

Secondly, like the Ethiopian-born writer, Dinaw Mengestu, another African who has become American (and also a rising star), Mr Cole has no time for clichés and generalisations. Julius rails against a film director who thinks that French-speaking Mali and Anglophone Kenya are interchangeable. This is not pedantry, but a quiet insistence that Africans can no longer be ▸▸

Award: "Snowdrops" by A.D. Miller (*The Economist*'s Britain editor) was one of 13 books nominated for the 2011 Man Booker prize on July 26th. The winner will be announced on October 18th.

lumped together as one. When Julius flies to Europe, it is not to his mother's homeland, Germany, but to Belgium, a nation with a long and complex history involving Africa. By the time readers follow Julius to Lagos, they no longer see Nigerians as nationally feckless, but as sympathetic, complicated individuals.

Last, and most important, given how contemporary novelists are criticised for repeating the achievements of those gone by rather than adequately portraying the modern world, is that Mr Cole is an original. James Wood, a British critic who teaches at Harvard, is one of a number of reviewers who have singled out Mr Cole's work. "Open City", he says, is as close to a diary as a novel can get, an unusual accomplishment for which "a sure hand is needed to make the writer's careful stitching look like a thread merely being followed for its own sake." It could so easily have failed. Instead, it is a clear-eyed and mysterious achievement, a modern meditation that is both complex and utterly simple. ■

War reporting

Ill met by moonlight

Ghosts by Daylight: A Memoir of War and Love. By Janine di Giovanni. *Bloomsbury; 270 pages; £16.99. To be published in America in September as "Ghosts by Daylight: Love, War and Redemption" by Knopf*

JANINE DI GIOVANNI and Bruno Girodon were war reporters who met and fell in love in Sarajevo in 1993, just as the city was settling into the siege that would last nearly four years. It would be the longest siege of a capital city in the history of modern warfare. Emotional battles and how to survive them are the principal themes of Ms di Giovanni's beautifully written memoir about the pain of adjusting to normal life after being exposed to the intensity of battle.

As journalists, the war part was easy. When they met both were involved with other people whom they swore they loved, but kept leaving out of fear of being confined. American-born Ms di Giovanni, who rose to become senior foreign correspondent for the *Times*, and the slender, flirtatious Mr Girodon, a French television cameraman, would meet up for trysts in foreign cities, never quite certain where, when or even if they would see each other again. From Sarajevo to Stuttgart, where they booked into a small wooden hotel and slept squished together in a twin bed, the encounters were as intense as they were brief.

There were endless phone calls and much of what the French call *malentendu*. Mr Girodon would go off saying he wanted to be alone, and then track her down in Mogadishu or Grozny. There were frenzied meetings in Dakar and Tora Bora and a night in Jalalabad when they split up and she cried into the small hours. After that they did not speak for a while. Ms di Giovanni went to Africa to forget him. But one night in Mogadishu, amid the gunfire, her satellite telephone rang. It was Mr Girodon at Kigali airport, recently returned from the death spots of Rwanda. "Let's have a baby," he said. "Let's get married."

Three miscarriages later the couple settled in Paris where they awaited the birth of their son. But having met in another life, in another world, they discovered that domesticity can be the toughest battle of all. Their new, married life in Paris was meant to be smaller, and so they shed much of their past. More difficult to let go of was the killing and violence they had witnessed, which had found a way of creeping inside them. Childbirth for Ms di Giovanni reanimated many of the fears she thought she had safely put away. She fretted that she would not be able to protect her child. She had nightmares. But in spring the nightmares ended and she saw that the baby was thriving. Adjustment was harder for Mr Girodon. He drank to blot out his nightmares. Alcohol made him depressed, though, and to drown the pain he drank more. He grew thin and stopped sleeping. Unable to continue alone, he checked into a clinic. Eventually the couple parted.

The very private Mr Girodon dreaded being exposed in a book, but he courageously defends his wife's right to write her own story. "Ghosts by Daylight" is no misery memoir, but a powerful lesson. Two people can love each other deeply, have a child, but still, in the end, not make it together. ■

Journey into a far country

Evolution and consumer choice

Baby you can drive my genes

The Consuming Instinct: What Juicy Burgers, Ferraris, Pornography, and Gift Giving Reveal About Human Nature. By Gad Saad. *Prometheus; 374 pages; $25*

HUMAN beings are bad at making rational decisions and finding happiness. But these hiccups make for good reading, as is clear from the explosion of books on the subject. Joining the fray is "The Consuming Instinct" by Gad Saad, which considers human behaviour through a lens of biology and natural selection. He offers reassurance that some of man's odder impulses, from high-stakes gambling to bungee-jumping or wearing stiletto heels, are rooted in evolutionary necessity.

"Much of what we do as consumers is ultimately related to sex," Mr Saad writes. Men are programmed to hunt for young, attractive and fertile women (and as many as possible), whereas women tend to seek out a lone, socially powerful Mr Right—the better to raise a family with. This creates different approaches, with women investing in their looks and men in their status. For women, long hair functions as a sign of health and youth, and cosmetics mimic cues of sexual arousal. As for high-heels, they hoist the *derrière* and make the gait more feminine and physically attractive. Men who aren't tall, dark and handsome can compensate by wearing high-status clothing (no woman, it is said, can resist a man in surgical scrubs) or driving a fancy car. Studies show that men driving a Porsche experience rising testosterone levels, as it is an act of sexual signalling.

Ideals of sexiness are universal, contrary to arguments that media images are to blame. Most advertisements feature people with perfectly symmetrical faces, as this is a sign of phenotypic quality—or good genes. A deep male voice is inherently attractive, as it indicates greater exposure to pubertal testosterone and is linked to reproductive fitness. Even in cultures without access to mass media, the optimum waist-to-hip ratio for women is around 0.7, which corresponds most closely to an hourglass shape, and is linked to fertility. In addition, women often send subtle (and subconscious) come-hither cues at the most fertile time of the month.

Mr Saad has delivered a light round-up of the latest studies in evolutionary behavioural science. But he does not limit his observations to sex-specific characteristics. He also includes notes on how people handle food, family, friendship and social hierarchies. Gift-giving between friends, for example, strengthens non-kin bonds as people choose friends who can reciprocate. And an adaptation called the "variety effect" makes it nearly impossible to not overeat at a buffet, as a wider choice of dishes leads to a higher calorie intake—in order to maximise nutrient sources and minimise the toxins from a single food source. Parents tend to be more protective of their daughters than their sons because the familial costs of pregnancy are higher. As for concerns over paternity, fathers instinctively provide the greatest investment in children who look like them, and maternal grandmothers (the lone grandparent who has no paternal uncertainty) tend to be the most involved.

Critics may complain that viewing all behaviour through a prism of natural selection is reductive. But much of the research is convincing. Less credible is Mr Saad, who has a tendency to drench his writing with pop-cultural references and enjoys using television shows to emphasise a point. He spends much of the book patiently explaining the evolutionary roots of unsavoury desires, such as infidelity and hard-core pornography, but then loses all tolerance with what he sees as the duplicitous "hope peddling" of religion. Don't get him started on self-help books. Mr Saad is a zealous advocate of evolutionary psychology, but readers should look elsewhere for serious scholarship. ■

Haiti

Broken and broken-hearted

Haiti: After the Earthquake. By Paul Farmer. *PublicAffairs; 429 pages; $27.99*

No country for old men

IN 2009 Paul Farmer, a professor at Harvard Medical School, was named as the deputy UN special envoy to Haiti under Bill Clinton. Dr Farmer was married to a Haitian and had worked there for decades through Partners in Health, an NGO he co-founded that provides medical care to the poor. The UN job, though, was his first diplomatic post. The position would let him bridge the divide between "praxis and policy"—between "direct service, which is what doctors are supposed to provide, and policy, which is what politicians and legislators are supposed to formulate."

Five months after his appointment a huge earthquake struck, leading to Haiti's worst medical emergency. Dr Farmer arrived to work as a doctor and to help oversee the broader health-care response. He says he "struggled with [the] decision" to get involved in policy, but there is little sign of such trepidation in his book, which is a day-by-day account of his experience of the disaster, as well as a treatise on why Haiti was particularly vulnerable and how it should be rebuilt.

The book's greatest strength lies in its depiction of the post-quake chaos. In one town "slab roofs angled downward like wet cardboard." The pavement by the morgue was "slick with bodily fluids." Lacking basic tools, foreign doctors used a "hardware-store hacksaw" for amputations. In an overloaded hospital the son of one of the author's acquaintances recognised "Dr Paul" and greeted him in English, gasping for breath. Dr Farmer got him to an American floating hospital. The next time he saw him was in the morgue.

In the book's more analytical sections the author's diagnosis of the difficulties of reconstruction is sharp. Haiti's tent cities persist because most of their occupants rented their homes and now have nowhere else to go; food and health care are provided there and the rubble has not been cleared away. Since Haiti has no concept of disability rights, victims with crushed limbs resisted amputation because the procedure would destroy their chances of getting a job.

Such crisp explanation is unfortunately lacking in the book's discussion of politics. Dr Farmer uncritically embraces the idea that the West is entirely to blame for Latin America's ills. Foreigners are certainly responsible for some of Haiti's woes—France charged the country the equivalent of $21 billion for the loss of its slaves, and America occupied it from 1915-34. But Dr Farmer's shortened version of Haitian history is all too simplistic. There is but a single paragraph on the brutal home-grown dictatorship of François and Jean-Claude Duvalier. Jean-Bertrand Aristide—a former president who rigged an election, stashed $350,000 in cash in his home and used street gangs as his personal militia—is here merely the leader of a "popular movement", toppled in 2004 because "the wealthy" and "foreign business interests" were out to "discipline or dislodge" him. (In fact, America sent 20,000 soldiers to Haiti to return Mr Aristide to power in 1994, after he had been deposed in a coup.) Other aid NGOs are "trauma vultures" and their contractors "beltway bandits", both in the grip of Washington's "powerful".

Dr Farmer waves away other explanations for Haiti's problems, dismissing the "crutch of cultural difference to explain the challenges before Haiti", as an "old and pernicious tendency". Yet in a group of essays by other authors that has been included at the end of the book, Leslie Voltaire, Haiti's envoy to the secretary-general of the UN, is quoted making just such a claim. Because of their history of slavery, he says, "Haitians will do everything to avoid being controlled or dominated, even when you are an equal partner," which results in "intentional isolation".

The book's narrow view of history leads the author to some dubious conclusions. Dr Farmer insists that foreign aid be channelled primarily through the Haitian state, ignoring valid concerns about its corruption and ineffectiveness. (Only in the footnotes does he concede that the government has "certain inveterate weaknesses".) That Haiti could eliminate the use of charcoal and become a leading exporter of solar panels by 2015 also seems naively Utopian. Readers would have been better-served if Dr Farmer had focused on "praxis" and left policy to others. ■

Correction: Our article on the Chinese art market (July 23rd) misstated the most expensive contemporary Chinese painting sold at auction. It was not one of Zeng Fanzhi's "mask" paintings, but an early work by Zang Xiaogang. In the same issue, the postgraduate student who helped finish John Patrick Diggins's book on Reinhold Niebuhr was not Ben Persky, who helped to assemble the manuscript from different electronic files, but Robert Huberty. Our apologies on both counts.

The Pakistan army

The generals' story

Inside the Pakistan Army: A Woman's Experience on the Frontline of the War on Terror. By Carey Schofield. *Biteback; 232 pages; £19.99*

PAKISTAN'S army, which also runs the much-feared intelligence agency, the ISI, is a world unto itself; more arrogant and more pampered than any institution in this rapidly crumbling nation. The army is the overseer of Pakistan's nuclear arsenal and the architect of the policy that encourages Taliban militants to cross into Afghanistan to kill NATO soldiers. Despite its importance, the Pakistani army is threatened by home-grown militants and with cutbacks in American financial support. Pakistani soldiers and ordinary citizens are beginning to question it as never before. But anyone with a serious interest in foreign policy still needs to make an understanding of the history and doctrines of the Pakistani military their first port of call.

Carey Schofield, a British writer who has spent time with the Russian army, was granted unparalleled access to the army by a former president, General Pervez Musharraf. In her book, "Inside the Pakistan Army", Ms Schofield adopts an army persona, accepting the military's belief in its own competence and its disdain for democratic rule. "Military men listen to each other and argue logically and courteously," she writes. "The civilian world outside the cantonments is wild and violent."

Kitted out in a uniform specially fitted for her by an army tailor at the military headquarters in Rawalpindi, Ms Schofield travelled to remote army outposts, a privilege never given before on such a consistent basis to Pakistani or foreign journalists. She visited Pakistan's military academy at Abbottabad, and writes glowingly of how the institution "spares nothing in its quest for excellence." "From dawn till dusk the gentlemen cadets are stretching their bodies and minds", she says, a risibly Victorian observation, given that Osama bin Laden was hiding on the second floor of his safe house less than a mile away while Ms Schofield was there.

In one exception to the party line, Ms Schofield recounts how an operation that came close to killing the Taliban leader, Baitullah Mehsud, in early 2008 was suddenly called off by headquarters, a failure that was criticised by two Pakistani generals in the field. But she chooses not to explore why the top guns ordered the withdrawal. Mehsud was eventually killed by an American drone strike, a detail Ms Schofield ignores in her book.

There is also no mention of the extra-judicial killings that have become a hallmark of the campaign against the militants, and which have soured local feeling against the army. The author says militant extremism has grown significantly in the past decade, but she fails to ask why it has flourished under the soldiers' very noses. It is likely that Ms Schofield was given a five-year ticket to hobnob with generals and lower ranks because she was trusted not to spill too much about the army. For a glimpse at how the army thinks of itself, this book has value. But it also has many holes, which will trouble reasonably knowledgeable readers.

Most Western intelligence specialists argue that one of the most serious threats to Pakistan is Lashkar-e-Taiba, a militant group trained by the army for attacks against India in Kashmir, which is now spreading its virulent form of Islam at home. Ms Schofield accepts at face value the explanation given to her by a former director of the ISI, who tells her that Lashkar-e-Taiba is being dismantled through the use of rehabilitation camps. British and American officials have asked to visit these camps, he adds, but they have been barred because the "ISI stressed that this would ruin the effort." Few Western officials believe the camps exist in any meaningful way, another detail Ms Schofield forbore to write about. ■

The Proms

Life of Brian

The unusual appeal of Havergal Brian's first symphony

HAVERGAL BRIAN'S symphony in D minor, "The Gothic", has been performed six times since it was finished in 1927. Its last full outing in Britain was in 1980. A single performance of "The Gothic" at the summer Proms in London's Royal Albert Hall on July 17th sold out within hours. On the night, Brian fans gathered from around the world, sensing that something special was going to happen—something that quite literally happens only once in a generation.

There are no dull moments in "The Gothic". Brian penned this epic piece as a reaction to the destructiveness of the first world war. An opening that seems to marry "Jaws" with Gustav Mahler establishes the drama and musical scope of the work. Other influences include plainsong, Richard Wagner, polyphonic choral symphonies and progressive tonality. Some of the audience struggled to make sense of the rollercoaster-ride of disconnected themes and motifs. Yet the journey was exhilarating. The 800 choristers rising for the beginning of the "Te Deum" in the fourth movement provoked an audible gasp.

The Proms' organisers had promised the symphony would be performed exactly as Brian wanted, so there was a custom-made thunder machine filled with rocks and an engorged orchestra of 200 instrumentalists, including four offstage brass bands and a fifth backstage for good measure. Yet it was only in rare moments of stillness and subtlety that Brian's vision shone through, noticeably during the violin solo (Lesley Hatfield) of the first movement and the haunting offstage soprano solo (Susan Gritton). Martyn Brabbins, the conductor, proved a remarkable commander of the performing masses and exposer of the intricate layers within the antiphonal singing and thick orchestration.

It is all too easy to throw in the towel with "The Gothic". However, John Grimshaw, chairman of the Havergal Brian Society, insists that listeners should persist. "It took me decades to penetrate his work, and the first symphony isn't even his best. It's simply the largest." Brian's symphony will not be quickly forgotten. Just as well, given the long gap there has been between performances.

Voice-over

Lucian Freud

Lucian Freud, painter, died on July 20th, aged 88

ASTONISHMENT, even disgust, often greeted Lucian Freud's paintings when they first appeared. In "Benefits Supervisor Sleeping" a mountainous friend lay snoozing on a sofa, one blubbery breast cupped in a hand, revelling in rolls of fat like a beached whale. In "Naked Man with Rat" a surprised fellow fondled a rodent perilously near his engorged genitalia. Female nudes—sometimes the artist's own grown-up daughters—lay rudely splayed, or tangled up in sheets. Bare flesh, vulnerable, cushiony, shiny, lumpish pink-white thickly shadowed in grey and blue, was everywhere. The best painter in the world, as he was often said to be, seemed intent on rubbing the world's nose in human ugliness. His candour was shocking.

What viewers did not always realise was that Mr Freud wanted to shock himself. Each portrait was a risk. Every time he approached a sitter—thrusting a piece of torn sheet into his belt as an apron, scraping a clean space on his heavily encrusted palette, knocking the dried paint off the tube-ends in a swipe across the wall—he felt, he said, like a diver on the edge of the board. He had no idea what would happen. As he loaded the brush with paint and made for the canvas, nervous and lithe, he was dicing with extraordinary danger, just as when, in younger days, he would shut his eyes and dash out into traffic to see if he could make it, or when in poorer times he had hazarded all his money in gambling dens, deliberately staking every last penny and then walking home, springing with happiness, everything lost.

Each portrait had to depart utterly from the last, a surprise even to him. Each painting had to be better. Not necessarily "like" the subject—he did not set much store by likeness, just as he hated commissions and hackwork—but somehow *being* the person, alive in the paint. Sittings for him took months and years, interspersed with witty conversations and dinners at the Wolseley in which he would keep on observing, translating each tic and expression into a single muttering brush-stroke—"Yes, a little," "Slightly," "More yellow," until, in laboriously fastidious layers, the person appeared. He was a beady-eyed prober, like the foxes he loved or his favourite whippet, Pluto, whose long-legged grace often appeared in his paintings as counterpoint to some fatter, redder human shape.

Queen and gangsters

His method reflected the draughtsman in him. The boy, transplanted at ten from Berlin to England, drew all the time; the young artist, defying the 1940s scorn for figurative art, did work that was linear, flat and infinitely detailed, with cross-hatched tailoring on his portraits and painstaking attention, worthy of Dürer, to the fur of dead monkeys and the tangled hair of his girlfriends. It all changed, suddenly, in 1959, with "Woman Smiling". From sitting down, he now leapt to his feet; swapped thin sable brushes for hog-hair and fine canvases for rough; stopped drawing, went straight to paint, and overturned everything that had seemed to be Lucian Freud before. He refused to be predictable, just as he refused to be influenced—for more than a painting or two, at least—by any other artist. He knew what he liked: Constable for his bold, thick paint, Courbet and Ingres for their pinkly voluptuous nudes. But his school was always his own.

It was a school of interiors, centred on his studios in Paddington and Holland Park: bare floors, old rags in piles, worn armchairs and cast-iron beds. The only landscapes he noticed were window-views of houses and his own squalid gardens, full of buddleia, which he also painted. Through his door came an extraordinary mixture of people: drunks and gamblers from his underworld life, Kate Moss and Jerry Hall, Francis Bacon and David Hockney (both friends), the Duchess of Devonshire and Lord Goodman, performance artists and men with razor scars on their faces. The queen, on a velvet chair, perched among the rags for a grim, blue-chinned portrait. Not everyone took their clothes off, but he wished they would. Even make-up, even earrings spoiled that "Oh!" of the completely bare. He liked human beings to be as naked as the horses he also painted, animals like them. He thought he painted them considerately, lovingly exploring the tones and the textures, whatever his detractors said. After all, they were mostly family or friends.

He himself remained intensely private. His studio numbers were unlisted and he moved around between them, refusing to be tied to one place. There were many women, a couple of wives, myriad children, acknowledged in his paintings far more than in his life. He moved in a fashionable set and danced at the best clubs well into old age; the gossip-sheets chased him, but he refused to talk to them.

Every so often, though, he tried to confront himself. It was usually as a blurred face at the back of a painting, behind a huge plant, or casually in a hand mirror. He found mirror-light odd and flat; he would squint in the paint, as if it hurt him. Only in 1993, in "Painter Working, Reflection", did he try something full-length and comprehensive. At 71 he faced the canvas, scrawny, grey-naked, palette and brush in hand, with just a pair of unlaced hobnail boots on his feet. To guard against splinters, he explained. But also, most probably, to try to shock himself with the truth. ■

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Dent's International Representatives will have an existing network of contacts and decision-makers at the highest levels of local and national Government.

As commission-based positions, these roles could be undertaken in conjunction with existing employment on a full or part-time basis.

For further information, please email, in strictest confidence, ukpr@dentlondon.com

NO AGENCIES, PLEASE

www.dentlondon.com

BANK FOR INTERNATIONAL SETTLEMENTS

Head of Meeting Services

Basel, Switzerland

The Bank for International Settlements is a global forum for monetary and financial cooperation and a bank for central banks

The BIS invites applications for the position of Head of Meeting Services. This is a key appointment that supports the Bank's role as a global forum for cooperation between monetary authorities and central banks. Leading the 25-strong Meeting Services team, you will ensure that high-level meetings and international conferences are organised to the highest standards.

We would like to meet candidates with a clear record of achievement in senior management positions gained at leading international organisations. You will have a deep knowledge of meeting and conference organisation. Fluency in written and spoken English and German are essential, as are finely honed diplomatic skills.

We offer competitive conditions of employment and the chance to work in an international environment alongside colleagues from more than 50 countries. The BIS is an equal opportunities employer.

To find out more about this opportunity and to submit your CV (in English), please visit www.bis.org/careers

Deadline for applications is **21 August 2011**

Supporting global monetary and financial stability

IDRC CRDI

The **International Development Research Centre** (IDRC), a Canadian Crown corporation, supports research in developing regions of the world to promote growth and development. The result is innovative, lasting local solutions that bring choice and change to those who need it most.

PROGRAM LEADER – Think Tank Initiative
Based in Ottawa, Canada

The **Think Tank Initiative** (TTI) is an innovative program dedicated to strengthening independent policy research institutions or "think tanks" in developing countries, enabling them to better provide sound research that both informs and influences policy. TTI funding is provided by The William and Flora Hewlett Foundation, the Bill & Melinda Gates Foundation, the UK Department for International Development, the Netherlands Directorate-General for International Cooperation, as well as the IDRC. For more information, see **www.idrc.ca/thinktank**.

Under the direction of the Think Tank Initiative's Program Manager, you will oversee the implementation of TTI program activities with 52 grantees in the four regions of focus (East and West Africa, South Asia, and Latin America), and manage a multi-disciplinary team of eight professional staff based in IDRC's Regional Offices. You will oversee the relationships with all TTI grantees, assessing individual grantee progress and appraising the need for group-level activities, and engage with TTI's funding partners and its International Advisory Group. You will also provide intellectual support to the overall Initiative, including its monitoring and evaluation activities, outreach and communications, identification of critical research issues, relationships with external partners, and representation of the Initiative in international fora.

If you are interested in a career with a **lasting impact**, we invite you to join our team of motivated and talented professionals operating in a stimulating and diverse environment. **The ideal start date would be in Fall 2011.** For more information about this opportunity and how to apply, visit **www.idrc.ca/careers**.

Application Deadline: August 14, 2011

IDRC encourages applications from qualified women, Aboriginal peoples, persons with disabilities, and members of visible minorities.

Canada

Appointments

UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION
Reducing Poverty Through Sustainable Industrial Growth

UNIDO is seeking highly qualified candidates with commitment to the core values of the Organization
*** Professionalism * Integrity * Respect for Diversity ***
to fill a vacant position at UNIDO Headquarters in Vienna, Austria.

Chief, Industrial Energy Efficiency Unit, P-5 (VA-2011/019)
Energy and Climate Change Branch
Programme Development and
Technical Cooperation Division

The incumbent will be responsible for the development and implementation of technical cooperation programmes and projects in the field of energy efficiency development; mobilizing resources and providing support to UNIDO's global forum activities; providing advisory services to counterparts and supervising the staff of the unit.

The successful candidate shall have an advanced university degree in engineering, science or other relevant discipline with a specialization in energy efficiency, supported by a minimum of 10 years of practical experience in the substantive areas, including experience at the international level involving technical cooperation in developing countries.

Further information on this position, required qualifications, deadline and information on the application process can be obtained on UNIDO website:
www.unido.org → Employment

TO ADVERTISE WITHIN THE CLASSIFIED SECTION, CONTACT:

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Tenders

BANCA D'ITALIA
EUROSISTEMA

EXTRACT OF TENDER NOTIFICATION
2011/S 129-214611

Object: Open procedure for licensing the T2S Connectivity Services (G858 010/10).
Contract Notice: published in OJEU, 2011/S 129-214611, July 8th 2011
Short description: Banca d'Italia, acting as contracting authority under a mandate from the Eurosystem Central Banks (ECB/2011/5), is launching an open procedure for the granting of two Licences to provide connectivity services to the entities directly connected to the TARGET2 Securities Platform (T2S). Banca d'Italia carries out the selection procedure in its own name and interest as well as in the interest of the Eurosystem Central Banks and will sign the Licence Agreement with the selected network service providers in the name and interest of the Eurosystem Central Banks. The object of the procedure is the granting of up to two Licences enabling each selected Network Service Provider to design, implement, deliver and operate its own connectivity solution intended to exchange business information securely, in the ISO 20022 standard, between the Directly Connected T2S Actors and the T2S Platform, in compliance with the technical specifications and requirements described in the Annexes to the "Awarding Rules".
No Network Service Provider may hold more than one Licence at the same time.
Main place of performance: Rome and Frankfurt am Main.
Award criteria: Lowest price, as specified in the Tender Documents
Language of the bids: English
Time-limit for receipt of tenders or requests to participate: 30.09.2011
Contact point:

Banca d'Italia
Via Nazionale, 91
Servizio Elaborazioni e infrastrutture - Divisione Acquisizione beni e servizi informatici
00184 Roma
Italy
E-mail: seli.dabsi@bancaditalia.it
Fax +390647928426

Further information:
The complete Tender Documents can be downloaded from the website:
http://www.bancaditalia.it/bancaditalia/bandigara/altri/bandi/open-procvedure-g858-010-010

The Head of "Elaborazioni e Infrastrutture" Department,
Responsible for the procedure
(Responsabile unico del procedimento)
Mr Andrea Cividini

Rome, July 2011

Business & Personal

Economic and financial indicators

Overview

British output expanded by only 0.2% between April and June. Growth was down from 0.5% in the first quarter. The economy was not helped by a fall in industrial output, which was attributed in part to an extra day's public holiday for the royal wedding in April. Britain's 12-month growth rate fell to 0.7% from 1.6% in the previous quarter.

In the three months to June the **South Korean** economy grew by 3.4% compared with the same period a year earlier. The annual growth rate has now slowed in four of the last five quarters.

Consumer prices in **Australia** rose by 3.6% in the second quarter compared with the same period in 2010. Inflation was up from 3.3% in the first three months of 2011.

German annual inflation rose to 2.4% in July from 2.3% in the two previous months.

Argentina's trade surplus fell to $10.1 billion in the year to June, its lowest 12-month total in over nine years. The trade balance was down by 29% compared with the year to June 2010, despite political pressure on importers to rely more on goods produced at home.

Unemployment in **Mexico** rose to 5.4% in June from 5.2% in May. This makes it less likely that the country's central bank will raise interest rates soon from their current level of 4.5%.

Indonesian industrial production grew by 9.2% in the year to May, its fastest year-on-year increase since 2008.

Indicators for more countries, as well as additional series, can be found at

Economist.com/indicators

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2011†	2012†	latest	latest	year ago	2011†	rate‡, %
United States	+2.3 Q1	+1.9	+2.5	+2.9	+3.4 Jun	+3.6 Jun	+1.1	+2.9	9.2 Jun
Japan	-1.0 Q1	-3.5	-0.6	+2.8	-5.5 May	+0.3 May	-0.9	+0.4	4.5 May
China	+9.5 Q2	+9.1	+9.0	+8.7	+15.1 Jun	+6.4 Jun	+2.9	+5.0	6.1 2010
Britain	+0.7 Q2	+0.7	+1.5	+2.0	-0.8 May	+4.2 Jun§	+3.2	+4.5	7.7 May††
Canada	+2.9 Q1	+3.9	+2.9	+2.7	+5.0 Apr	+3.1 Jun	+1.0	+2.9	7.4 Jun
Euro area	+2.5 Q1	+3.4	+1.9	+1.7	+4.0 May	+2.7 Jun	+1.5	+2.7	9.9 May
Austria	+3.9 Q1	+3.6	+2.7	+1.9	+6.7 May	+3.3 Jun	+1.7	+2.8	4.3 May
Belgium	+3.0 Q1	+4.3	+2.3	+1.8	+3.5 Apr	+3.7 Jun	+2.5	+3.1	7.3 May‡‡
France	+2.2 Q1	+3.8	+2.1	+1.7	+2.6 May	+2.1 Jun	+1.5	+2.3	9.5 May
Germany	+5.4 Q1	+6.1	+3.4	+2.2	+7.5 May	+2.4 Jul	+1.2	+2.5	7.0 Jun
Greece	-5.5 Q1	+0.7	-4.5	-1.2	-10.0 May	+3.3 Jun	+5.2	+3.2	15.8 Apr
Italy	+1.0 Q1	+0.5	+0.9	+1.1	+1.8 May	+2.7 Jun	+1.3	+2.6	8.1 May
Netherlands	+2.8 Q1	+3.6	+2.2	+1.8	+2.6 May	+2.3 Jun	+0.8	+2.1	5.0 Jun††
Spain	+0.8 Q1	+1.2	+0.7	+1.1	+0.8 May	+3.2 Jun	+1.5	+3.1	20.9 May
Czech Republic	+2.8 Q1	+3.8	+2.0	+2.9	+15.2 May	+1.8 Jun	+1.2	+2.1	8.1 Jun
Denmark	+1.7 Q1	-0.3	+1.7	+1.9	+7.1 May	+3.0 Jun	+1.7	+2.6	4.0 Jun
Hungary	+2.5 Q1	+2.9	+2.8	+3.1	+2.6 May	+3.5 Jun	+5.3	+4.4	10.8 Jun††
Norway	+1.0 Q1	-1.8	+1.3	+1.9	-12.4 May	+1.3 Jun	+1.9	+1.6	3.4 Apr§§
Poland	+4.4 Q1	na	+4.2	+4.2	+2.0 Jun	+4.2 Jun	+2.3	+4.2	11.8 Jun‡‡
Russia	+4.1 Q1	na	+4.3	+4.6	+5.7 Jun	+9.4 Jun	+5.8	+8.9	6.1 Jun‡‡
Sweden	+6.4 Q1	+3.3	+4.4	+3.0	+13.4 May	+3.1 Jun	+0.9	+2.8	7.9 May‡‡
Switzerland	+2.5 Q1	+1.0	+2.3	+2.1	+4.9 Q1	+0.5 Jun	+0.5	+0.9	3.0 Jun
Turkey	+11.0 Q1	na	+6.0	+4.5	+8.0 May	+6.2 Jun	+8.4	+6.4	9.9 Apr‡‡
Australia	+1.0 Q1	-4.7	+2.3	+4.0	-5.4 Q1	+3.6 Q2	+3.1	+2.3	4.9 Jun
Hong Kong	+7.2 Q1	+11.7	+5.1	+4.8	+3.6 Q1	+5.6 Jun	+3.0	+4.8	3.5 Jun††
India	+7.8 Q1	na	+7.8	+8.6	+5.6 May	+8.9 May	+13.4	+7.2	10.8 2010
Indonesia	+6.5 Q1	na	+6.1	+6.2	+9.2 May	+5.5 Jun	+5.0	+6.0	6.8 Feb
Malaysia	+4.6 Q1	na	+5.1	+5.5	-5.1 May	+3.5 Jun	+1.5	+3.3	3.0 May
Pakistan	+2.4 2011**	na	+2.4	+3.7	-2.2 May	+13.1 Jun	+12.7	+11.6	5.6 2010
Singapore	+0.5 Q2	na	+5.0	+4.9	+10.5 Jun	+5.2 Jun	+2.7	+4.4	1.9 Q1
South Korea	+3.4 Q2	+3.4	+4.2	+4.0	+8.3 May	+4.4 Jun	+2.6	+4.1	3.3 Jun
Taiwan	+6.5 Q1	+19.0	+4.4	+4.5	+3.6 Jun	+1.9 Jun	+1.2	+1.9	4.4 Jun
Thailand	+3.0 Q1	+8.4	+4.3	+4.8	+3.3 Jun	+4.1 Jun	+3.3	+4.3	0.7 Mar
Argentina	+9.9 Q1	+11.8	+6.9	+5.1	+6.3 May	+9.7 Jun***	+11.0	+9.8	7.4 Q1‡‡
Brazil	+4.2 Q1	+5.4	+4.0	+4.1	+2.7 May	+6.7 Jun	+4.8	+6.6	6.2 Jun‡‡
Chile	+9.8 Q1	+5.4	+6.2	+5.0	+9.7 May	+3.4 Jun	+1.2	+3.5	7.2 May††‡‡
Colombia	+5.1 Q1	+7.7	+5.0	+5.0	+4.3 May	+3.2 Jun	+2.3	+3.5	11.3 May‡‡
Mexico	+4.6 Q1	+2.1	+4.2	+3.4	+4.6 May	+3.3 Jun	+3.7	+3.6	5.4 Jun‡‡
Venezuela	+4.5 Q1	na	+2.8	+3.7	-4.8 Apr	+25.1 Jun	+31.8	+26.9	8.4 Q2‡‡
Egypt	-4.2 Q1	na	+1.2	+3.9	-5.2 Q1	+11.8 Jun	+9.2	+16.2	11.9 Q1‡‡
Israel	+6.9 Q1	+4.8	+5.1	+4.0	-0.1 May	+4.2 Jun	+2.4	+4.0	6.0 Q1
Saudi Arabia	+3.8 2010	na	+6.3	+5.3	na	+4.7 Jun	+5.5	+5.6	na
South Africa	+3.6 Q1	+4.8	+3.7	+4.8	+0.6 May	+5.0 Jun	+4.2	+5.2	25.0 Q1‡‡

*% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. ‡National definitions §RPI inflation rate 5.0 in June. **Year ending June. ††Latest 3 months. ‡‡Not seasonally adjusted. §§Centred 3-month average. ***Unofficial estimates are higher.

Multinationals with state shareholders

Enel, an Italian utilities firm, holds more foreign assets than any other transnational company in which the state has a significant stake, according to the UN Conference on Trade and Development. It has $157 billion of assets abroad, 68% of its total holdings. Of the ten biggest such companies ranked by foreign assets, only France's EDF has less than half its total assets abroad. Seven of the 30 biggest companies are under complete government ownership. In contrast, the Brazilian state owns only 6% of Vale, a mining company. Volkswagen recorded the largest foreign sales in 2009 ($105 billion), and another German company, Deutsche Post, a logistics outfit, employs the most people abroad (258,000).

Biggest by foreign assets*, 2009, $bn

Source: UNCTAD

*Non-financial companies

The Economist commodity-price index

2005=100

	Jul 19th	Jul 26th*	% change on one month	% change on one year
Dollar index				
All items	213.4	215.0	+3.5	+35.0
Food	223.5	224.0	+3.0	+33.8
Industrials				
All	202.9	205.7	+4.1	+36.4
Nfa†	221.0	221.4	-3.1	+45.1
Metals	195.2	199.0	+7.9	+32.7
Sterling index				
All items	240.1	238.6	+1.0	+28.1
Euro index				
All items	187.0	184.6	+2.6	+21.0
Gold				
$ per oz	1,601.07	1,611.89	+7.2	+36.1
West Texas Intermediate				
$ per barrel	97.72	99.51	+7.3	+28.3

*Provisional †Non-food agriculturals.

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2011†	Currency units, per $ Jul 27th	Currency units, per $ year ago	Budget balance % of GDP 2011†	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	-691.5 May	-471.9 Q1	-3.3	-	-	-9.1	0.13	2.98
Japan	+47.0 May	+173.5 May	+2.4	78.0	87.6	-8.4	0.16	1.08
China	+174.8 Jun	+298.7 Q1§	+3.6	6.44	6.78	-2.1	6.02	4.17
Britain	-155.8 May	-70.4 Q1	-1.8	0.61	0.64	-9.1	0.83	2.91
Canada	-8.2 May	-50.0 Q1	-2.3	0.95	1.04	-3.8	0.93	2.87
Euro area	-28.0 May	-80.4 May	-0.4	0.70	0.77	-4.3	1.61	2.75
Austria	-6.6 Apr	+10.7 Q1	+3.0	0.70	0.77	-3.4	1.61	3.18
Belgium	+17.2 May	+2.7 Mar	+1.7	0.70	0.77	-3.8	1.61	4.27
France	-86.8 May	-60.7 May	-2.3	0.70	0.77	-5.8	1.61	3.24
Germany	+197.9 May	+191.9 May	+5.1	0.70	0.77	-1.7	1.61	2.64
Greece	-36.5 Apr	-31.8 May	-7.9	0.70	0.77	-9.6	1.61	14.40
Italy	-50.7 May	-82.4 May	-3.6	0.70	0.77	-4.0	1.61	5.75
Netherlands	+56.6 May	+61.8 Q1	+6.3	0.70	0.77	-3.8	1.61	3.00
Spain	-68.3 May	-63.9 Apr	-3.8	0.70	0.77	-6.5	1.61	5.97
Czech Republic	+7.2 May	-6.4 Q1	-3.1	16.9	19.0	-4.5	1.20	3.81
Denmark	+14.0 May	+18.6 May	+5.1	5.18	5.73	-3.8	1.68	2.88
Hungary	+8.8 May	+2.9 Q1	+1.7	186	217	+1.9	6.09	7.34
Norway	+60.8 Jun	+49.6 Q1	+12.0	5.39	6.15	+12.5	3.00	3.23
Poland	-9.6 May	-23.2 Apr	-5.5	2.79	3.07	-2.6	4.71	5.80
Russia	+167.3 Jun	+76.0 Q2	+4.9	27.5	30.2	-1.5	8.25	4.73
Sweden	+12.3 Jun	+32.2 Q1	+6.5	6.31	7.29	+0.5	2.57	2.61
Switzerland	+22.6 Jun	+78.8 Q1	+12.9	0.80	1.06	-0.2	0.18	1.45
Turkey	-92.4 May	-68.2 May	-8.0	1.69	1.51	-2.0	9.08	9.56
Australia	+28.9 May	-27.7 Q1	-2.4	0.91	1.12	-2.4	4.91	4.98
Hong Kong	-44.5 May	+15.0 Q1	+7.7	7.79	7.77	+2.5	0.27	2.08
India	-112.5 May	-44.3 Q1	-3.3	44.1	46.8	-4.7	8.39	8.50
Indonesia	+24.9 May	+5.6 Q1	+1.1	8,488	9,005	-1.2	9.49	4.09‡
Malaysia	+34.0 May	+28.5 Q1	+9.7	2.94	3.20	-6.9	3.29	2.48‡
Pakistan	-15.3 Jun	-0.8 Q1	-0.9	86.5	85.6	-5.7	13.49	11.03‡
Singapore	+45.9 Jun	+52.5 Q1	+17.6	1.20	1.37	+0.3	0.44	1.82
South Korea	+41.0 Jun	+28.2 Jun	+3.0	1,050	1,184	+1.6	3.59	4.11
Taiwan	+7.2 Jun	+40.3 Q1	+7.5	28.8	32.0	-1.5	1.13	1.46
Thailand	+11.8 Jun	+14.5 May	+2.3	29.7	32.3	-3.1	3.50	3.93
Argentina	+10.1 Jun	+3.2 Q1	+0.3	4.13	3.93	-2.0	12.56	na
Brazil	+25.3 Jun	-49.0 Jun	-2.5	1.57	1.76	-2.2	12.42	6.16‡
Chile	+16.4 Jun	+2.4 Q1	+0.2	457	523	+0.4	5.76	2.43‡
Colombia	-1.2 May	-9.7 Q1	-2.3	1,765	1,846	-3.5	4.28	3.82‡
Mexico	nil Jun	-7.4 Q1	-1.4	11.7	12.7	-2.5	4.08	6.60
Venezuela	+29.3 Q1	+15.7 Q1	+8.2	5.30	na	-5.3	14.50	6.55‡
Egypt	-25.0 Q1	-4.1 Q1	-2.7	5.96	5.70	-10.4	9.59	6.15‡
Israel	-12.6 Jun	+5.2 Q1	+0.4	3.41	3.80	-2.8	3.35	4.46
Saudi Arabia	+149.5 2010§	+75.3 2010§	+25.1	3.75	3.75	+12.8	0.60	na
South Africa	+2.0 May	-9.9 Q1	-4.5	6.68	7.35	-5.3	5.58	8.25

*Merchandise trade only. †*The Economist* poll or Economist Intelligence Unit estimate. ‡Dollar-denominated bonds. §Estimate.

Markets

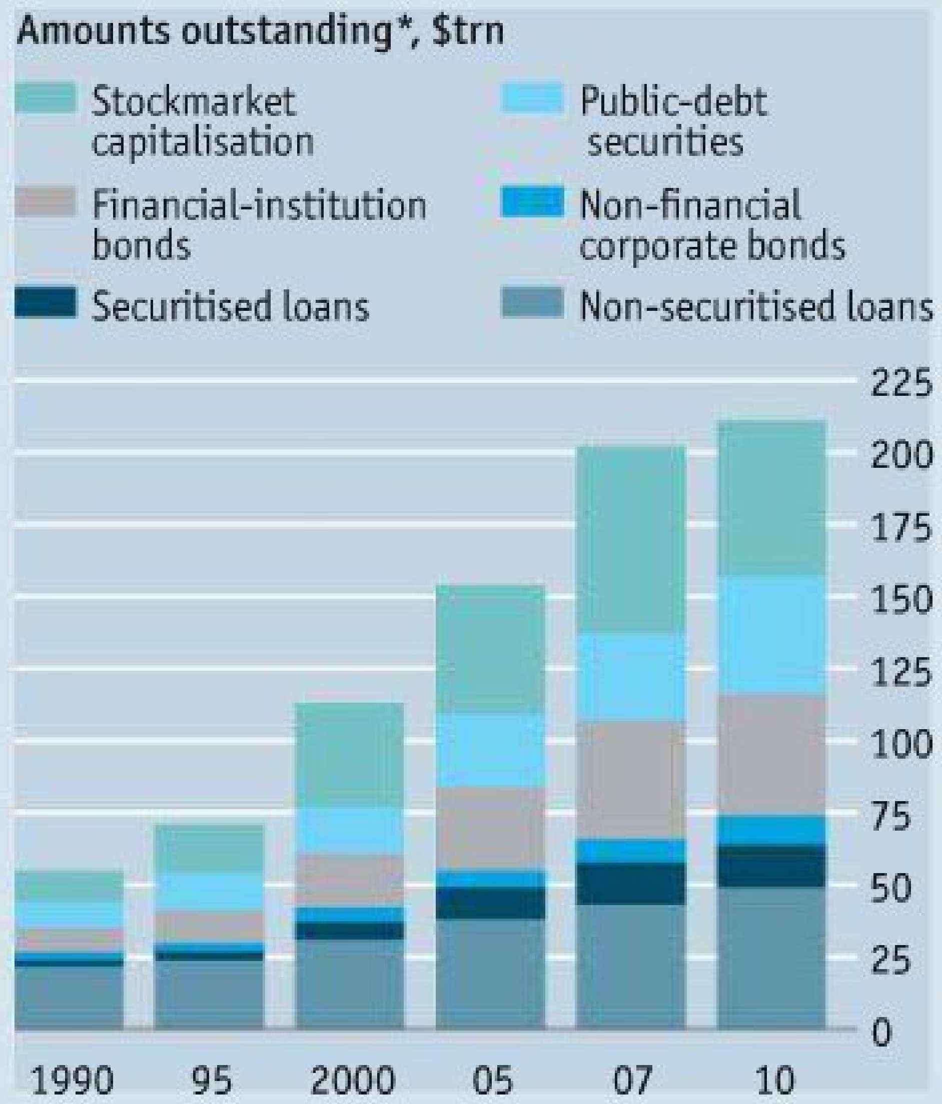
	Index Jul 27th	% change on one week	% change on Dec 31st 2010 in local currency	% change on Dec 31st 2010 in $ terms
United States (DJIA)	12,302.6	-2.1	+6.3	+6.3
United States (S&P 500)	1,304.9	-1.6	+3.8	+3.8
United States (NAScomp)	2,764.8	-1.8	+4.2	+4.2
Japan (Nikkei 225)	10,047.2	+0.4	-1.8	+2.2
Japan (Topix)	859.1	-0.2	-4.4	-0.6
China (SSEA)	2,852.3	-2.5	-3.0	-0.8
China (SSEB, $ terms)	282.8	-1.4	-9.1	-7.1
Britain (FTSE 100)	5,856.6	nil	-0.7	+3.6
Canada (S&P TSX)	13,032.7	-2.3	-3.1	+1.6
Euro area (FTSE Euro 100)	871.7	-0.2	-2.6	+4.4
Euro area (DJ STOXX 50)	2,693.7	-0.4	-3.5	+3.4
Austria (ATX)	2,642.2	+0.4	-9.0	-2.5
Belgium (Bel 20)	2,460.9	+0.2	-4.6	+2.3
France (CAC 40)	3,734.1	-0.5	-1.9	+5.2
Germany (DAX)*	7,252.7	+0.4	+4.9	+12.5
Greece (Athex Comp)	1,226.9	+3.6	-13.2	-7.0
Italy (FTSE/MIB)	18,494.3	-1.5	-8.3	-1.7
Netherlands (AEX)	333.1	+0.7	-6.1	+0.7
Spain (Madrid SE)	974.4	-1.3	-2.9	+4.1
Czech Republic (PX)	1,180.3	-1.1	-3.6	+6.9
Denmark (OMXCB)	396.4	-0.8	-7.2	-0.5
Hungary (BUX)	21,418.7	-0.4	+0.4	+11.8
Norway (OSEAX)	469.1	-0.2	-3.6	+3.9
Poland (WIG)	46,722.1	-0.2	-1.6	+4.1
Russia (RTS, $ terms)	1,976.2	+2.0	+0.7	+11.6
Sweden (OMXS30)	1,070.5	-2.1	-7.4	-1.3
Switzerland (SMI)	5,904.5	-1.0	-8.3	+6.8
Turkey (ISE)	61,181.6	-0.7	-7.3	-15.7
Australia (All Ord.)	4,612.6	-0.1	-4.8	+2.5
Hong Kong (Hang Seng)	22,541.7	+2.4	-2.1	-2.4
India (BSE)	18,432.3	-0.4	-10.1	-8.8
Indonesia (JSX)	4,174.1	+3.0	+12.7	+19.6
Malaysia (KLSE)	1,558.2	-0.3	+2.6	+7.5
Pakistan (KSE)	12,265.5	-1.3	+2.0	+1.0
Singapore (STI)	3,193.5	+2.1	+0.1	+6.6
South Korea (KOSPI)	2,174.3	+0.9	+6.0	+14.6
Taiwan (TWI)	8,817.5	+1.3	-1.7	-0.4
Thailand (SET)	1,130.7	+2.7	+9.5	+11.1
Argentina (MERV)	3,270.6	-1.9	-7.2	-10.8
Brazil (BVSP)	58,288.5	-1.4	-15.9	-10.9
Chile (IGPA)	21,132.3	-3.6	-8.0	-5.9
Colombia (IGBC)	13,945.9	+2.6	-10.0	-2.1
Mexico (IPC)	35,597.6	+0.7	-7.7	-2.3
Venezuela (IBC)	88,926.9	+2.1	+36.1	na
Egypt (Case 30)	5,049.1	-1.8	-28.7	-30.5
Israel (TA-100)	1,137.1	-0.5	-7.3	-3.8
Saudi Arabia (Tadawul)	6,445.2	-0.7	-2.7	-2.7
South Africa (JSE AS)	31,594.0	-1.4	-1.6	-2.6
Europe (FTSEurofirst 300)	1,088.7	-0.2	-2.9	+4.1
World, dev'd (MSCI)	1,319.0	-0.4	+3.0	+3.0
Emerging markets (MSCI)	1,149.0	+1.1	-0.2	-0.2
World, all (MSCI)	339.2	-0.2	+2.6	+2.6
World bonds (Citigroup)	923.5	+1.1	+5.7	+5.7
EMBI+ (JPMorgan)	586.2	+0.6	+6.3	+6.3
Hedge funds (HFRX)	1,196.4	+0.2	-1.7	-1.7
Volatility, US (VIX)	23.0	19.1	17.8	(levels)
CDSs, Eur (iTRAXX)†	115.9	-1.6	+10.8	+18.8
CDSs, N Am (CDX)†	96.2	+1.9	+13.0	+13.0
Carbon trading (EU ETS) €	12.4	-3.0	-12.4	-6.1

*Total return index. †Credit-default-swap spreads, basis points. Sources: National statistics offices, central banks and stock exchanges; Bloomberg; CBOE; CBOT; CMIE; Cotlook; Darmenn & Curl; EEX; FT; HKMA; ICCO; ICO; ISO; Jackson Rice; JPMorgan Chase; NZ Wool Services; Thompson Lloyd & Ewart; Thomson Reuters; Urner Barry; WSJ; WM/Reuters

Global financial assets

The stock of all debt and equity across the globe increased by 5% in 2010 to $212 trillion, surpassing its previous peak in 2007, according to McKinsey Global Institute. Half of the growth came from rising stockmarkets, which account for a quarter of all financial assets. Global debt increased by 3% to $158 trillion, reaching 266% of GDP. On-balance-sheet lending in China added $1.2 trillion to the debt stock, and its share of non-securitised loans now exceeds America's or Japan's. China also led the way in initial public offerings, with 45% of the total. Further fiscal deterioration in the rich world meant that global government debt increased to $41 trillion, equivalent to 69% of GDP among the 79 countries covered in the report.

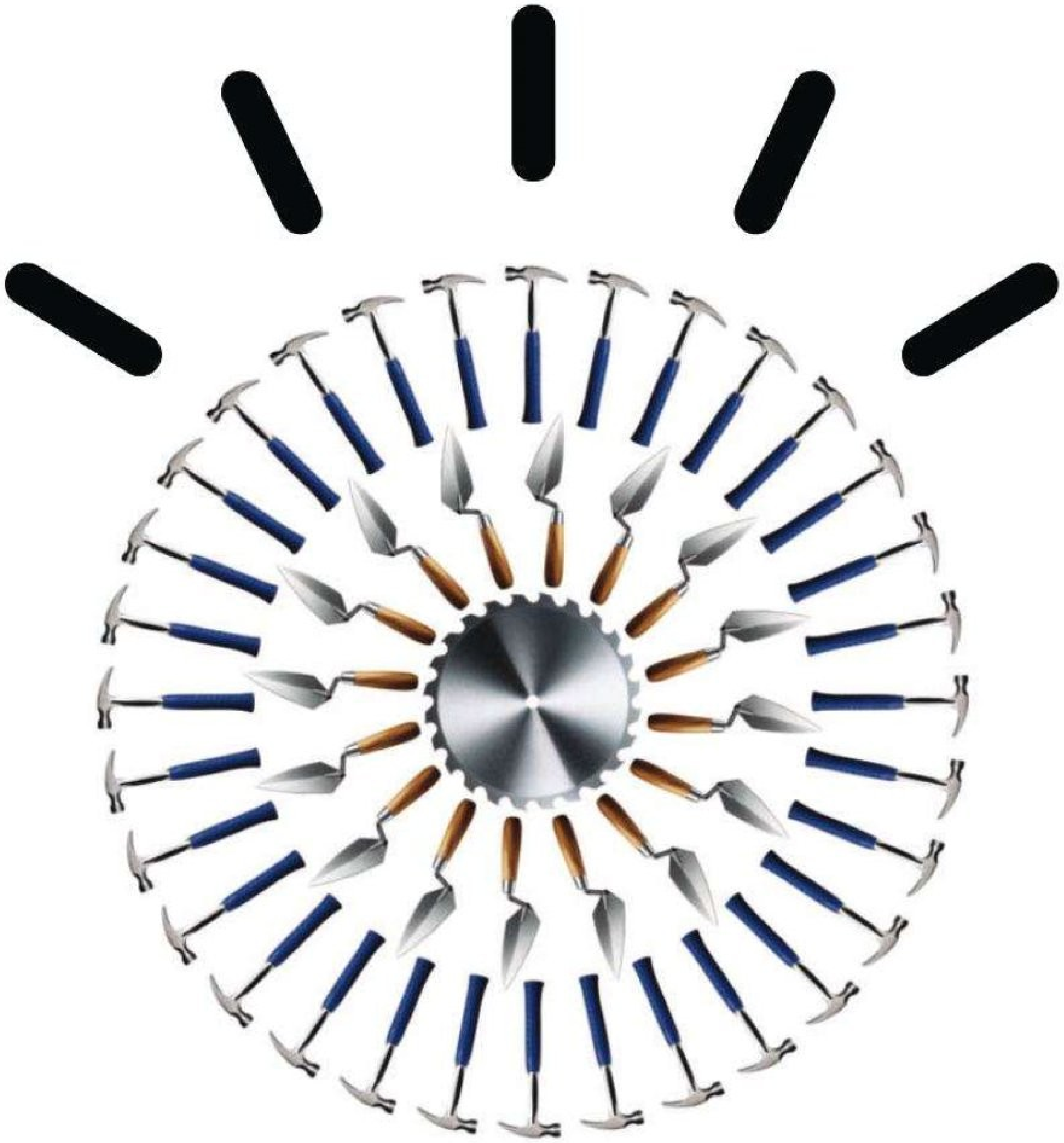
Amounts outstanding*, $trn



Source: McKinsey Global Institute *Among 79 countries

Indicators for more countries, as well as additional series, can be found at

Economist.com/indicators

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I AM A GLOBAL
LATIN AMERICAN
Paloma Herrera. One of the premier ballet dancers of the new century. Dancing is by far the most important part of my life. It's been like this ever since I was a little girl growing up in Argentina. I was invited to join the American Ballet Theatre in New York in 1991 and, in less than four years, I'd already become a principal dancer. I've been named one of 30 artists most likely to change the world of culture during the next 30 years. And my continent is already changing the whole world. My name is Paloma Herrera. I'm a global Latin American. And Itaú is the global Latin American bank.
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