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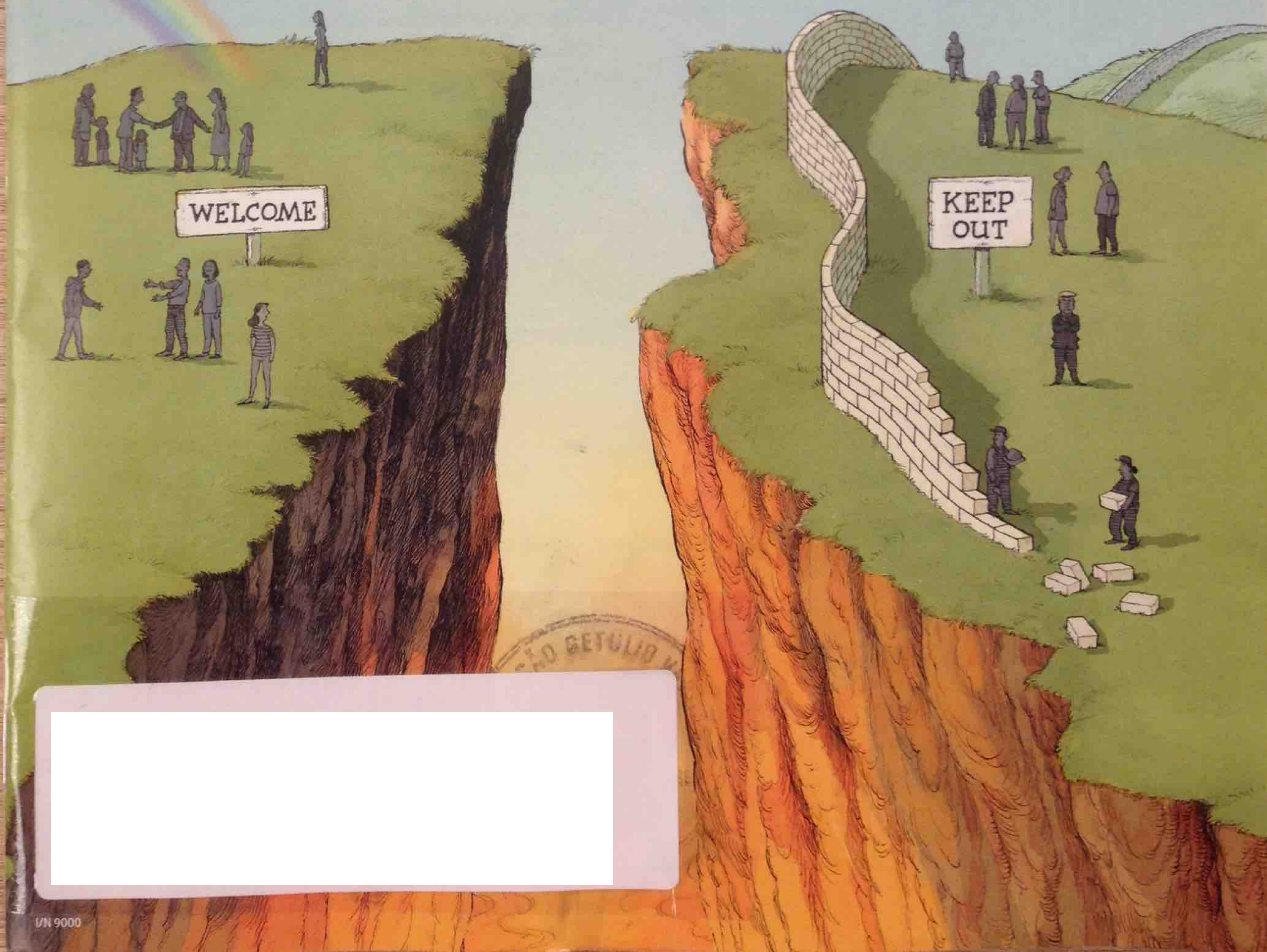
Europe's wave of terror

What Abenomics can teach the world

Portrait of an Olympic city

Yahoo: the click and the dead

The new political divide





Brazil's Olympics

Not yet medal contenders

RIO DE JANEIRO

The Olympic city has been in decline since the 1960s. The games will not change its direction

WHEN Rio de Janeiro won the right almost seven years ago to host the Olympic games in 2016, the *cidade maravilhosa* (wonderful city) seemed to deserve its nickname. Violence, as much part of Rio's image as its beaches, had been falling for more than a decade (see chart, next page). Rio's economy, and that of the surrounding state (also called Rio de Janeiro), was booming, thanks to the world's demand for the oil that lies off its shores. The games would show off a prosperous, self-confident city, its organisers claimed. As important, if Rio could show that it can plan as well as it parties, it would bury the idea that "Brazil is not a serious country," as a Brazilian diplomat put it in the 1960s. "Those who give us this chance will not regret it," promised Luis Inácio Lula da Silva, the president who brought the games to Brazil.

With days to go before the opening ceremony on August 5th, Rio's self-confidence is looking shaky. On July 24th the Australian team stormed out of the Olympic village in the district of Barra da Tijuca, complaining of clogged toilets and loose wires. But those are trivial glitches compared with the other problems plaguing the host city. Guanabara Bay, where Olympic sailors are to compete, remains in parts an open sewer. An outbreak last year of the mosquito-borne Zika virus, which causes birth defects, has scared away some sports-

men. Male golfers, in particular, are shunning Rio as if Ipanema beach were a giant sand trap. Policemen, whose salaries were delayed by a bankrupt state government, have greeted visitors at the international airport with signs that read (in English) "welcome to hell". A new metro line and bus corridor, the games' main legacy to *cariocas*, as the city's residents are called, are behind schedule.

These local difficulties are compounded by national crises. Brazil is suffering from a severe recession. Its president, Dilma Rousseff, is being impeached on charges that she manipulated government accounts; an interim government, led by Michel Temer, is in charge. Rio is one of the centres of national dysfunction. Petrobras, the state-controlled oil firm at the centre of a multibillion dollar scandal that fuelled demands for Ms Rousseff's impeachment, has its headquarters there. The city's policemen are no exception to the violent Brazilian norm: they killed 40 people in May alone. Its reputation as an urban Dorian Gray—gorgeous to behold but infected by corruption—is not entirely undeserved.

Rio may yet confound doubters. It hosts a huge Carnival every year without plunging into chaos. The sporting arenas are ready. Rio's cost overruns for building them and for other Olympic spending are smaller than average for host cities, and most of the money was from private

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sources. The federal government has given the state 2.9 billion reais (\$890m) in emergency aid in part to pay policemen's salaries. It has sent 27,000 soldiers and national guards to fight crime and prevent terrorism (on July 21st police said they had foiled a plot by home-grown jihadists). The bus links are late but working; organisers promise that the metro will be running by July 30th. After quick repairs to their quarters, the displaced Australians returned.

They and the 500,000 sports fans expected to attend the games will leave the city once they are over. Rio's 6.5m inhabitants will remain. Whether the Olympics dazzle or disappoint, *cariocas* will find that they have done little to arrest the city's long decline.

Beauty is not enough

Whether they live on Rio's glitzy seafront, in one of the city's 1,000-odd *favelas* (shantytowns) or in dowdy dormitory districts, the mood is grim. A law student who came three years ago, intending to stay after her studies, now wants to leave: she is fed up with cuts to the budget of her state university and strikes that have forced it to cancel classes. A group of businessmen tried to improve the state's governance in 2008 by paying for a renowned consultant to offer management advice to the administration. A few years later the bureaucrats slipped back into clientelistic habits. *Carioca* friends of José Padilha, a film director who lives in Los Angeles, have been telling him to stay there. According to a poll conducted last September, 56% of *cariocas* want to leave the city, up from 27% in 2011.

No tourist will fail to notice the jarring juxtapositions of wealth and poverty, a consequence of Rio's exuberant topography as well as its poor governance. Residents of lush Gávea can expect to live past ▶▶

80, 13 years longer than their neighbours in Rocinha, a large favela next door. Crime rates vary wildly. Last year 133 people died violently in Santa Cruz, a deceptively tranquil district at Rio's western tip, where broccoli and books are sold side by side in a shabby central market. In the three beachfront *bairros* of Zona Sul (the southern zone), whose joint population is roughly equal to Santa Cruz's, just 11 did. A priority in middle-class Copacabana, where a quarter of residents are 65 or older, is fixing uneven pavements, says Fernando Gabeira, a writer who was an unsuccessful candidate for mayor in 2008. In Complexo do Alemão, a large northern favela with a young population, it is better schools and jobs. Everyone worries about crime.

The vast majority of *cariocas* live neither along beachfront avenues nor the alleyways of ramshackle favelas. Zona Sul is home to 11% of the city's inhabitants. Favelas account for 3.7% of the city's area and house 22% of its people. Most live in charmless low-rise apartment blocks that arch across Rio's north and west. And then there is Barra da Tijuca, a fast-growing mini-Miami of car dealerships, marshland and identikit condominiums with names like "Sunflower" and "Villaggio Felicità".

Tourism and other services provide most jobs: a quarter of young people work in bars and restaurants. Many have long commutes. Emanuel, a jovial 60-year-old with a missing front tooth, grumbles that it takes him an hour-and-a-half to commute to Leblon, where he sells biscuits and iced tea along the beachfront, from Jacarepaguá, 24km (14 miles) to the west. Some 2m workers stream into Rio daily from its underdeveloped periphery.

The roots of Rio's discontent go back at least to 1960, when Brazil's federal government moved to Brasília, the purpose-built capital. Rio had lost industrial leadership to São Paulo, which had more space and more immigrants, 40 years before. The loss of its capital-city status was a blow from which it has yet to recover. The idea of moving the seat of government to spur de-



Gently down the sewer

velopment away from the coastline is an old one, set forth in an early constitution enacted in 1891. Few Brazilians took it seriously until Juscelino Kubitschek, elected president in 1956, pushed through a law to make it happen. Even after civil servants began moving to the modernist capital, *cariocas* thought important ministries would stay put. Who, they wondered, would swap the *cidade maravilhosa* for a barren savannah in the middle of nowhere? Rio thrived briefly as a city-state, called Guanabara, but was soon merged into the poorer surrounding state of Rio de Janeiro.

By the 1980s nearly all federal agencies had disappeared. The financial sector followed. Brazil's central bank stopped using the city as the main centre for trading government securities. Bankers were frightened away by a spate of kidnappings for ransom in the 1980s. Rio's stock exchange, founded 180 years earlier, was taken over piecemeal by São Paulo's exchanges in the 2000s. Brazil's state development bank still has its headquarters in Rio and a few asset managers moved in. But the city's importance for Brazil's economy has progressive-

ly diminished.

Apart from the annual bacchanal of Carnival, Rio has found no vocation to replace banking and bureaucracy. The discovery of huge underwater oil deposits in 2007 seemed to offer the city (and the state) an alternative source of jobs and growth. But the industry has been devastated by a combination of low oil prices and the Petrobras scandal. The oil boom reversed the relative decline of Rio's economy, but perhaps only briefly. The city is home to a clutch of creative enterprises and universities: Rede Globo, Brazil's biggest media group, and research units of Microsoft and GE. But these are no more than a kernel for a more dynamic economy.

Culture has not replaced commerce. Bossa nova was conceived on Rio's beaches in the 1950s, but since then the city has become stifling, says Caetano Veloso, one of Brazil's most famous musicians, who lives in the city. *Tropicalismo*, a blend of Brazilian and pop music that Mr Veloso helped pioneer, was born in São Paulo. "Rio was too blasé," he says. Blessed with the natural riches of oil and scenery, it has not striven to create its own wealth. *Cariocas* do not plant, they "just pluck", observes Ruy Castro, a chronicler of the city.

Olympic hopefuls

Politics have done little to stir them from complacency. Rio's status as the national capital stunted its institutions. Presidents appointed the mayor; the senate could overturn his decisions. Mayors offered jobs to senators' sons, encouraging habits of patronage that Rio has yet to break. The merger between Rio de Janeiro and Guanabara, imposed by military dictators, brought the state's clientelistic culture to the city. The state especially has been profligate, while spending too little on the services and infrastructure needed to spur investment and improve welfare.

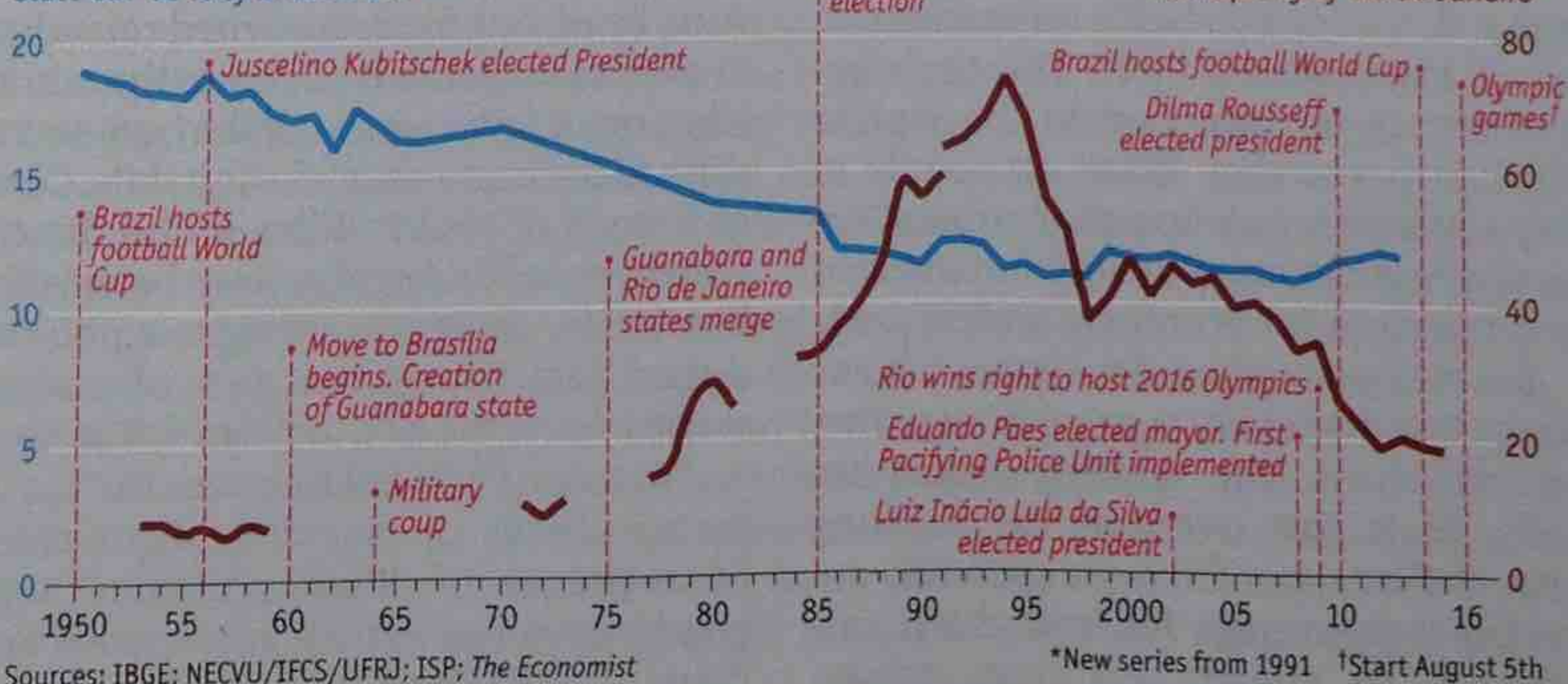
In June the acting governor of Rio state, Francisco Dornelles, declared that its finances constituted a "public calamity", a formality that allowed the federal government to send aid during the Olympics. The immediate cause was a drop in taxes and royalties from oil, but years of fiscal mismanagement had paved the way.

Cariocas hoped that the games might be a catalyst for better public services and more jobs. The city's government has partly met those expectations. The mayor, Eduardo Paes, nearly trebled spending on health and education. He hired 43,000 teachers and 21,000 health workers, 80% of whom work in the city's impoverished north and west. Now 4.4m people have access to family doctors, up from 329,000 when Mr Paes took office in 2009. The proportion of *cariocas* served by mass transit rose from 18% to 63% during his tenure. City hall should be making these improvements anyway, the mayor admits, but the

Sadder, but safer

Rio de Janeiro

State GDP as % of Brazil's GDP



Sources: IBGE; NECVU/IFCS/UFRJ; ISP; The Economist

→ Olympics provided a "pretext" to push them through quickly. Games-related works boosted the local economy while Brazil was in recession. Cariocas' incomes rose even as they fell in Brazil as a whole, according to a study by the Fundação Getúlio Vargas, a university.

The state government meanwhile tried to curb violent crime. Starting in 2008 it sent heavily armed troops into 38 favelas to evict drug gangs, then set up "pacification police units" (UPPs) to keep the peace. It worked. Violent crime in Rio halved between 2009 and 2012.

But police commanders created too

many UPPs too quickly, overstretching the force. In training they continued to emphasise the skills required to hold territory, neglecting those needed to forge strong relations with the community. "A year of this and you could turn a Benedictine monk into a warrior," laments Íbis Pereira, a former police commander now at Viva Rio, an NGO. In Complexo do Alemão, shootouts between gangsters and trigger-happy police have become frequent, says Luisa Cabral, a social worker in the neighbourhood. After its decline, the number of violent deaths has crept back up across the city this year. Ms Cabral now thinks the

UPPs should leave the favelas, letting the drug traffickers return. After Mr Paes accused the state of doing a "horrible" job on security in an interview on CNN, 20,000 Americans returned their Olympic tickets.

A successful games could lift Rio's downbeat mood. That will not be enough to make the city an economic dynamo. The spectacular scenery makes people want to come, but it will take more enlightened crime-fighting, better fiscal management and improved public services to make them want to stay. Until its leaders provide that, Rio will not become a great city, merely a great setting for one. ■

Bello | Cash in bin liners, please

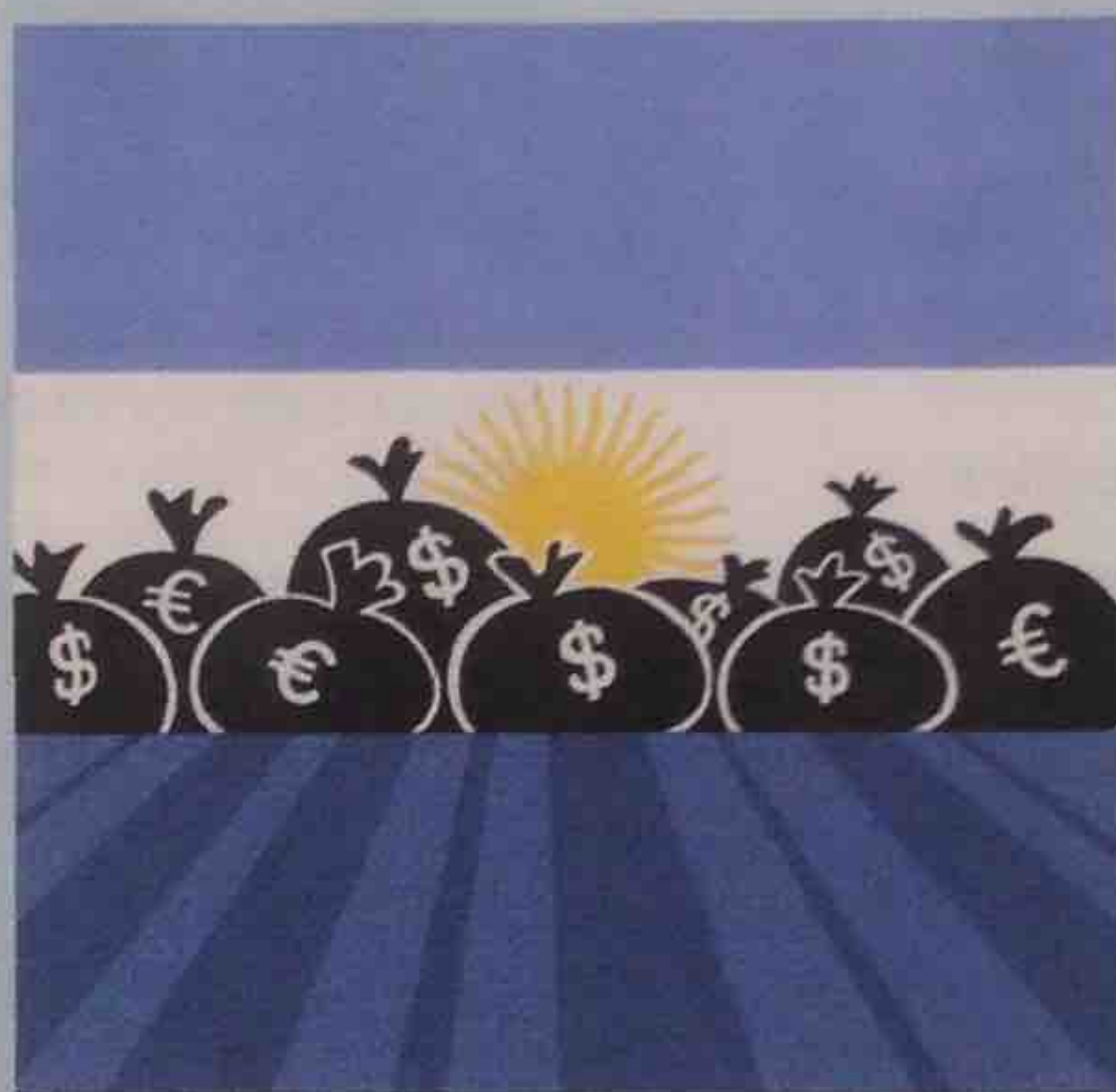
The Argentine way of corruption, and of fighting it

IN THE early hours of June 14th a suspicious neighbour spotted a man armed with an automatic rifle throwing bulging black bin liners over a convent wall in General Rodríguez, a suburb on the western fringes of Buenos Aires. The man then leapt over the convent's big wooden gateway. Fearing for the safety of the three elderly nuns who lived there, the neighbour called the police. Two patrol cars turned up. The officers say they refused the man's attempt to bribe them.

The bin liners contained 90 kilos (200 pounds) of banknotes: \$9m, plus €153,000 (\$168,000) and smaller amounts in other currencies. The man was José López, who for 12 years was secretary of public works in the governments of Cristina Fernández de Kirchner and her late husband and predecessor, Néstor Kirchner. The antics of Mr López, who has been charged with illicit enrichment, have provided a defining retrospective image of the Kirchner era in Argentina.

As president Ms Fernández adopted a regal manner, never admitting mistakes and browbeating anyone, from businessmen to media owners and judges, who got in her way. After the narrow victory in November's presidential election of Mauricio Macri, a centre-right opponent of her political heir, Daniel Scioli, there was talk that she would remain the dominant power in Argentina. Yet out of office, Ms Fernández has quickly been exposed as a paper tigress. Much of her Peronist movement has deserted her. And now she faces a real threat of jail.

Three judges are investigating her or her associates. One case involves her government's sale of dollar futures last year to prop up the peso before the election, which cost the central bank \$4 billion when Mr Macri's inevitable devaluation followed. More personally damaging are



two judicial probes into two hotel companies she and her family own in Santa Cruz, a province in Patagonia. Scores of rooms were block-booked (but few occupied) for months on end by Aerolíneas Argentinas, an airline which she renationalised, and by companies controlled by Lázaro Báez, a former bank clerk, and by another close business associate of the Kirchners. Mr Báez, who is in jail on suspicion of money-laundering, received the lion's share of public-works contracts from Néstor Kirchner when he was governor of Santa Cruz and, later, many federal contracts.

One judge has blocked Ms Fernández's bank accounts and credit cards; the other has found that Florencia Kirchner, her 26-year-old daughter, had \$4.7m in several safe-deposit boxes and \$1m in a bank account. She says this is her inheritance from her father. The Kirchner family's declared wealth increased 17-fold during their dozen years in power to 119m pesos (\$8m). They say that came from hotels and the revaluation of land, which they bought cheaply from local authorities.

Ms Fernández's response to being investigated has been to embrace victim-

hood, blaming "judicial persecution". Take on powerful interests, such as farmers and multinational companies, and "it's clear that one of the risks is prison," she told foreign reporters, whom she summoned to her retreat in El Calafate in Santa Cruz on July 23rd.

Whatever happens to the former president, several things stand out from these investigations. The first is how ham-fisted the alleged corruption seems. Mr López's preference for crisp notes was shared by others; in 2013 two sidekicks of Mr Báez told an interviewer they had sent €55m in cash to accounts in tax havens (they later withdrew this claim). Another is the brazen sense of impunity. Much of the suspected wrongdoing was known about for years, thanks to investigative journalists. Judges did nothing about it.

"In Argentina while you are in power you are untouchable," says Roberto Saba, a law professor at the University of Palermo in Buenos Aires. "The day you leave" official watchdogs and judges will investigate. That knowledge may have been behind the Kirchners' quest for permanent power, by alternating in office (a scheme thwarted by Néstor's death in 2010), by using the state to build a large clientelistic political base and by subordinating economic management to popularity.

Although the scale may have been greater under the Kirchners, padding public-works contracts has been going on for decades in Argentina. As in Brazil and Mexico, it has been a means to finance politics while, in some cases, getting rich. The Argentine clean-up is not comparable to that in Brazil, where judges are pursuing those who are now in power. Will that change? Mr Macri has praised the judiciary for "starting to work in an independent way" and said he hopes this will continue. That will require deeper changes.