

# The Economist

American exceptionalism reinvented

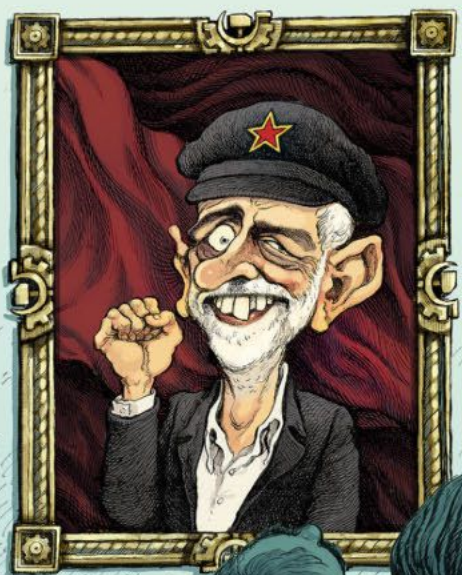
Why Congo is Africa's tinderbox

Bitcoin, a bubble with benefits

How to print a skyscraper

JUNE 3RD-9TH 2017

# Britain's missing middle





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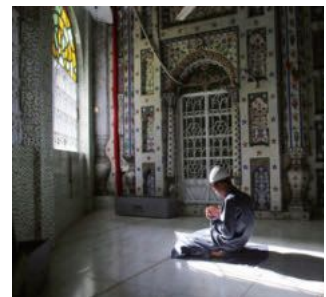
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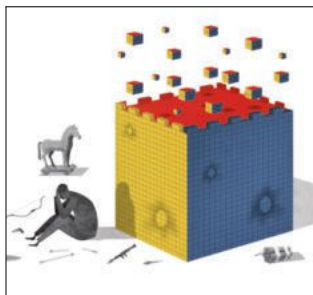
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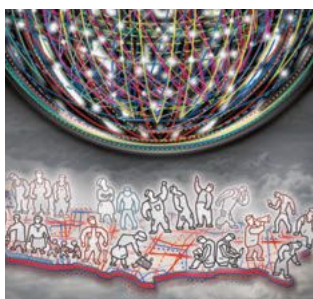


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## Politics



A powerful bomb hidden in a lorry exploded near **Kabul's** diplomatic district during the busy rush hour. At least 90 people were killed, but with more than 400 others injured the death toll was expected to rise. It was one of the deadliest attacks in the Afghan capital in recent years, raising questions about how the perpetrators could have infiltrated the city's fortified centre.

America carried out its first successful live-fire test of a system designed to stop intercontinental ballistic missiles. An interceptor launched from a base in California destroyed an imitation ICBM over the Pacific. The test had been planned for a long time, but it came shortly after **North Korea** conducted its ninth missile test of the year so far.

Armed forces in the **Philippines** struggled to regain control of the city of Marawi from separatist fighters who have aligned themselves with Islamic State. President Rodrigo Duterte has declared martial law in the surrounding region. But a police chief whom Mr Duterte said had been decapitated turned up safe and sound, head still attached.

More than 200 people died in **Sri Lanka** in the worst flooding the country has seen in over a decade.

**Not a merry month for May**

The Conservatives remained on course for victory in the closing week of campaigning before **Britain's** general election on June 8th. The polls varied greatly in the range of

leads they gave the Tories over the opposition Labour Party, keeping pundits guessing about how many extra seats Theresa May will win (if any).

The investigation into the **Manchester bombing** continued. Eleven people remained in custody, though the police were still unsure if the bomber was part of a wider jihadist network or acted alone. The threat of a terrorist attack in Britain was downgraded from "critical", the highest category, to "severe".

At a summit in Brussels, the EU and China made plans to accelerate their moves away from fossil fuels in order to fulfil the **Paris accord** on climate change. The initiative came as Donald Trump pondered whether to pull America out of the deal.

After **Moldova's** government kicked out five **Russian** diplomats, Russia expelled five Moldovan ones. Russia also ejected two **Estonian** diplomats in retaliation for the Estonian expulsion of two Russian ones. The reasons for the tit-for-tat manoeuvres were unclear.

**Cheers to Scheer**

**Canada's** Conservative Party, the official opposition to the Liberal government of Justin Trudeau, elected a new leader. He is Andrew Scheer, a politician from the western province of Saskatchewan who shares the small-government philosophy of Stephen Harper, a former prime minister.

**Manuel Noriega**, a strongman who ruled Panama in the 1980s and then spent 17 years in an American prison for drug-trafficking, has died. Mr Noriega acted for America in sending weapons and money to Contra rebels fighting the pro-Soviet Sandinista government in Nicaragua. But America invaded Panama in 1989 to oust him when he became a threat to US citizens there. He took refuge in the papal embassy but was driven out by rock music blared outside the embassy.

**Mexico** selected Ricardo Salgado Perrilliat to be the first administrative head of the "national anti-corruption system", which co-ordinates a network of institutions designed to prevent and prosecute graft. Mr Salgado led the investigative arm of the federal telecommunications institute, a regulatory agency. Some critics say he has had too little experience working with civil-society organisations.

**A family man**

**Jared Kushner**, Donald Trump's son-in-law, reportedly joined the list of names the FBI is investigating for alleged links to Russian officials. Mr Kushner is a senior adviser to Mr Trump. It was also reported that Mr Kushner allegedly spoke in December to the Russian ambassador about establishing a covert communications channel between the White House and the Kremlin, a serious claim as the intention seemingly was to keep the discussion secret from the American government.

Michael Dubke resigned as the **White House's** communications director, less than three months into the job. Mr Dubke submitted his resignation to Mr Trump on May 18th, but waited until the president returned from his first foreign trip to make it public. He said he was leaving for personal reasons, but his departure increased the sense of a presidency adrift.

A special election for **Montana's** sole seat in the House of Representatives was won by Greg Gianforte. He got 50%, the smallest share of the vote for a Republican since the party took the seat in 1996. It was not

clear whether Mr Gianforte's "bodyslaming" of a journalist on the eve of the election hindered him, or helped.

**Big brother is watching**

The government of **Rwanda** said that candidates running in August's presidential election must submit all statements to the electoral commission for approval 48 hours before they publish them on social media. Opposition figures say the new rule is aimed at blocking any criticism of Paul Kagame, the president, who has run the country since the end of a genocide in 1994.

Thirteen soldiers in **South Sudan** went on trial for the rape of foreign aid workers and the murder of a South Sudanese man in 2016. The trial comes amid allegations that both sides are committing war crimes in a civil war that has ripped apart a country formed just six years ago.

**Egypt** launched air strikes against what it said were terrorist training camps in **Libya**, after Islamists killed 29 Coptic Christians who were travelling to a monastery south of Cairo.

Two car bombs in the heart of **Baghdad** killed 26 people. Islamic State is believed to have been responsible.

A court in **Bahrain** ordered the dissolution of the country's main secular opposition group, as a crackdown on dissent continues in the repressive Gulf sheikhdom.

**Lebanon** banned the new "Wonder Woman" film, because the main character, a 5,000-year-old Amazon demigoddess, is played by an Israeli actress, Gal Gadot. ▶▶



## Business

**British Airways** struggled to resume normal service after computer problems grounded its flights worldwide. It said the computer meltdown was caused by a power surge at a data centre that houses the servers, a similar glitch that has beset other big airlines and highlighting the particular susceptibility of the aviation industry to IT malfunctions. Around 75,000 passengers were stranded amid the chaos, an expensive setback to BA's reputation.

**Must be doing something right**  
A strategy of slashing fares and boosting capacity bore fruit for **Ryanair**, which reported a healthy €1.3bn (\$1.4bn) profit for the 12 months ending March 31st. Europe's largest low-cost carrier flew 120m passengers in its financial year, a record for the airline.

**Royal Bank of Scotland** reached a settlement in principle with a group of shareholders that is suing the bank. The investors claim that RBS misinformed them about the state of its finances during a rights issue in the run-up to the financial crisis. The settlement means that RBS will avoid what had promised to be an embarrassing public trial.

In a big step along the path to recovery for Ireland's banking industry, the Irish government launched an IPO of **Allied Irish Banks**, one of the lenders it rescued during the financial crisis. Ireland's costly banking bail-out caused it eventually to seek its own rescue by the EU and IMF, which it exited in 2013. The state is listing 25% of AIB's shares on the Dublin and London stock exchanges.

**Uber** sacked Anthony Levandowski, one of the most senior engineers in Silicon Valley working on autonomous cars, because he won't co-operate in a trial in which the ride-hailing firm is accused of appropriating trade secrets. Mr Levandowski used to develop self-driving technology at

Alphabet, Google's parent company, until his own startup was acquired by Uber last year. Alphabet claims he downloaded thousands of documents before leaving; Uber insists it did not obtain any confidential material when he joined them. Mr Levandowski has invoked his rights under the Fifth Amendment and refuses to testify. In another blow to the firm, Uber's head of finance decided to quit this week to join another startup.

**Oil prices** fell, despite OPEC and Russia agreeing to extend their pact on cutting oil production by nine months, to the end of March next year. The price of oil has risen since the original agreement to curb output was signed last November, but the scale of oil's oversupply has kept markets subdued. This week Brent crude fell back to \$50 per barrel.

Shareholders in **Exxon Mobil** passed a motion calling for the oil giant to assess the impact of climate-change policies and technological advances on its energy reserves. The company is not bound by the vote to carry out the measure, but the level of support for the climate "stress tests" was much higher than a similar motion that failed last year.

A court in the Netherlands refused a request by some investors in **AkzoNobel** to force the Dutch maker of paints to convene a shareholders meeting that would discuss a \$29bn takeover approach from **PPG**, an American rival. The dissident investors, led by **Elliott**, an activist hedge fund, wanted the meeting to focus on sacking Akzo's chairman, which the court ruled was a matter for the board, and not the shareholders, under Dutch law. PPG ended its bid.

### King of the retailing jungle



**Amazon's** share price rose above \$1,000 for the first time, joining just a handful of American companies to have breached that mark. The internet giant's share price is up by a third since the start of the year. It has been buoyed by a rising tide in technology stocks, as investors switch to higher growth alternatives and

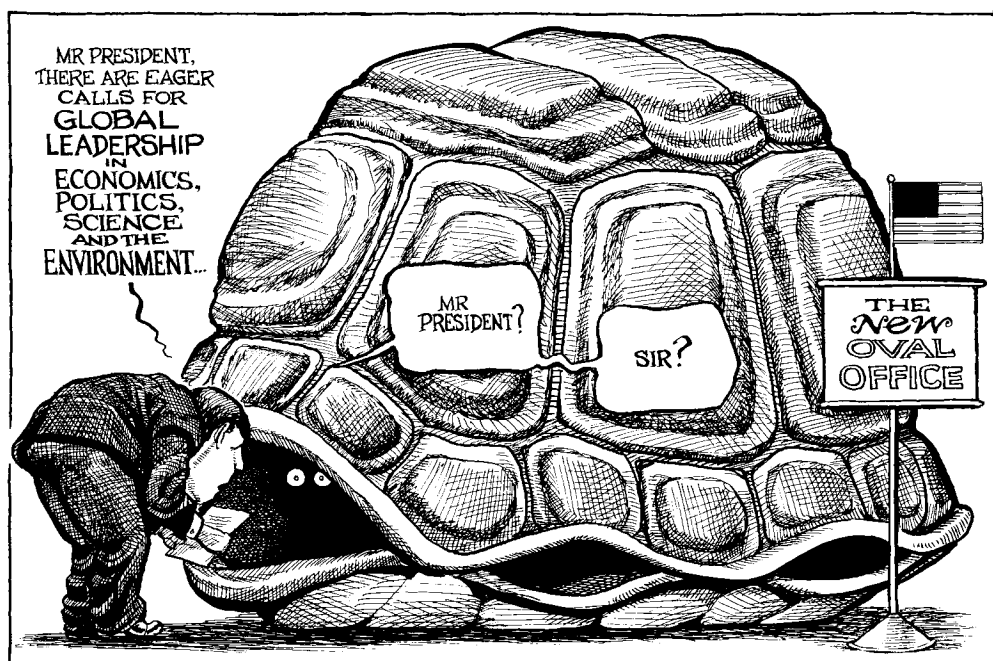
away from the banking and industrial companies that they thought would profit from the Trump administration lighting a bonfire of red tape. This now seems more likely to be a damp squib.

The EU's competition watchdog approved a deal whereby the nuclear-reactor business of **Areva** will be sold to **Électricité de France**. Both companies are owned by the French state, which will engineer a rescue for loss-making Areva once the deal is complete. Three-quarters of electricity in France is generated by nuclear power.

### The nuclear syndrome

The owner of the **Three Mile Island** nuclear-power plant in Pennsylvania said it would shut the facility in 2019, unless the state government steps in to subsidise its delivery of clean energy. In 1979 Three Mile Island was the site of America's worst nuclear accident to date, when a valve failure damaged the core in one of its reactors, which remains shut. Today the plant faces ruin because of the abundance of cheap natural shale gas, which has made nuclear power less competitive.

Other economic data and news can be found on pages 76-77



# Britain's missing middle

The leaders of both main parties have turned away from a decades-old vision of an open, liberal country



BRITAIN last voted in a general election just two years ago. Back then, the country was a bridge between the European Union and Barack Obama's America. Its economy was on the mend after years of squeezed living standards. Scottish independence had just been ruled out. Labour's most controversial policy was a plan to cap energy prices, denounced as "Marxist" by the Tories, who went on to win.

Today Britain finds itself in a different era. The vote for Brexit has committed it to leaving its biggest trading partner and snuggling closer to others, including a less-welcoming America. The economy has held up better than many feared but growth is slowing; investors are jittery. The union is fraying again. Real wages have stagnated. Public services are stretched.

Political parties have responded in radically different ways. All have replaced their leaders. Jeremy Corbyn has taken Labour to the loony left, proposing the heaviest tax burden since the second world war. The Conservative prime minister, Theresa May, promises a hard exit from the EU. The Liberal Democrats would go for a soft version, or even reverse it.

The party leaders could hardly differ more in their style and beliefs. And yet a thread links the two possible winners of this election. Though they sit on different points of the left-right spectrum, the Tory and Labour leaders are united in their desire to pull up Britain's drawbridge to the world. Both Mrs May and Mr Corbyn would each in their own way step back from the ideas that have made Britain prosper—its free markets, open borders and internationalism. They would junk a political settlement that has lasted for nearly 40 years and influenced a generation of Western governments (see page 15). Whether left or right prevails, the loser will be liberalism.

## Labour, the conservative party

Mr Corbyn poses as a radical but is the most conservative—and the most dangerous—candidate of the lot. He wants to take the railways, water and postal service back into public ownership. He would resurrect collective pay-bargaining and raise the minimum wage to the point where 60% of young workers' salaries are set by the state. His tax plan takes aim at high earners and firms, who would behave in ways his costings ignore. University would be free, as it was until the 1990s—a vast subsidy for the middle class and a blow to the poor, more of whom have enrolled since tuition fees helped create more places.

On Brexit, Labour sounds softer than the Tories but its policy comes to much the same. It would end free movement of people, precluding membership of the single market. Mr Corbyn is more relaxed than Mrs May about migration, which might open the door to a slightly better deal on trade. But his lifelong opposition to globalisation hardly makes him the man to negotiate one.

No economic liberal, Mr Corbyn does not much value personal freedom either. An avowed human-rights campaigner, he has embraced left-wing tyrants such as Hugo Chávez and Fidel Castro (a "champion of social justice"), who locked up opponents and muzzled the press. Mr Corbyn has spent a career claiming to stand for the oppressed while backing oppressors.

## Candidate of nowhere

The Tories would be much better than Labour. But they, too, would raise the drawbridge. Mrs May plans to leave the EU's single market, once cherished by Tories as one of Margaret Thatcher's greatest achievements. Worse, she insists on cutting net migration by nearly two-thirds. Brexit will make this grimly easier, since Britain will offer fewer and worse jobs. Even then, she will not meet the target without starving the economy of the skills it needs to prosper—something she ought to know, having missed it for six years as home secretary.

Her illiberal instincts go beyond her suspicion of globally footloose "citizens of nowhere". Like Mr Corbyn she proposes new rights for workers, without considering that it would make firms less likely to hire them in the first place. She wants to make it harder for foreign companies to buy British ones. Her woolly "industrial strategy" seems to involve picking favoured industries and firms, as when unspecified "support and assurances" were given to Nissan after the carmaker threatened to leave Britain after Brexit. She has even adopted Labour's "Marxist" policy of energy-price caps.

And though she is in a different class from Mr Corbyn, there are also doubts about her leadership. She wanted the election campaign to establish her as a "strong and stable" prime minister. It has done the opposite. In January we called her "Theresa Maybe" for her indecisiveness. Now the centrepiece of her manifesto, a plan to make the elderly pay more for social care, was reversed after just four days. Much else is vague: she leaves the door open to tax increases, without setting out a policy. She relies on a closed circle of advisers with an insular outlook and little sense of how the economy works. It does not bode well for the Brexit talks. A campaign meant to cement her authority feels like one in which she has been found out.

It is a dismal choice for this newspaper, which sees little evidence of our classical, free-market liberal values in either of the main parties. We believe that, as it leaves the EU, Britain should remain open: to business, investment and people. Brexit will do least damage if seen as an embrace of the wider world, not simply a rejection of Europe. We want a government that maintains the closest ties with the EU while honouring the referendum, and that uses Brexit to reassert the freedom of Britain's markets and society—the better to keep dynamic firms and talented people around. In their different ways, both Labour and the Tories fail this test.

No party passes with flying colours. But the closest is the Liberal Democrats. Brexit is the main task of the next government and they want membership of the single market and free move- ▶▶

## OUR COVERAGE OF THE ELECTION

The result of Britain's vote on June 8th will come too late for next week's issue. In Britain we will delay printing so as to produce a special edition. Our weekly app will be updated on Friday morning with analysis of the result. For continuous coverage, visit [economist.com](http://economist.com)



ment. (Their second referendum would probably come to nothing, as most voters are reconciled to leaving the EU.) They are more honest than the Tories about the need to raise taxes for public services; and more sensible than Labour, spreading the burden rather than leaning only on high-earners. Unlike Labour they would reverse the Tories' most regressive welfare cuts. They are on the right side of other issues: for devolution of power from London, reform of the voting system and the House of Lords, and regulation of markets for drugs and sex.

Like the other parties, they want to fiddle with markets by, say, giving tenants first dibs on buying their property. Their environmentalism is sometimes knee-jerk, as in their opposition to new runways and fracking. The true liberals in the party jostle with left-wingers, including Tim Farron, who is leading

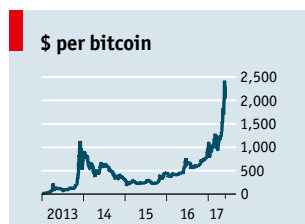
them to a dreadful result. But against a backward-looking Labour Party and an inward-looking Tory party about to compound its historic mistake over Brexit, they get our vote.

Backing the open, free-market centre is not just directed towards this election. We know that this year the Lib Dems are going nowhere. But the whirlwind unleashed by Brexit is unpredictable. Labour has been on the brink of breaking up since Mr Corbyn took over. If Mrs May polls badly or messes up Brexit, the Tories may split, too. Many moderate Conservative and Labour MPs could join a new liberal centre party—just as parts of the left and right have recently in France. So consider a vote for the Lib Dems as a down-payment for the future. Our hope is that they become one element of a party of the radical centre, essential for a thriving, prosperous Britain. ■

## The bitcoin bubble

# Virtual vertigo

Are bitcoins like tulips, gold or the dollar—or something else entirely?



MARKETS frequently froth and bubble, but the boom in bitcoin, a digital currency, is extraordinary. Although its price is down from an all-time high of \$2,420 on May 24th, it has more than doubled in just two months. Anyone clever or lucky

enough to have bought \$1,000 of bitcoins in July 2010, when the price stood at \$0.05, would now have a stash worth \$46m. Other cryptocurrencies have soared, too, giving them a collective market value of about \$80bn.

Ascents this steep are rarely sustainable. More often than not, the word “bitcoin” now comes attached to the word “bubble”. But the question of what has driven up the price is important. Is this just a speculative mania, or is it evidence that bitcoin is taking on a more substantial role as a medium of exchange or a store of value? Put another way, is bitcoin like a tulip, gold or the dollar—or is it something else entirely?

Start with the case that this is nothing more than a virtual tulipmania, a speculative hysteria in which a rising price encourages ever more buyers, no matter what the asset is. Bitcoin's recent trajectory certainly seems manic. Retail investors have piled in. Many already familiar with bitcoin investing have moved on to bet on alternatives, such as Ethereum, and “initial coin offerings” (ICOs), in which firms issue digital tokens of their own.

It looks like a scammers' paradise, yet unlike tulips, bitcoins have real uses. They now buy everything from pizzas to computers. So if a tulip isn't the right analogue, how about gold? Bitcoins certainly seem to bear more than a passing resemblance. Goldbugs mistrust governments and their money-printing tendencies; so too do bitcoiners: no central bank is in charge of bitcoin. But a store of value should not bounce around as much as this one does: bitcoin swung from more than \$1,100 in late 2013 to less than \$200 a year later, before climbing, in fits and starts, to its current dizzying heights.

Rather than being just a form of digital gold, bitcoin aspires to loftier goals: to be a means of exchange like the euro, yen or the dollar. Regulators are starting to take bitcoin seriously.

Some of the price surge can be explained by Japan's decision to treat bitcoin more like any other currency. Yet the bitcoin system is operating at its limits and its developers cannot agree on how to increase the number of exchanges the system is able to handle. As a result, a transaction now costs nearly \$4 in fees on average and takes many tedious hours to confirm. For convenience, a dollar bill beats it hands down.

## Not so dotty

If bitcoin and the other cryptocurrencies are unlike anything else, what are they? The best comparison may be with the internet and the dotcom boom it created in the late 1990s. Like the internet, cryptocurrencies both embody innovation and give rise to more of it. They are experiments in themselves of how to maintain a public database (the “blockchain”) without anybody in particular, a bank, say, being in charge. Georgia, for instance, is using the technology to secure government records (see page 57). And blockchains are platforms for further experiments. Take Ethereum, for example. It allows all kinds of projects, from video games to online markets, to raise funds by issuing tokens—essentially private money that can be traded and used within these projects. Although such ICOs need to be handled with care, they could also generate intriguing inventions. Fans hope that they will give rise to decentralised upstarts taking aim at today's oligopolistic technology giants, such as Amazon and Facebook.

This may seem like a dangerous way to generate innovation. Investors could lose their shirts; a crash in one asset class could spread to others, creating wobbles in the financial system. But in the case of cryptocurrencies such risks seem limited. It is hard to argue that those buying cryptocurrencies are unaware of the risks. And since they are still a fairly self-contained system, contagion is unlikely.

If there is such a thing as a healthy bubble, this is it. To be sure, regulators should watch out that cryptocurrencies do not become even more of a conduit for criminal activity, such as drug dealing. But they should think twice before coming down hard, particularly on ICOs. Being too spiky would not just prick a bubble, but also prevent a lot of the useful innovation that is likely to come about at the same time. ■

## Donald Trump and the world

## Turning ugly

To fail, the world order America created does not need to be actively dismantled. Disdain and neglect will do



ONE reason Donald Trump invites acres of commentary is that he keeps the world guessing what he means and where his foreign policy is heading. Touring Europe, he seemed to cast doubt on his support for NATO—except that his staff went on to insist that he was in fact reaffirming America’s commitment to the alliance. As *The Economist* went to press, he was about to announce America’s withdrawal from the Paris climate accord—or, then again, he was about to stay in the accord, demonstrating the wise counsel of the globalists in his White House. Both, or something in between, were still possible.

Yet, 19 weeks into Mr Trump’s presidency, out of the chaos and the contradiction a pattern is emerging. And it is not reassuring for America or for the world.

## Berlin discord

Whether or not Mr Trump ends up quitting the Paris accord, he was not willing to support it at the meeting of the G7 in Taormina last month. In the past he has described the science of climate change as a “hoax” aimed at destroying American jobs. Abandoning the accord will delight his political base, droughts, deluges and disease be damned.

So, too, with NATO. At the summit he harangued democratic allies, with whom America has upheld the international order for the past 70 years—after having just celebrated autocrats, such as Egypt’s Abdel-Fattah al-Sisi, on his visit to Saudi Arabia (see page 50). The Europeans “owed” money for years of underspending on defence and for taking American taxpayers for a ride. Although he is right to argue that European defence budgets need to rise faster, Mr Trump grievously undermined the security of all NATO countries by refusing to express support

for the alliance’s Article 5, the commitment to treat an attack on one as an attack on all.

Paris and NATO represent exactly the kind of multilateral agreements Mr Trump believes tie America’s hands for the benefit of other countries. It was put most succinctly this week by two Trump advisers, H.R. McMaster and Gary Cohn, when they wrote in the *Wall Street Journal* that “the world is not a ‘global community’ but an arena where nations, non-governmental actors and businesses engage and compete for advantage...Rather than deny this elemental nature of international affairs, we embrace it.”

Countries such as India, China and those of the European Union will strive to make the Paris agreement succeed, with or without Mr Trump’s support. America’s obligations under it are slight. Only two other countries remain outside it: Syria and Nicaragua. NATO is more vulnerable. Russia, whose threat Mr Trump refuses to take seriously, will be emboldened to make mischief. Germany’s chancellor, Angela Merkel, appeared to question whether NATO could even survive, saying that Europe could no longer “rely fully on others”. Mrs Merkel later backed away from her remarks, which were designed for a local audience and had been interpreted by a commentariat determined to read disaster into everything Mr Trump touches (see page 37). But the damage was done.

And that is the lesson from Mr Trump’s foreign adventures. International alliances weaken from confusion and neglect, as much as wilful demolition. Even if Mr Trump is not going out of his way to destroy the order that America created after the second world war, his zero-sum, transactional approach to it will do it grave harm. Previous presidents have worked hard to keep the world together. Their work has often gone on unseen. His confrontational approach makes it harder for allies to support the status quo. For the American order to fall apart Mr Trump only has to treat it with disdain and neglect. ■

## The politics of Islam

## Sheikh Hasina’s folly

In Bangladesh as elsewhere, ostentatious piety is no substitute for legitimacy or competence



SHEIKH HASINA WAJED has inflicted many injuries on Bangladesh’s democracy. She has pursued a dogged vendetta against her main rival for the job of prime minister, Khaleda Zia, hounding her supporters and persecuting her party. She has picked on any prominent person or institution that is not beholden to her, from Muhammad Yunus, a microcredit pioneer, to Bangladesh’s biggest Islamic bank. Citing atrocities committed during Bangladesh’s war of independence from Pakistan in 1971, she oversaw the dismemberment of the country’s main

Islamic party, executing many of its leaders. By those standards, her latest failing—pandering to the demands of Islamist agitators and refusing to defend the secular principles of the constitution—may seem relatively mild. But its consequences will be lasting.

By and large, Bangladesh is as moderate as Sheikh Hasina is intemperate. Although 90% of the population is Muslim, the constitution guarantees freedom of religion. Sufism, a mystical form of Islam that purists in Arabia frown on, is widespread. Hindus are 9% of the population and hold many prominent jobs, including chief justice of the supreme court. Yet Bangladeshi society has experienced something of a religious revival in recent years. Islamist groups have stirred up anger at per- ▶▶



ceived slights to religion, bringing protesters onto the streets. Violence has proliferated against non-Muslims, as well as those who speak up for secularism or for causes such as gay rights that are deemed sacrilegious.

Instead of trying to dispel the climate of fear that the Islamists have created, Sheikh Hasina's government has suggested that the murdered liberals had it coming. Indeed, having undermined Bangladesh's democracy, and thus deprived itself of the legitimacy that free elections might have brought, the government is trying to win support by courting the devout. With the help of a \$1bn gift from Saudi Arabia, it plans to build a mosque in every town. It has backed away from reforming inheritance laws to make them fairer to women, and from cracking down on child marriage. Most absurdly, it has agreed to move a statue of justice, depicted as a blindfolded woman in a sari, from in front of the supreme court, to placate protesters railing against idolatry (see page 19).

Ironically, it was Sheikh Hasina's father, Bangladesh's first president, who insisted on enshrining secularism in the constitution. Sheikh Hasina herself crushed the Jamaat-e-Islami, the

biggest Islamic party. Her son has admitted that the government is resorting to pious gestures not out of conviction, but to insulate itself from religious criticism.

### Zealots are never satisfied

Such appeasement never works, however. It will simply embolden the agitators to demand more. Already, they are calling for schools to be segregated by sex and for a blasphemy law to be adopted. Authoritarian rulers in many other countries (Pakistan leaps to mind) have tried to bolster their legitimacy by pandering to religious sentiment only to find themselves in a vicious cycle, in which moderates are cowed, giving rise to ever more extreme demands from the religious fringe.

The only antidote is the free exercise of democracy. That will let ordinary Bangladeshis decide how religious they want their government to be. Most voters are probably interested chiefly in the economy, which has been growing healthily. Sheikh Hasina might even find that, if she allowed voters a genuine choice, they would return her to office—with a mandate to ignore the angry clerics. ■

## Smoking

# Cough up

The recipe to get people to stop smoking is well-known. Why are so many governments ignoring it?



IN SOME rich countries ex-smokers now outnumber those who still puff on. But in many poor countries smoking is on the rise, particularly among men. In parts of Africa more than a third of men smoke. In some Asian countries men are as likely to smoke as they were in America 50 years ago, back when the idea that tobacco is deadly was still news. After high blood pressure, smoking is now the world's second-biggest cause of ill health and early death. Recent estimates put the annual costs from illness and lost productivity at \$1.4trn, or 1.8% of global GDP. Almost 40% of this falls on developing countries, which are least able to afford it.

As the success in rich countries shows, there is no mystery about how to get people to stop smoking: a combination of taxes and public-health education does the job. This makes the abysmal record in poor countries a grave failure of public policy. The good news is that, following recent research, it is one that has just become easier to put right.

### Death and taxes

In poor countries the tax rate on cigarettes is typically below 50%—and in some zero. These rates may not curb smoking much, because tobacco companies, which are sometimes monopolies, can cut their profit margins on cheaper brands and raise them on luxury ones to offset their losses.

Poorer countries could raise taxes, but they don't because they have relied on market studies paid for by tobacco companies. These suggest that high taxes on cigarettes cause a surge in smuggling and, perversely, reduce overall tax revenues. Now, independent studies by the World Bank and others have shown that this conclusion is wrong. The black market is not as

menacing as it seems and the revenues raised by higher cigarette taxes can help suppress it.

A growing number of countries, including the Philippines, Brazil, Turkey and Uruguay, are showing the way. The Philippines, for example, raised the tax on all types of cigarettes more than fourfold in 2012. As a result, prices of the cheapest brands, accounting for about two-thirds of all cigarettes, rose by more than 50%. In 2011-15 tobacco-tax revenues more than doubled, and the share of adults who smoked fell from 30% to 25%. By comparison, Britain took more than a decade to achieve the same change in smoking rates.

Crucially, some countries strengthened efforts to detect and curb smuggling at the same time. Black markets were often smaller than thought, with only 10-15% of all cigarettes sold illegally. When taxes went up, this share typically rose by just a few percentage points. In poorer countries tax evasion will be higher, but even then taxes will cut smoking and increase revenues if they are well administered.

The secret is to make the tax predictable and punitive. A uniform tax of, say, \$1 a pack on all brands helps governments monitor compliance and predict tax revenues. As a rule, the World Health Organisation says, taxes should be at least 75% of the retail price of the most popular brand of cigarettes and rise with inflation and income growth.

The other step is to crack down on smuggling and tax evasion. Tax stamps that are difficult to counterfeit are a good start. Brazil, the Philippines and Turkey print encrypted codes on stamps in invisible ink. Kenya fits tobacco lorries with devices that transmit their routes to the authorities, helping them keep tabs on the merchandise. How to pay for extra law enforcement? Globally, tobacco-tax revenues are about \$270bn a year, but less than \$1bn of that is spent on anti-smoking policies. It is time for governments to help their citizens kick the habit—and earn some useful cash while they do it. ■

## Trump and trade

As the former Canadian ambassador responsible for the original free-trade negotiations with the United States, I was dumbfounded to read the transcript of your interview with President Donald Trump (published online, May 11th). Mr Trump condemned NAFTA, “which was so one-sided”. Yet James Baker, the American Treasury secretary who personally led the critical talks with Canada over a free-trade agreement, and Ambassador Jules Katz, who headed the NAFTA negotiations, were two of the toughest negotiators I have ever known.

Mr Trump also claimed that America always loses legal trade disputes with Canada. It is true that the United States has almost always lost disputes in these panels, which determine whether it has applied its own trade laws correctly and fairly. But these panels are not a “court in Canada”, and America has been found guilty of misbehaviour in the panels by majorities of Americans or Canadians alike, often by unanimous decisions.

Furthermore, the \$15bn trade deficit that President Trump says the United States has with Canada does not take account of services. According to the office of the US Trade Representative, America actually had a trade surplus in goods and services with Canada last year of \$12.5bn. That is composed of a surplus of \$25bn in services, offset by a deficit of \$12bn in goods, the latter entirely explained by the American appetite for low-cost energy from Canada.

When Mr Trump maintains that “everything in NAFTA is bad”, does he mean the 14m American jobs that depend on NAFTA, according to the US Chamber of Commerce? We must all hope that when the time comes for actual negotiations, the players on the American side of the table will be better informed.

GORDON RITCHIE

Former Canadian ambassador for trade negotiations  
*Ottawa*

## Spending is investment

Logically, your concern for the bad shape of state government finances in India makes sense (“Pumping the country dry”, May 13th). No government can keep spending substantially in excess of revenues for ever, and the likelihood of a financial crisis increases as such behaviour remains unchecked. The problem is that for nearly two decades, from the mid-1990s on, you have been telling us that China’s borrowing binge would result in a hard landing for its economy. We are still waiting for this dark future to arrive.

It is possible that the splurge in borrowing by Indian states goes sufficiently into building roads, warehouses, irrigation infrastructure, schools, drinking water and meal programmes and, yes, even subsidising the consumption of the poor (albeit through loan waivers in the absence of effective agricultural insurance) to have a productive impact on the economy. All the measures you recommend are sensible, but perhaps the disaster you predict is not as near as you imply.

SANJAY SINHA  
Managing director  
Micro-Credit Ratings  
International  
*Gurgaon, India*

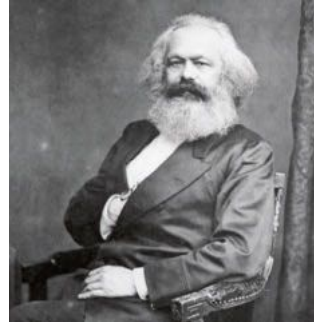
## Fake horns

Saving the rhino is neither a law-enforcement issue nor an economic issue (“On the horns”, May 6th). Rather, it is a marketing issue. Every purveyor of luxury goods knows that the one sure way to damage a brand is to flood the market with fake product. If high-fashion goods such as designer purses, shoes and sunglasses can be counterfeited to fool fastidious consumers, it should be a piece of cake to fake something as grotty as rhino horn. Instead of spending millions of dollars on protection, policing and prosecution, fund some research and overwhelm the marketplace with counterfeit rhino horn. Then widely publicise the fact that what the consum-

er is buying is most probably fake. The bottom will fall out of the market.

ANDREW WYNER  
Dean of graduate studies  
BAU International University  
*Washington, DC*

## A spectre is haunting Labour



Bagehot contends that Karl Marx is relevant to today’s politics (May 13th). Marx is relevant, but in the way that, say, Nicolaus Copernicus is to astrophysics. Marx was one of the first to recognise that institutions matter and are not immutable. But the rabble-rousing journalist, well-read in the philosophy of his day, thought about these things before the marginalist revolution and game theory expanded our knowledge of social systems. In the same way, if one were launching a satellite, it would be perverse to insist on using Copernicus’s “De revolutionibus orbium coelestium”.

L.M. CARVER  
*Southampton*

Once ensconced, Trotskyist leaders soon suppress dissent. The moderates in the Labour Party should have acted rapidly after Ed Miliband’s disastrous new leadership election rules produced Jeremy Corbyn. They did not. Instead, Labour moderates have been frozen in indecision. Had they moved quickly, moderate Labour MPs could have created a new party, perhaps with the surviving rump of the Liberal Democrats. Delay has been disastrous. The moderates now appear weak and lacking in resolve.

Shakespeare understood such situations well: “There is a tide in the affairs of men, which when taken at the flood,

leads on to fortune. Omitted, all the voyage of their life is bound in shallows and in miseries.”

GREGORY SHENKMAN  
*London*

## A new age of shopping

The glamour and excitement of shopping has been lost (“Sorry, we’re closed”, May 13th). We make fun of the girls who lunch, but shopping was a social event in the day when smartphones and Facebook didn’t exist. It can be, again. Westfield turned Century City in west Los Angeles into a destination. So is the Grove near West Hollywood. There’s flash, sizzle and entertainment. These are places to meet friends, look at hot merchandise, see a movie in a reserved seat and have a great meal in a gorgeous restaurant. Maybe wait for a friend in a comfy seat by a fire pit or fountain.

Life is hectic. Making the shopping mall its own island refuge will attract the customers businesses are losing. And late hours will encourage the new generation of shoppers who get off work at 9pm. Online and 24-hour businesses prosper. We are a late-night crowd these days. Pamper us!  
JUDITH DEUTSCH  
*Los Angeles*

## Scooby snacks

Regarding the perils that our canine friends pose to postal workers (“Leash the hounds”, April 22nd) when I was a young postman I bought biscuits to hand out as I made my deliveries. I was never bitten, but I found myself followed by a growing pack of mongrels and mutts. The more you fed them, the more arrived. Their doggedness at sniffing out free food had to be admired.

MIKE PAVASOVIC  
*Ashton-under-Lyne, Greater Manchester* ■

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More letters are available at: [Economist.com/letters](http://Economist.com/letters)



## The summer of discontent

### British politics are being reshaped by the collapse of the neoliberal consensus

THE Germans have a word for it: *Geschichtsmüdigkeit*, a weariness of history. The British were weary enough when Theresa May called a surprise general election on April 18th. It is just two years since the country's previous general election, and less than a year since the divisive referendum that saw it decide to quit the EU; in 2014 a referendum in Scotland also put the future of the United Kingdom to the vote. A monumentally dispiriting campaign has only deepened the weariness. Tedious as it all is, though, history is being made.

Brexit is the obvious reason. Whether it is Theresa May, the Conservative incumbent, who started from a position of strength but has campaigned poorly, or Jeremy Corbyn, the left-wing Labour leader, the winner will be forced to reshape Britain's place in the world in highly adverse circumstances. The next government will also have to re-examine domestic policies on everything from financial regulation to fisheries as Brussels' writ comes to its end.

But there is more. For the past 40 years Britain has been dominated by neoliberalism, a creed that sought to adapt some of the tenets of classical 19th-century liberalism to a world in which the role of the state had grown much larger. It emphasised the virtues of rolling back that state through privatisation, deregulation and the reduc-

tion of taxes, particularly on the rich; of embracing globalisation, particularly the globalisation of finance; of controlling inflation and balancing budgets; and of allowing creative destruction full rein.

At this election, for the first time since the 1970s, that philosophy has no standard-bearer. Jeremy Corbyn loathed it throughout its ascendancy. Mrs May launched her manifesto by attacking "the privileged few", denouncing "rip-off energy prices" and proclaiming that "it's time to remember the good that government can do." Both Mr Corbyn and Mrs May feel like throwbacks to times before its ascendancy: Mr Corbyn to the militant activism of the 1970s and Mrs May to the constrained if comfortable conformity of the 1950s. But their antediluvian stances resonate. They appear to address problems that neoliberalism allowed to fester, such as inequality and social disintegration—problems which explain, in part, why the country embarked on Brexit in the first place.

In the decades following the second world war, the British political landscape was one of "Butskellism"—a term this newspaper contrived from the names R.A. Butler, a moderate Conservative, and Hugh Gaitskell, a moderate Labourite, two supposedly opposed chancellors who had much in common. Butskellism rested on

four pillars: Keynesian demand-management designed to avoid slumps; a welfare state to provide people with a combination of opportunities (though education) and security (through health care and pensions); consensus between politicians, businesses (including many that were owned by the state) and trade unions; and an "industrial strategy" to shape the direction of the economy.

The Butskellite economy grew rapidly (though not as rapidly as America, France or Germany did). The welfare state succeeded in its basic aims—providing free health care and old-age pensions for everybody and free university education for the brightest. But by the 1970s almost half of Britain's national income was devoted to public spending. Growth slowed; inflation soared. In 1976 Britain became the first advanced country to go to the IMF for a loan. Between the three-day weeks of 1974, when a miners' strike led to electricity being rationed, and the "winter of discontent" in 1979, when a range of public services were paralysed by industrial action, Butskellism passed over the horizon.

The second post-war landscape was that of neoliberalism. Margaret Thatcher confronted the unions instead of negotiating with them, denounced "industrial strategies" as nonsense and privatised three-quarters of Britain's state-owned companies. She embraced globalisation, then hardly a word: capital controls were abolished; the "Big Bang" re-established London as the world's financial centre; and Britain led the reforms that created Europe's single market.

These reforms were brought at a cost: unemployment topped 3m in the early ►►

▶ 1980s (see chart 1) and many smokestack industries were reduced to ruins. But by the late 1980s there was also a palpable sense of a corner turned: the City boomed, entrepreneurs such as Richard Branson thrived, the south-east prospered. Ailing social democracies such as Sweden began to look to Thatcher's Britain as a model.

Tony Blair and Gordon Brown built a broader programme of liberal modernisation on this landscape. Their "New Labour" pursued constitutional reforms in which Mrs Thatcher had had no interest, made a point of using the proceeds of growth to compensate the losers, and embraced the EU. As Stewart Wood, a former adviser to Gordon Brown, puts it: "One of Margaret Thatcher's great achievements was to turn a fundamentalist faith in free markets into the hallmark of moderate centrism for the next generation of leaders."

One generation on, the landscape is changed again. The Conservative manifesto reintroduces ideas that Margaret Thatcher regarded as beyond the pale: price controls for energy markets; more council houses; industrial policy of the sort that free-marketers reflexively denounce as "picking winners". In 1942 William Beveridge, a liberal academic, committed the government to slaying "five giant evils" in the report that laid the foundations for the post-war welfare state. Mrs May's manifesto evokes his spirit by referring to "five giant challenges": the economy, Brexit, social divisions, an ageing society and technological change. "We do not believe in untrammelled free markets," it claims. "We reject the cult of selfish individualism. We abhor social division, injustice, unfairness and inequality."

**After Butskell, after Blair**

Manifestos are limited documents: in 1979 the Conservatives' manifesto provided hardly an inkling of the revolution to come. But they are still indicative. Nicholas Timothy, Mrs May's co-chief of staff and the main author of the manifesto, wants to update the party for the age of populism and economic stagnation. So where Mrs Thatcher, a former education secretary, offered opportunity, Mrs May, a former home secretary, offers security. Mrs Thatcher saw aspirational conservatism as a way to appeal to working-class voters. Mrs May's protective conservatism seeks to expand the party base by shielding the just-about-managing from global markets.

Labour's manifesto is even more hostile to markets. It wants to take the railways and electricity companies back into public ownership and give power back to the unions. It wants to restore the "basic principles" of the welfare state by abolishing the fees for university students that Mr Blair brought in, scrapping the private-finance initiative with which Mr Brown was much taken and removing all internal markets



She was the future once

from the National Health Service (NHS).

The manifesto would have been redder yet in tooth and claw if Mr Corbyn had had his way. The MP for Islington North is arguably the most left-wing leader the party has had. He is certainly more left-wing than Michael Foot, the leader in 1980-83, who never had any truck with Marxism. Mr Corbyn defied his party's whip 428 times under Mr Blair and Mr Brown, opposing, among other things, private-finance for the NHS, anti-terrorist legislation and the invasion of Iraq. His inner circle is even more hard-line. John McDonnell, his shadow chancellor, is an admirer not only of Marx but also of Lenin and Trotsky.

Abandoned by the two main parties, neoliberalism has no redoubt elsewhere. After years in which it looked as if Britain's two-party system was fragmenting, things have gone into reverse. The two main parties currently have a combined share of 80% of the polls, compared with just 67% in

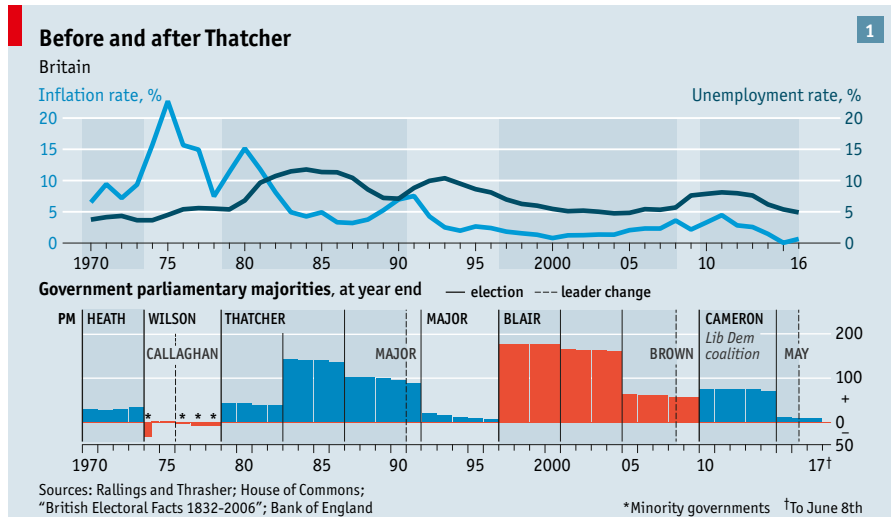
the 2015 election. The Liberal Democrats have paid for the neoliberal enthusiasm that took them into coalition with David Cameron's Conservatives in 2010; having boasted 57 MPs then, they now have just eight. They are unlikely to add many on June 8th (see chart 2 on next page), despite theirs being the only party promising to try to soften Brexit and to offer the possibility of rejecting it.

**Unforced errors**

It would be wrong to see only an ideological shift at play here; political misjudgments played a big part in getting Britain to its current impasse. When, having lost the election, Ed Miliband stepped down as Labour leader in 2015, all candidates to succeed him needed nominations from 15% or more of the parliamentary party. Mr Corbyn would not have been able to surmount that barrier had it not been for some centre-right MPs feeling that, though he had no hope of winning, his candidacy would broaden the debate. Margaret Beckett, previously a caretaker leader of the party, said that she nominated him "so that the left would have some representation".

Given this opportunity, Mr Corbyn won the hearts and votes of a majority of the party's members as well as of tens of thousands of new "supporters" who, thanks to a rule change Mr Miliband had favoured, were allowed to vote in the leadership election provided they contributed £3 (\$4) to party coffers. When his leadership was challenged after the Brexit referendum Mr Corbyn could no longer get even 15% of the party's MPs to nominate him. But the courts ruled that this did not preclude his running, and he won again. He thus held on to the leadership of his party despite the fact that three-quarters of his colleagues in Parliament think that he is unfit for the job and many leading MPs refuse to serve in his shadow cabinet.

Then there was Mr Cameron's misjudgment. He believed that he could get the Eu- ▶▶





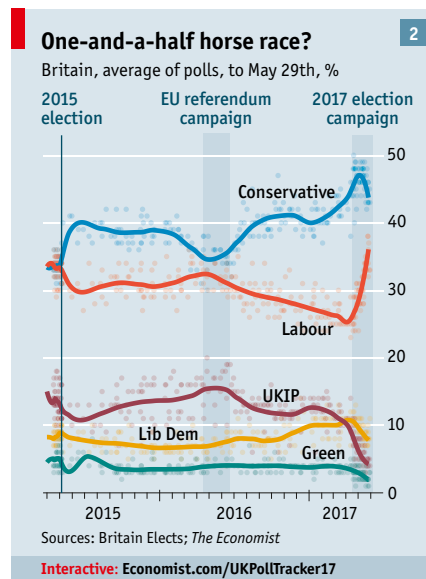
rosceptic monkey off his back by proposing a referendum which, if he remained in coalition, he would never be able to call and which, if the Conservatives won a majority in Parliament, he would easily win. The British—and global—establishments were united in favour of Remain (Mrs May was among them, though the effort she put into campaigning for the cause was studiously slight). Eurosceptic ranks were thick with what Mr Cameron described as “swivel-eyed” lunatics.

The campaign proved Mr Cameron’s assessment wrong. Having earlier said he would be happy to leave the EU if it were not reformed, his claims that Britain had to remain rang hollow. Mr Corbyn, who like most of the Labour left has been deeply Eurosceptic in his time, campaigned for Remain with less vigour than any other Labour leader since Michael Foot would have. A group of canny activists led by Douglas Carswell, Daniel Hannan and Dominic Cummings seized control of the Leave campaign and sought to marginalise both UKIP’s Nigel Farage—whose anti-immigrant populism turned many voters off, but whose supporters would vote Leave regardless—and old-school Tory Eurosceptics like John Redwood. Instead they kept the focus on more plausible voices such as those of Boris Johnson and Michael Gove. Mr Hannan argues that, had Downing Street been able to frame the debate as a choice between Mr Cameron and Mr Farage, Mr Cameron would have won at a walk. Instead he lost.

In a way, though, he succeeded in his original aim. The Tories had been split over Europe since the mid-1980s; the division helped topple Mrs Thatcher, hobbled her successor, John Major, and weakened opposition to New Labour. Now the breach is mended: the Eurosceptics won. And this has provided an electoral bonus. Tories who abandoned the party for UKIP can now return—and Labour voters who went for UKIP, or voted Leave in the referendum, seem winnable, too (see chart 3). The Tories have calculated that if they could add 80% of the votes UKIP got in 2015 to their own tally from that year, their working majority in Parliament, currently 17 seats, would be over 100. They have campaigned vigorously in Labour strongholds in the Midlands and the North that voted for Brexit: Mrs May launched her manifesto in the Yorkshire town of Halifax, where 56% voted Leave and Labour’s parliamentary majority is under 1,000.

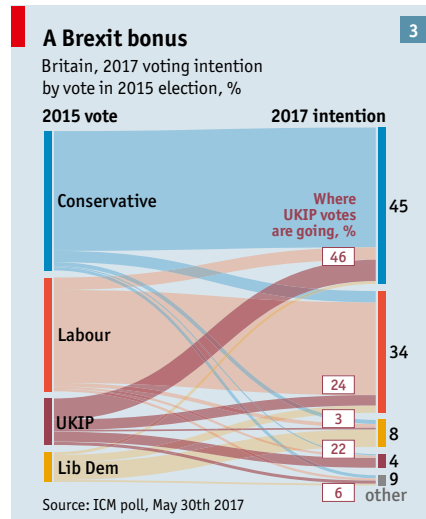
**The darkness drops again**

The appearance of Mr Corbyn’s name on labour’s leadership ballot allowed thousands of angry people to vote for a leader who broke with the past. Mr Cameron’s decision to hold a referendum allowed millions of people to express their frustration with the status quo. And these angry



decisions have proved to be mutually reinforcing. Mrs May’s decision to accept the result of the Brexit vote has produced a definitively post-Cameron Conservative party; the only Tory voice of note raised against her is that of George Osborne, once an impeccably neoliberal chancellor, now the editor of London’s local paper, the *Evening Standard*. Mr Corbyn’s relatively successful campaign has demonstrated that espousing socialist opinions is not necessarily the kiss of death.

The anger that turned those mistakes into a seismic shift is itself grounded in the failures of neoliberalism. The biggest factor was the 2008 global financial crisis. It hit Britain particularly hard because financial services play an outsized role in the country’s economy, generating 8% of its GDP, and because of its “light touch” regulation. The crisis made Britons significantly poorer: British workers saw their wages (adjusted for inflation) fall by 10% in 2008-14, and are unlikely to see them reach pre-crisis levels until at least 2020. It played



havoc with the public finances: faced with large deficits the coalition government chose to cut back on public spending.

The crisis also undermined the public’s faith in their rulers. That faith had already taken some knocks. Mr Blair’s decision to back George Bush in removing Saddam Hussein from power in 2003 ended up doing much to discredit him, especially in the eyes of his own party. The only Labour prime minister ever to win three elections in a row became a pariah in his own country. More parochially, in 2009 the *Daily Telegraph* revealed that MPs routinely abused their expenses to do up homes that they sold on at a profit, as well as for sundry other ill-judged and absurd outlays such as the renovation of moats and the housing of ducks. Six cabinet ministers resigned, several MPs ended up in prison and the political class was tarnished.

But the financial crisis did not just entrench distrust and anger. It also laid bare longer-term problems in the economy. Britain’s flexible labour market has been good at generating jobs. That is one reason the admission of eastern European countries such as Poland to the EU led to a surge in immigrants in the mid-2000s, one that New Labour welcomed; concerns over their presence was one of the factors that delivered a Leave vote at the referendum. But despite the influx, the unemployment rate is one of the lowest in Europe.

If the neoliberal dispensation was good at producing jobs, though, it was no great help in guaranteeing their quality. Almost a million Britons are on “zero-hours” contracts that provide no assured revenue, up from 108,000 in 2004. Britons work longer hours than their French and German counterparts, and, in the south-east, spend more time and more money getting to work. Britain’s productivity (output per hour worked) briefly exceeded the EU-15 average in the early 2000s but now stands at just 90% of the average. The OECD notes that a higher proportion of British 18- to 24-year-olds suffer from low literacy and numeracy than their equivalents in France, Germany, Italy or Spain.

Britain also has the most capital-centric economy of any major country apart from South Korea. Per-person GDP in London is almost two-thirds higher than the national average; it is almost two-and-a-half times higher than in Wales. The house-price-to-earnings ratio in London has risen from seven times average earnings in the early 2000s to 13 times today, so that London vies with New York and Tokyo as the most expensive place to live. The capital is also the most expensive place in the world for startups to rent offices.

It was against this background that immigration came to play its pivotal role in turning significant sections of the British public against globalisation. Immigration is a more emotional subject than other

forms of free movement because it involves issues of culture and competition for resources such as school and hospital places. It also divides opinion on class lines: richer Britons are more likely to regard immigration as a good thing; poorer Britons to see them as competitors for jobs and state resources.

That division was made more poisonous by the fact that the elite did very well in the neoliberal years. In 1980 the average CEO of a company on the FTSE All Share index earned 25 times more than the average employee. In 2016 the bosses earned 130 times more. Between 2000 and 2008 the index fell by 30% but the pay for the CEOs running the firms on the index rose by 80%.

Privatisation has fed resentment too. Labour's promise to re-nationalise the railways, which would have been unthinkable ten years ago, is popular today: thank high fares and private profit. The bits of the public sector that stayed public did pretty well by their overseers, too. Mark Thompson, then the director-general of the BBC, saw his pay soar from £609,000 in 2005-06 to £788,000 the next year and £834,000 the year after that. The average pay of a university vice-chancellor is now more than a quarter of a million pounds. Many British politicians also did very well, and not just through their expenses. Politicians such as Mr Blair, Peter Mandelson and Mr Osborne have made millions by offering advice to banks, making speeches and otherwise transforming themselves from gamekeepers into poachers.

Mr Carswell, who having left first the Conservatives and then UKIP is now retiring from Parliament, goes too far when he says that the problem with today's neoliberals is that they "are on the side of Davos Man, not the demos". Successive politicians have made serious attempts to address Britain's over-centralisation, for example. Mr Blair and Mr Brown allowed

Scotland and Wales to vote on devolution. Mr Cameron and Mr Osborne created six powerful regional mayors, including ones for Britain's second and third cities, Birmingham and Manchester. But this return of control to the people has proved insufficient. Many wanted more, and believed that by voting to leave the EU they would get it, particularly when it came to borders and immigration. In doing so they changed things profoundly. A poor government can be voted out. Misguided plebiscites are not so easily reversed.

Whether that attempt to seize control leads to the creation of a plausible new political landscape, not just the levelling of the old one, depends to some extent on the result of the election. A devastating defeat for Mr Corbyn might allow moderate Labour MPs to reassert control over the party, sparking a centrist revival. A big win for Mrs May might allow her to negotiate a softer Brexit than Eurosceptics like Mr Redwood want to see. But neither is that likely.

#### Slouching towards Maidenhead

The main opposition to the left in the Labour Party comes from the old right, led by Tom Watson, Mr Corbyn's deputy, not from Blairites; the right has contempt for Mr Corbyn because of his hawking on the IRA and Hamas and his long history of rebellion, not because he seeks to nationalise industries. Mrs May, neither easy to read nor very resolute, might just as likely use a big victory as proof that she has public support to negotiate the hardest of Brexits. Alternatively, the weakness she has shown in the campaign might yet see her deposed if colleagues decide the negotiations are going in the wrong direction.

Beyond this, there are three reasons for thinking that it will be very hard to fashion a new political landscape either quickly or well. The first is a lack of preparatory spadework. Beveridge published his out-

line of the welfare state in 1942; Thatcherite think-tanks busied themselves drafting blueprints for privatisation throughout the 1970s. Today's populist conservatism looks amateurish and improvised: Mr Timothy plunged the Tory campaign into chaos by adding an ill-thought-out measure to oblige elderly people to pay for their social care without putting a cap on the amount that they would spend. Labour's manifesto is a compromise between what Mr Miliband offered two years ago and what Mr Corbyn wants, with a profusion of specific proposals that seeks to distract from its fundamental flaws.

The second is that the populist wave has broken badly for Britain. In the post-war era, and again in the 1980s, Britain was in the forefront of a worldwide revolution. The Beveridge report was translated into 22 languages (two German copies dropped by the RAF were found in Hitler's bunker). Mrs Thatcher's agenda of deregulation and privatisation found imitators across the world: between 1985 and 2000 western European governments sold off some \$100bn-worth of state assets.

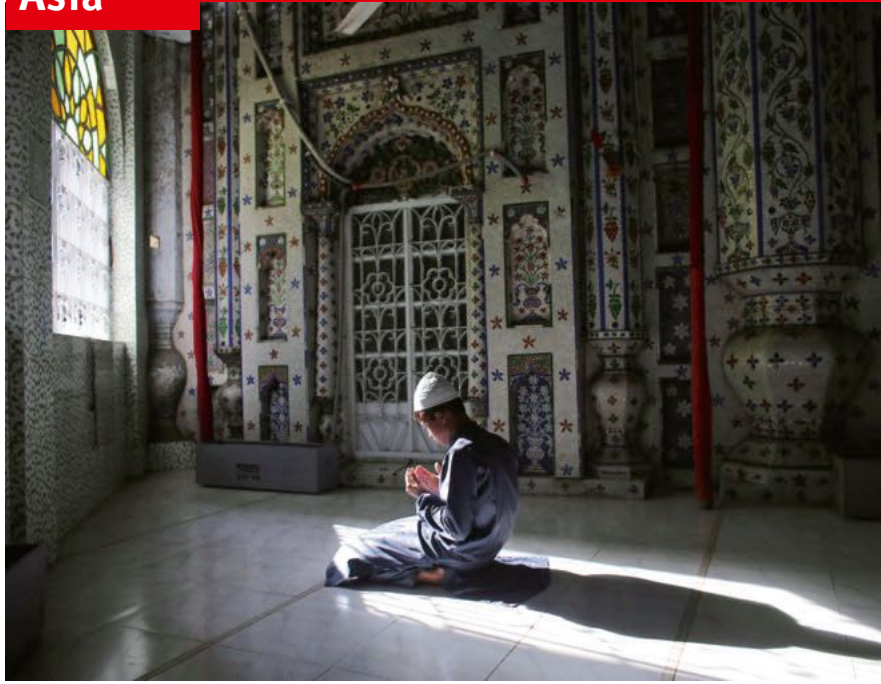
Today Britain is out on a limb. Donald Trump, the only major figure overseas to have exalted in the Brexit result, is erratic, crisis-prone and toxic. Emmanuel Macron won the French presidency by promising to embrace a Blairite mixture of liberal reforms, including deregulation, and cosmopolitanism. Angela Merkel looks as if she is going to win a third term easily. Some Conservatives have argued that Mrs May is taming the populist revolution by co-opting it; in fact, she may end up hostage to a revolution already in retreat.

The third is Brexit itself. Negotiating it is likely to prove all-consuming; policymakers will have no energy left over for serious attempts to tackle problems such as poor productivity growth. And all the while Brexit will be hurting the economy. Even Brexiteers concede that Britain will suffer short-term shocks as it renegotiates its relationship with its single biggest market. Most independent experts predict long-term harm as well. According to the most recent estimates from the Centre for Economic Performance at the London School of Economics, a hard Brexit would reduce GDP per head by 2.6% over ten years, while a softer Swiss- or Norwegian-style Brexit would cut it by 1.3%.

The result is likely to be a partial reprise of the 1970s. Politics will be paralysed—this time by negotiating Brexit rather than fights with unions. The economy will stagnate thanks to a mixture of uncertainty and business flight. Public services will be squeezed. The roiling discontent that produced Brexit will find new targets. In the 1970s, though, Britain edged its way towards solving the problems of its former dispensation. It is much harder to see it doing the same this time round. ■



Really?



### Islam and politics in Bangladesh

## A long shadow

### The less democratic the government becomes, the more it panders to the pious

IN THE dead of night workers prised the statue off its base, raised it onto the back of a truck and hauled it away. The blindfolded woman in a sari, sword in one hand and scales in the other, was supposed to represent justice. Made by a local sculptor and muralist whose work graces the police headquarters, the international airport and the Saudi ambassador's residence, among other prominent spots, it had been installed in front of the supreme court only months before. But a puritanical Islamist movement, Hefazat-e-Islam ("Protectors of Islam") had denounced the sculpture as a depiction of a living creature—something the most doctrinaire strands of Islam abjure. Sheikh Hasina Wazed, Bangladesh's prime minister and leader of the theoretically secular Awami League, averred that she, too, disliked the statue. But when it disappeared, local media assailed the government for abandoning its principles. In the end, in an awkward compromise, the statue was reinstalled in front of an annex to the court, largely hidden from public view.

Opponents have long criticised the Awami League as "anti-Islam". Mujibur Rahman, Bangladesh's first president and Sheikh Hasina's father, had presided over the drafting of a constitution that enshrined secularism as one of the country's guiding principles, even though the vast majority of the population was Muslim.

When a subsequent military strongman dropped secularism, Sheikh Hasina campaigned to restore it. She cheered on the courts as they eviscerated the biggest Islamic party, the Jamaat-e-Islami, and has campaigned tirelessly to undermine the Bangladesh Nationalist Party, the League's main rival, which has typically been more sympathetic to religious causes.

### Ballot-stripping

Although the election commission recently announced that it would start discussions with all political parties to ensure free and fair elections next year, most analysts assume that Sheikh Hasina will do whatever it takes to ensure she remains in power. Police continue to raid the homes of opposition politicians and bring charges against political activists.

Despite having hobbled the opposition, however, Sheikh Hasina seems to be becoming more sensitive to the taunts of her religious critics. The turning point, perhaps, was when hundreds of thousands of Hefazat supporters marched on Dhaka in 2013, demanding the hanging of atheist bloggers. The government refused to defend the bloggers, several of whom were killed by machete-wielding extremists; instead it brought charges against some of the bloggers for offending religious sentiment. It also set up a panel of police public

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commentary on Islam, but not other religions. The prime minister's son, Sajeeb Wazed, explained, "We don't want to be seen as atheists."

To that end the government has quietly revised school textbooks, removing 17 poems that the Hefazat had deemed "atheist" and adding in a few more religious symbols. In March it passed legislation purporting to curb child marriage that included a loophole so big activists fear it will actually promote it. In April it said that the degrees issued by madrassas that do not follow the government curriculum will be deemed equivalent to a master's degree from a state-backed institution, fulfilling one of the Hefazat's long-standing demands. In effect, graduates of these "Qawmi" madrassas will now be eligible for government jobs, despite having been schooled almost exclusively in theology in classical Arabic.

Sheikh Hasina has also been courting Saudi Arabia, most notably by joining its coalition to confront Iran. Ties between the two countries had suffered during the assault on the Jamaat, which had championed an austere, Middle Eastern form of Islam. Saudi Arabia has resumed issuing visas to migrant workers from Bangladesh, who send home \$3bn a year in remittances, almost on a par with Bangladesh's total foreign aid. Bangladeshi officials say Saudi Arabia has promised \$1bn to build 560 mosques—one in each town.

As it is, the number of mosques is growing. In the mid-1980s there was one mosque for every 750 people on average; now it is one for every 550. Since 2009, 50,000 privately funded mosques have sprung up, taking the total to 300,000. Qawmi madrassas are also proliferating: they now have 1.4m students, compared ▶▶



▶ with around 5m in government-regulated madrassas. Polling commissioned by the government shows broad support for caning people caught drinking alcohol, even greater enthusiasm for Islamic banking and inheritance law and near-universal support for women covering their heads in public. Kasem bin Abubakar, a novelist who writes about young people resisting temptation and remaining true to the faith, is the country's best-selling author.

The causes of this growing piety are the subject of some debate. The increasing number of Bangladeshis working in the Gulf may have something to do with it. So may rising levels of urbanisation and education, which have been associated with the spread of more doctrinaire forms of Islam in other countries. But it is hard to imagine that disillusion with electoral democracy and the secular authorities does not play a part. ■

ers in both houses, who can up-end the order of the day on a whim.

The previous parliament faced similar handicaps, yet managed to get more done. Renaud Egretau, a visiting fellow at the ISEAS-Yusof Ishak Institute, a think-tank in Singapore, thinks the NLD is deliberately slowing down parliamentary work because it wants its MPs to spend more time in their constituencies.

The previous legislature's hyperactivity was driven mostly by the personal ambition of its speaker, Thura Shwe Mann. A presidential hopeful, he saw the highest office go to another former general, Thein Sein. So, having inherited a mostly ceremonial position, he vowed to turn parliament into an institution which the executive would have to answer to. He succeeded beyond expectations.

Aung San Suu Kyi, the leader of the NLD, does not seem to set much store by such institutional checks and balances. Few parliamentarians stand out—except perhaps the representative of the Naga people (pictured), who sports a traditional feathered hat but renounced his right to carry his ceremonial sword in the chamber. Not that there is much cut-and-thrust as NLD parliamentarians sit quietly through long, dull sessions.

Their silence is not the result of intimidation by the representatives of the armed forces, who occupy a quarter of the seats in the Hluttaw under the constitution drafted by the military regime. (The charter also bars people with foreign children or spouses, like Ms Suu Kyi, from the presidency, obliging her to install a placeman, and to run the country as “state counsellor” instead). Rather, NLD lawmakers are muzzled by their own leaders. No NLD parliamentarian has ever voted against the party line. Members only ask questions that have been vetted by NLD bosses.

Despite the army's guaranteed block, the NLD enjoys big majorities in both houses: 135 out of 224 seats in the upper house and 255 out of 440 in the lower one. Yet its MPs are told that awkward questions and dissent could hamper the country's progress and give ammunition to the generals. That leaves little for the new lawmakers to do.

This highlights another problem: to stand up to Ms Suu Kyi, MPs must be better informed than “the Lady”. But most of them are at a disadvantage. “I don't have the knowledge, I am not an expert,” admits one. As former soldiers, members of the previous parliament often had experience of running the country. But most NLD MPs are former political prisoners who served time in jail for demanding parliamentary democracy. Now that they have one, they do not necessarily know what to do with it. If the NLD wants to live up to the D in its acronym, it should equip and encourage them to play a more active role. ■



## Politics in Myanmar

# A no-talking shop

NAYPYIDAW

**Parliament has become even less effective under Aung San Suu Kyi**

MYANMAR'S laws are an abject muddle of colonial holdovers, socialist ukases and military decrees—a reflection of its troubled history. Some 140 of them require re-writing, reckons Htin Kyaw Aye of Open Myanmar Initiative, a think-tank monitoring parliament. Among the priorities are the century-old law governing private enterprise, which needs urgent updating; a badly worded defamation clause in the Telecommunications Law that is all too often deployed by anyone holding a grudge; and the passage of a law penalising violence against women, to deal with a glaring omission in the criminal code.

One might expect the first freely elected Hluttaw, or parliament, in more than half a century to be working overtime on this daunting list. Instead it is becalmed. Just days before it was due to reconvene in May, U Tun Tun Hein, chairman of the committee that organises parliamentary work, was at a loss to say what would be done in the next session. “I cannot tell you which laws will be prioritised,” he admitted.

Members of parliament did not even know how long they would sit in Naypyidaw—Myanmar's eldritch capital city.

The previous parliament, led by the fig-leaf party of Myanmar's long-standing military regime, was far more energetic than the current one dominated by the National League for Democracy (NLD), which swept elections held in 2015. The old house churned out on average more than twice as many laws per session, asked substantially more questions of the government and passed almost four times as many motions to the executive.

In part, the torpor is caused by a chronic lack of money and staff. MPs do not have any assistants to help them run their offices, let alone comb through hundreds of pages of legislation. Nor is parliament's permanent bureaucracy able to provide the support they need. “My organisational chart says I am supposed to have 237 people working under me. I only have 41!” complains a harried Hluttaw official. Matters are not helped by the mercurial speak-

## Security in Afghanistan

## In tatters

KABUL

## A horrific attack deepens Western dilemmas

**E**VEN for a city familiar with explosions, the power of the bomb that ripped through Kabul on May 31st was shocking. The device, hidden in a tanker truck, went off during rush hour in a crowded area near several foreign embassies. The blast shattered windows a mile away and sent clouds of black smoke swirling above the city. At least 90 people were killed and more than 460 wounded, making it one of the deadliest attacks in the capital in the 16-year civil war.

Jan Ali Ghoobar, who works for Roshan, a telecommunications company based nearby, was knocked unconscious: "When I came back, everything was dark, the ceiling had fallen down, our desk chairs, everything was crushed." The German embassy was badly damaged; one of its Afghan guards was killed.

As *The Economist* went to press, no one had claimed responsibility for the blast. A spokesman for the Taliban denied that they were behind it. Islamic State militants have staged several attacks in Afghanistan in recent months, though none as large as this. Whoever was behind it, the attack highlights the Afghan government's inability to provide security, even in the capital. According to the UN, Kabul has become the deadliest province in the country for civilians, ahead of some of the country's more notorious trouble spots, such as Helmand and Kandahar.

One effect of the explosion has been to heighten the debate in Germany over whether it is reasonable to repatriate Afghans whose applications for asylum are unsuccessful. Just after the blast, the German authorities postponed a flight carrying failed asylum-seekers to Kabul. German officials' insistence that parts of Afghanistan are safe for deportees sounds even less plausible.

The bombing will also intensify the row within the administration of Donald Trump over whether to increase America's military presence in Afghanistan. Mr Trump's national-security team has endorsed a plan to deploy up to 5,000 extra troops. Others in the White House remain opposed to further entangling America in a war on which it already spends \$3bn a month. Mr Trump has not yet made up his mind. The bombing certainly strengthens the case that the Afghan government is losing control and needs more military assistance. But it also makes Afghanistan look even more like a quagmire. ■

## South Korean cinema

## Rohstalgia

SEOUL

## A tribute to a former president taps into popular hopes for the future

**A** DOCUMENTARY that intersperses old friends reminiscing about a late head of state with archive footage of him on the hustings hardly sounds like a blockbuster. Yet in South Korea, "Our President", about the early political career of Roh Moo-hyun, is the film that moviegoers are most eager to see, according to pollsters. No other documentary has been even half as popular in its first week. In online forums self-described *jungalmot* (political dummies) say they "cried buckets" when they watched it.

The film is an unabashed eulogy: 30-odd former aides, friends and commentators reminisce along with members of Nosamo ("I love Roh"), a fan club that helped bring him to power and that is still active. A former secret-service agent who had been instructed to spy on Roh as a "dangerous" human-rights lawyer describes how he became his friend. Roh's driver recalls how Roh, in a self-effacing role reversal, drove him around on his honeymoon. Moon Jae-in, South Korea's new president and Roh's former chief-of-staff, reads aloud the note Roh left in 2009 before he jumped off a cliff to his death amid a bribery scandal.

Part of the documentary's appeal is that it depicts a liberal president who has "grown in hearts" during the subsequent decade of conservative rule, says Kim Seong-soo, a cultural commentator. There is no mention of his bumbles, or his rock-bottom approval rating in his first year. The nationwide protests that led to the recent impeachment of Park Geun-

hye were in part motivated by a sense that the political system is rigged, and that ordinary South Koreans are powerless to change it. Roh's startling ascent to the presidency in 2002 suggested otherwise: he was the son of peasants from Bongha village, known for its persimmons and rice paddies. And he had what South Koreans call "short school-bag straps", having made it no further than secondary school.

Roh was bumbling at times and spoke off-the-cuff; the mainstream press scoffed that he was "the say-anything president". But the working class and the young adored his audacity and tenacity. He lost election after election, and began his presidential campaign with 2% support in the polls. He once flung his parliamentary nameplate at Chun Doo-hwan, a military dictator. In his acceptance speech, Roh promised a country "where the people who win fairly are the ones who win in society."

A Nosamo member recalls how Roh's victory opened "a year of possibilities: just like magic". Many hope that another such period began last month, after a snap election put in office the first liberal leader since Roh. Mr Moon's approval rating is 84%, the highest on record. He has become something of an icon himself. Enamoured of his relaxed ways and calls for social justice, fans are snapping up *Moontem*, "Moon items", such as copies of his spectacles and ties. Whether mourning for Roh abates under Mr Moon will be one measure of his success.



Roh and Moon, purveyors of possibilities



# Banyan | The blind man's elephant

Singapore's success offers much to admire, but little to emulate



SINGAPORE has never been short of admirers. Many leaders of developing countries respect Lee Kuan Yew, its founding father, for taking his city-state from third- to first-world status while resisting Western calls for greater political liberalisation. Paul Kagame, Rwanda's iron-fisted president, hopes that his country will become "the Singapore of Africa". Fans of Rodrigo Duterte compare the Philippine president to Lee: strong-willed and intolerant of crime and corruption.

Lately the rich world, too, has begun to look at the island. "Want to ditch Obamacare? Let's copy Singapore's health-care miracle," chirped an opinion piece on the website of Fox News, a conservative American broadcaster, soon after the election of Donald Trump. It argued that the "miracle" rested on two features dear to Republican hearts—"empowering consumers and fostering competition". Some of the more vocal Brexiters dream of turning Britain into "Singapore-on-Thames": a low-tax, lightly regulated haven for businesses eager to trade with Europe. Like the proverbial blind men describing an elephant by feeling just one part of the beast, each of these admirers gets something right about Singapore, but all miss the big picture.

Start with the Brexiters. Britain's 65m people are almost 12 times as numerous, and are scattered over a territory 337 times larger than Singapore's. Britain is already lightly taxed and regulated by European standards, but compared with Singapore it is a behemoth. Britain's top rate of income tax, now 45%, is double that of Singapore; and its government accounts for about 38% of GDP, about twice as much as the lean Singaporean one. Shrinking the British state much further would mean slashing spending and radically reshaping the National Health Service. Voters would punish any party that attempted such a thing.

Even assuming the EU were to give low-tax Britain easy access to its single market, the neighbourhood is completely different. South-East Asia is a booming region of 630m people, many of whom live in countries that are unstable, corrupt or have lousy infrastructure. Efficient Singapore gives firms easy access to those consumers while minimising risks. Europe, by contrast, may be stagnant but, populist threats notwithstanding, is politically stable and mostly well governed. It makes less sense for a company to set up in Britain to sell to Spaniards than for it to base itself in

Singapore to cater to Indonesians—and treble so if Britain loses unrestricted access to Europe, as it probably will after Brexit.

American conservatives, for their part, are right that Singapore's health-care system achieves fine results by emphasising personal responsibility, competition and low public spending. Singaporeans pay for much of their health care out of their own pockets and enjoy among the world's highest life expectancies and lowest infant-mortality rates. The country spends just 5% of GDP on health care, of which about 2% of GDP comes from the public purse. America spends much more, 17% and 8% of GDP respectively, yet its population is much less healthy.

However, Singapore's system also features far more coercion and government intervention than Americans would plausibly accept. Most hospitals are state-run. Most hospices and nursing homes are private but government-funded. The government heavily subsidises acute care. It promotes competition by publishing hospital bills; American health-care providers, by contrast, make their prices as opaque as possible to discourage shopping around. The government compels Singaporeans to divert up to 10.5% of their wages into "Medisave" accounts (employers contribute, too). It also subsidises "cost-effective and essential" drugs; unapproved drugs, if available, can be prohibitively expensive.

Both the left and the right will find much to like about Singapore's health-care system. But anyone who thought that Michelle Obama urging children to eat more apples was too nannyish will find it hard to stomach. As Kishore Mahbubani of the Lee Kuan Yew School of Public Policy puts it: "The ideology guiding Lee Kuan Yew was not Ayn Rand."

A similar pattern—personal responsibility supported by coercion and a lean but robust safety net—applies across Singapore's economy. More than 90% of Singaporeans own their own homes, but most are government-built flats bought at government-set prices, often with government-provided grants. Where Singaporeans can live depends in part on their ethnicity: to avoid racial ghettos, Singapore requires the composition of public-housing blocks to reflect the country's racial make-up.

## Hard bargain

Such social engineering would appal Western voters and be struck down by Western courts. Yet Singaporeans accept it. Paternalism has enforced racial calm. The country's Chinese majority has been spared the atrocities visited on the Chinese diaspora in, say, Malaysia and Indonesia. More important, the trade-off that Lee Kuan Yew offered still holds: illiberal politics in exchange for good government and high living standards.

Singapore's leaders vigorously defend their reputations with defamation suits, and gerrymander constituencies to help preserve the ruling party's majority. But they deliver safe streets, first-rate health care, good public transport and a clean, responsive public administration. In distorted form, elections allow voters to affect policy: after the ruling party suffered its worst-ever performance in 2011, winning "just" 60% of the vote, it took a more populist line and won resoundingly four years later.

Lee's bargain is hard to emulate. Both parts have been essential to Singapore's success. Yet admirers such as Mr Duterte and Hun Sen, Cambodia's strongman, are adept only at the authoritarian bit, without the clean government or wealth creation. Singapore's rich-world admirers, meanwhile, lack the tame politics that allow Singapore's rulers to set policy without worrying too much about the next election—or their citizens' civil liberties. ■






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**Inner Mongolia**

## Herding mentality

HOHHOT AND WEST UJIMQIN

**Chinese Mongolians have become a model for assimilation**

**B**AYIN was three when he moved from the eastern grasslands of Inner Mongolia to Chifeng, a city of some 1m people. Like hundreds of thousands of ethnic Mongolian pastoralists forced to settle by the government, his family has gone from rural yurt to urban block of flats within a generation. Bayin, who is 32, moves seamlessly between staccato Mongolian and tonal Mandarin. In many ways he exemplifies the successful assimilation of China's 6m ethnic Mongolians, most of them in Inner Mongolia in China's north.

Yet Bayin lives largely within a Mongolian world. He designs Mongolian robes for a living and wore them to get married in 2012; of his 300 or so wedding guests only a handful were Han, the ethnic group that makes up more than 90% of China's population. His daughter attends a Mongolian-language kindergarten. He likes to watch videos of Mongolian life in the 1950s.

The Chinese government has long struggled to bring the country's borderlands under control. It took a decade for the Communist Party to subdue Yunnan in the southwest and Tibet after it came to power in 1949. In Tibet and in the far western province of Xinjiang ethnic tensions still sometimes flare into violence; both have separatist movements that have been brutally suppressed. Ethnic relations have not always been easy in Inner Mongolia either:

Mongolians frequently clashed with the authorities until the early 1990s.

In recent decades, however, the province has been largely quiescent. It does not have a separatist movement—a surprise given that Mongolia, an independent, democratic country populated by 3m people of the same ethnicity, lies just to the north. Local gripes are more often expressed in economic terms than in ethnic ones. It helps that many ethnic Mongolians are visually indistinguishable from Han Chinese, says Enze Han of the School of Oriental and African Studies in London. They are far more likely to marry a Han than minorities in western China. Many more youths leave the province to find work elsewhere too. Small wonder that the Communist Party is trying to replicate at high speed in Tibet and Xinjiang policies that have helped it subdue Inner Mongolia over many decades.

**Damned if you Xanadu**

Inner Mongolia's integration is partly historical. Kublai Khan, grandson of Genghis Khan, founded a dynasty in 1271 that bound it to China. Geographical proximity to Beijing meant exchanges were frequent. Tribal divisions and the dispersal of the population hampered resistance to Chinese authority. Inner Mongolia constitutes 12% of China's territory, but hosts less than

2% of its population.

Government policies suppressed Mongol identity. Han migration started in the 19th century. The native population was already in the minority by 1949; now only 20% of people in the province are Mongolian. The region suffered especially severe violence in the Cultural Revolution—up to 100,000 people died, by some reckonings. Buddhism, which was strongly rooted in Inner Mongolia, was crushed, and most temples destroyed. At the sprawling monastery of Da Zhao in the provincial capital of Hohhot, tourists now outnumber devotees (nevertheless, in case of problems, a SWAT team waits around the corner).

Teaching local children in Mandarin, a policy which the party is now pursuing with gusto in Tibet and Xinjiang, started early in Inner Mongolia too. All young Mongolians speak Mandarin—far fewer understand Mongolian. So comfortable is the party with the dominance of Mandarin that it has allowed Mongolian-language education to grow: the share of primary and middle-school pupils taught in Mongolian actually increased from 10% in 2005 to 13% in 2015.

Money has helped ethnic Mongolians come to terms with the Chinese Communist Party: GDP per person is \$10,000 a year in Inner Mongolia, compared with \$4,000 in Mongolia the country. Such riches are the result of a deliberate government strategy to exploit minerals, particularly coal, and build infrastructure (another measure repeated recently in western China).

The question is whether the model of assimilation and appeasement is sustainable. Economic pressures are growing. Many Mongolians feel excluded from the province's overall prosperity. City folk, who are disproportionately Han, earn ►►

▶ twice as much as herders. Even in rural areas, the energy-intensive and heavily polluting industries that fuelled the region's boom largely benefit Han companies; few miners are Mongolian.

Mining companies show scant regard for grass or goats and consume lots of water. The water table has dropped by 100 metres in some places, according to Greenpeace, an NGO. New mines were curtailed in 2011, when a Han driver deliberately ran over and killed a Mongolian herder, sparking protests. The provincial government also soothed pastoralists with subsidies.

But Tsetseg, a 36-year-old herder near West Ujimqin, close to the scene of the killing, says most subsidies now exist in name only. Desertification and climate change mean there is less grass for her goats to graze on, so she increasingly has to buy corn as well. With rising feed costs and falling meat prices, her family has little hope of ever repaying the 100,000 yuan (\$15,000) they owe. Tsetseg's economic woes sometimes assume ethnic overtones. The area was awash with Han police after the protests in 2011, she says. She "would not agree" to her son marrying a Han: "There aren't many Mongols now. When they marry a Han we lose them: we have to keep our bloodline."

Bodi, who is 65, lives in a community of

settled herders in Bailingmiao, an hour's drive from Hohhot. His flat is comfortable, he says, but he hates the noise of cars, the fried (Chinese) food and eating meat raised by someone else. His neighbours, who are in their thirties, say they miss the grasslands, but their 12-year-old daughter is happy "anywhere where there is Wi-Fi".

The government is emboldened by the area's tranquillity. This year it is marking Inner Mongolia's 70th anniversary as an "autonomous region" with months of "traditional" sports, music and other events. Beyond government-sponsored festivities, however, there are signs of a quiet resurgence of Mongolian identity. A 20-something in West Ujimqin whose upbringing was so Chinese that he goes by his Chinese name recently started a line of clothing adorned with local Mongolian monuments and Mongolian script that he himself cannot read. Social media have helped Mongolians from different parts of the province get in touch; Mongolian-language apps, some aimed at adults wishing to learn, are helping revive the language.

Ties with the country of Mongolia have grown too. Restaurants in Hohhot advertise chefs and singers from Mongolia. Like many Chinese-Mongolians, Bayin talks of his visit to Mongolia with awe: "Everyone there is Mongolian—even the leaders." ■



Proud in Taipei

of attitudes to, and among, homosexuals and other sexual minorities in China on behalf of the UN Development Programme. It found that most gay Chinese remain in the closet. Only 5% said they had come out at work and less than 15% had come out to their families. They also experience widespread discrimination, especially at home: 58% of respondents (gay and straight) agreed with the statement that gays are rejected by their families. Yet the notion that homosexuality is a disorder is almost universally scorned (only 2% supported it). And there is a big generation gap: 35% of those born before 1970 said they would reject a child who was gay; only 9% born after 1990 said that.

This does not mean Chinese attitudes to sexual minorities will soon catch up with those in more tolerant societies. Indeed, caution is the order of the day even in liberal Taiwan and Hong Kong. Tsai Ing-wen, Taiwan's president, supported gay marriage during her election campaign but has done nothing to advance the cause since her victory in 2016. In Hong Kong the high court ruled against the plaintiff in a separate case that would have struck down rules defining marriage for tax purposes as between a man and a woman.

Still, in an online debate about the Taiwan ruling, Li Yinhe, a sociologist at the Chinese Academy of Social Sciences, pointed out that whereas the majority of people under the age of 35 approve of gay marriage, the average age of members of China's National People's Congress (the rubber-stamp parliament that would have to change marriage laws) is 49. "Due to the influence of Taiwan, we may be 14 years away from legalising it," she concluded. Wishful thinking, perhaps. But the walls of Chinese homophobia are slowly crumbling and the court rulings may knock a few more bricks away. ■

## Homosexual rights

# Gay across the straits

BEIJING

## Court rulings in Taiwan and Hong Kong could influence the mainland

THOSE who rely on China's official news outlets may not realise that it has been a busy few days for gay rights in Greater China. The state-run media made little of the ruling from Taiwan's highest court on May 24th that ordered parliament to enact a law giving gay couples the right to marry within two years. They also largely disregarded a narrower ruling two days later, from Hong Kong's top court, that the government could not deny the partner of a gay official benefits that are enjoyed by the spouses of other civil servants (the pair had married in New Zealand, so far the only country east of Suez to allow gay couples to do so).

Ordinary Chinese, however, were not so muted. Weibo, China's Twitter, lit up with millions of reactions, most of them positive. "Love disregards male or female, young or old, strong or weak," wrote Zhang Xinyuan in a typical comment. Sun Wenlin, who sued in court in 2016 to have his marriage to his male partner registered by the local government in Hunan, a

southern province (he lost), called on people to sign his online petition to legalise same-sex marriage (so far a modest 6,000 have signed up).

Taiwan and Hong Kong have frequent street protests, independent judges, openly gay celebrities and democratic constitutions. China has none of those things (and is trying to crush Hong Kong's democratic impulses, too). Nonetheless, the rulings could make a difference in China because attitudes towards homosexuality are fluid and rules are changing. Gay characters and issues have started to appear more frequently on television and in films. A gay dating app called Blueed has 27m users. A similar app for lesbians called Rela (with 5m users) was shut down this week. School textbooks continue to define homosexuality as a "disorder", but last year a court in Beijing agreed to hear a case demanding that the Ministry of Education revise such teaching.

In 2016 Peking University's sociology department carried out the largest survey






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**Left-wing activism**

## Marching to the sound of gunfire

PITTSBURGH

**A surge in activism will reinvigorate the Democratic Party, or perhaps sink it**

IT IS noon on a Wednesday so around 40 of Keith Rothfus's constituents have gathered, as they do every week, outside the Republican congressman's office in a northern suburb of Pittsburgh. Despite a light drizzle, they are in high spirits. Many wave stars-and-stripes flags or brandish placards daubed with slogans protesting against Donald Trump and Mr Rothfus, including especially the congressman's weak-kneed refusal to meet them at a public event. "Investigate Russiagate!" reads one, "Real News, Fake President!" another. "Uncle Sam wants health care for all!" reads Carolyn Gibbs's placard. A statistical analyst, who works for a commodities trader, the 55-year-old is wearing the Uncle Sam costume her teenage daughter bought for Halloween. "It's important to me that our protest is joyful and expresses our patriotism," she says.

Like many attendees at the weekly "Where's Rothfus? Wednesday" protest, which was launched in February by a group of local women who had met on a bus to the Women's March—an anti-Trump protest in which perhaps 4m Americans took part—Mrs Gibbs is new to activism. She had not given money to a political campaign until Mr Trump insulted the bereaved parents of a Muslim war hero last July, which persuaded her to give \$100 to Hillary Clinton. "It pushed me over the edge," she says. Besides showing up for "Where's Rothfus?" she also hosts her own "Potluck for Perseverance" evenings,

which she describes as occasions for "like-minded moderates and progressives" to meet, discuss issues and pen badgering letters to Republican lawmakers.

This snapshot of leftist protest might have been taken in almost any of America's 435 congressional districts. The energies unleashed by the Women's March, the biggest political protest in American history, have been sustained. In even the most conservative places, including the lily-white northern suburbs of Pittsburgh, where Mr Rothfus won in November with a big majority, established centre-left groups report massive increases in support and new ones are mushrooming. MoveOn, an online protest outfit with 8m members, says it has three times as many monthly donors as it had before Mr Trump's inauguration. "This is what we were made for," enthuses its director in Washington, DC, Ben Wikler. Primed by social media, and fuelled by ever-rising outrage at Mr Trump, the most successful new entrants are growing even faster.

**Liberty and justice for all**

Pantsuit Nation, a pro-Clinton Facebook group started during the election campaign, had 3m members by the end of it. A report by the Centre for American Progress, a think-tank, reckons 140 new groups have been launched since then. The breakout star of the new activists, Indivisible, was launched by a pair of former Democratic congressional staffers in January, and

now has 6,000 groups, in every congressional district, including 15 in Mr Rothfus's.

Indivisible followers swamp their local Republican lawmaker with pestering letters, jam their phone lines with inquiries, about their votes or intentions to vote, but-hold them in public and organise protests rallies when they go to ground, as many now have. "Where's Rothfus?" is an example of this. A sister protest, "Tuesdays with Toomey", named for Pennsylvania's Republican senator, Pat Toomey, draws several hundred protesters to his offices in Pittsburgh and Philadelphia every week.

"America has a representative democracy and all members of Congress, whether good or bad, mainly want to get re-elected," says Ezra Levin, one of Indivisible's founders. "This makes local constituents very powerful." The organisation has also been prominent in rallying Democrats in a series of special elections, in Kansas, Montana and Georgia, to replace congressmen hired by Mr Trump's administration. In formerly safe Republican districts, these contests have seen outsized Democratic turnouts and surprisingly stiff competition. A run-off vote on June 20th for the Georgia district, which was vacated by Mr Trump's health-care secretary, Tom Price, could give the Democrats their first major electoral victory since the general election. If so, Indivisible, which has 19 groups in the district, will take much of the credit.

That would also encourage many charged-up progressives to believe they could overturn the Republicans' 45-seat House majority in the mid-term elections due next year. That would represent a stunning reversal for the Republicans; it could even lead to Mr Trump being impeached. Yet even as things stand the new progressive activism looks likely to have major consequences for both parties—and perhaps even for the nature of parties.

A comparison with the Tea Party, a con- ▶▶



▶ servative grassroots reaction to Barack Obama's election and economic stimulus policies, helps illustrate that. Its activists pioneered many of the confrontational tactics Indivisible has adopted. "If you subtract the racism and negative values, the Tea Party had a really smart strategy," says Mr Levin. Yet at its height the Tea Party consisted of only about 650 groups, whose members were predominantly middle-class, middle-aged white men. Though undeniably a grassroots movement, the Tea Party also depended on support from established libertarian moneybags, such as FreedomWorks, an enterprise of the industrialists Charles and David Koch. Setting aside its role in preparing the ground for Mr Trump's angry insurgency, the Tea Party's enduring achievement was to create a caucus of around 40 obstructive Republican House members, which has plagued Republican congressional leaders ever since.

By contrast, Indivisible alone appears to have a much greater potential to promote its members' preferred issues and candidates and in turn affect the course of many more elections than the Tea Party did. Given also that the Democrats are at a historically low ebb, obliterated electorally in much of the country, and with institutions badly neglected under Mr Obama, groups such as Indivisible might not merely influence the party, as the Tea Party influenced the Republicans. They could even obviate it.

That might appear to be Indivisible's plan. It recently launched an electoral arm, which among other things will help recruit and promote the sorts of progressive candidates its founders and many local group members admire. It also plans to start endorsing candidates in Democratic primaries; and perhaps launch primary challenges to Democratic incumbents who are considered insufficiently left-wing or trenchant in their resistance to Mr Trump. Indivisible members in New York gave Chuck Schumer, the Democratic leader in the Senate, an early taste of their disapproval, by noisily protesting against his votes to confirm several of Mr Trump's first cabinet nominees; he voted against the rest. "Half the battle is making sure Democrats have spines," says Mr Levin.

The obvious risk is that the Democrats, gifted a fine opportunity by Mr Trump to recover their lost ground, are about to be dragged into the sort of left-wing purity contest that would send moderate voters packing. Indeed, there are signs that this is already happening. Heath Mello, a charismatic 37-year-old Democrat, recently lost a strong bid to become mayor of Omaha, Nebraska, a state almost entirely in Republican hands, following a damaging intra-Democratic row over his pro-life views.

Yet there are also reasons for the Democrats to hope such tensions can be mitigated. Most newly energised progressives are

united, above all, by their detestation of Mr Trump. Otherwise, the protesters in Pittsburgh suggested, they are a more diverse crowd than the earnestly progressive, indefatigably hipsterish, new activist leaders might suggest. The organiser of the "Where's Rothfus?" protest, Linda Bishop, is a retired banker who was until recently a registered Republican. Her colleague Stacey Vernallis, the leader of a group, PA12 For Progress, which is co-ordinating protests against Mr Rothfus, is a retired lawyer and self-described fiscal conservative.

For Democratic politicians vying to appeal to this massive and growing crowd of fired-up progressives, the answer may be to worry less about ideology and more about tone. Democrats, like Republicans before them, are clamouring for a fight. "We don't simply need progressive votes in Congress. We need thunderous, righteous champions," says Mr Wikler. Left-wing purity may be a secondary concern, at least for now. ■

### The Texas legislature

## Sine die

AUSTIN

**The legislative session comes to an end, with no fatalities**

THE Texas legislature has a constitutional duty to meet every other year and, it sometimes seems, to confirm that America's second-most-populous state remains a land apart. The legislature adjourned on May 29th after a session that will probably be remembered as the one in which Matt Rinaldi, a Republican state representative, threatened to shoot one of his Democratic colleagues, Poncho Nevárez, in the face. It probably should be remembered that way,

too, although Republicans have disputed this characterisation of the incident. In a statement Mr Rinaldi issued shortly afterwards, he confirmed that he told Mr Nevárez he would shoot him, albeit only in self-defence, after Mr Nevárez threatened to "get him". He had, he added, sought police protection.

What is beyond dispute is that the threat was issued during the course of a scuffle that broke out on the floor of the Texas House. Mr Rinaldi overheard two other Democratic legislators, César Blanco and Ramon Romero, commending protesters who had gathered in the chamber's public gallery, in opposition to a new state law cracking down on "sanctuary" policies in Texas cities and counties. "Fuck them," said Mr Rinaldi, of the protesters. He had, he added, called in the immigration authorities to deport them.

The law in question was the product of one of the more notable legislative debates of the year. The competition, in fairness, was not stiff. Under the Texas constitution, the legislature is given the job of passing a budget; the legislators who gathered in Austin this year had done that, and comparatively little else. With the deadline looming, Lieutenant-Governor Dan Patrick, who leads the Texas Senate, made it clear he was disappointed by the lack of progress on his priorities, such as protecting women's privacy via a "bathroom bill", which would prevent transgender women from using loos for females. Joe Straus, the (Republican) Speaker of the Texas House, acknowledged that he was frustrated too: "It's absurd that bathroom bills have taken on greater urgency than fixing our school-finance system," he said. Many Texans would agree with Mr Straus. The governor, Greg Abbott, also a Republican, has a plan for introducing pre-kindergarten education that has yet to be funded. Mr Abbott has the power to call a special session to tackle such issues, and is expected to ▶▶



A mess in Texas

▶ make an announcement soon about whether he will. Mr Patrick has urged him to do so, but not to forget those bathrooms.

Debate in the House over the sanctuary-cities measure had been particularly bitter. Democrats objected, in part, on the grounds that it would lead to widespread racial profiling: 40% of Texans are Hispanic, and most of them were born in the United States. Republicans dismissed this concern, and bridled at the implication about their underlying intent. Mr Abbott, who described the issue as one of his priorities, did the same, after signing the bill into law on May 7th. "You are not going to be stopped and required to show your papers unless you are suspected of having committed some serious crime," he said, in an interview with Univision.

Mr Rinaldi's claim to have called Immigration and Customs Enforcement to break up a political protest shows why Latinos living in Texas might have cause for concern about the new law. Some of his colleagues vouched for his version of events—and on social media, at least, many Republicans rallied to his defence. Others tried to smooth things over by putting the events in question in context. The altercation had occurred in the final hours of an extraordinarily contentious session. Everyone was tired, and unusually tense. This was true enough; that being the case, it was a strange line of defence. Mr Nevárez clarified his stance on Mr Rinaldi on Twitter: "He's a liar and hateful man. Got no use for him. God bless him." ■

## Housing and climate change

# Flow-riders

MIAMI BEACH

**The residents of south Florida try to hold back the sea**

TURRETS and terracotta tiles, palm trees and pillars adorn properties on La Gorce Island. Trucks roll by on their way to plots where homes are being torn down or built up. "There are a lot more people making improvements here than fleeing," says Josh Gelfman, a developer. "None of my clients are that worried," says David Pobiak, an estate agent who sells mansions to Americans, Brazilians and others. "Most people I deal with just want to be able to park their boat behind the property." Yet the residents of this island towards the north of Miami Beach must go to ever-greater lengths to fight off the rising waters.

Sea levels continue to rise around the world at a rate of about one-eighth of an inch (0.3cm) each year. Quirks of geology, winds and ocean currents mean that different regions will suffer differently. By 2030,



Commute like Canute

the average sea level in south-east Florida is likely to be six to ten inches above the mean level seen in 1992; by 2060, between 14 and 26 inches. By 2100 the Atlantic could devastate the area because of Florida's porous limestone bedrock and shallow water table, which allow water to well up even behind sea walls. Seasonal tides already bring flooding and aquatic visitors to the Miami area: octopuses in garages and baracudas in swimming pools.

All this threatens local government as well as homeowners. The absence of a state income tax means the Treasury depends on property taxes, which supplied 35% of total revenues in the 2014 fiscal year, according to the Tax Foundation, a think-tank. Income from property taxes helps cover the infrastructure schemes needed to prepare for rising sea levels, such as road-raising and pumping stations.

At the top of the state, denial rules. Rick Scott, Florida's governor, will not say whether he accepts the links between human activity and global warming. According to a report from 2015 by the Risky Business Project, which tries to calculate the economic costs of climate change, rising waters will threaten up to \$36bn-worth of Florida's coastal property by 2050.

Miami Beach takes the threat seriously. The city plans to spend hundreds of millions of dollars in the next few years on raising streets and improving drainage. Officials hope this will give current and future residents greater confidence in their property investments.

Many of them are already prepared for rising sea levels. In the year to September 2016, Floridians took out almost 1.8m policies with the National Flood Insurance Programme (NFIP), a public insurer—far more than in any other state. The existence of NFIP beyond September 30th requires congressional approval. After disasters elsewhere in recent years, the programme is running a deficit of almost \$25bn; critics say that it encourages people to build and live in risky areas. But Floridians can take heart from the fact that senators from New York and Louisiana—both states were in-

undated after hurricanes not long ago—released draft legislation in April to reauthorize it for another decade.

Properties worth more than \$250,000 need private insurance, too, which is spurring owners to defend them better. Coastal Risk Consulting, set up in 2014, offers detailed maps for less than \$500 showing how and when houses might flood in future. Dock and Marine Construction, around for more than five decades, is run by experts at elevating properties and replacing crumbling sea walls. Securing the right environmental permits can take years, and the work is expensive; up to \$1,600 per foot for a sea wall that may be 100 feet long. But the bother is worth it; homes made ready for a rising sea can be more valuable than ever before. ■

## The world's longest land border

# Canuck rebuke

CHICAGO

**The case for building a wall to keep Canadians out**

ARON HEITKE, who heads the border patrol in Grand Forks, North Dakota, would like the federal government to send more money his way. Just over 2,000 agents patrol America's northern border, compared with 17,000 down south. Mr Heitke wants some of them to come up and lend a hand. Heidi Heitkamp, a Democratic senator from North Dakota who co-authored the Northern Border Security Review Act, signed into law by then-President Barack Obama in December, would like more federal dollars for her state, too. The world's longest land border, running through Montana's mountains, four Great Lakes, glorious woods and wild prairies, is also one of the least patrolled and surveyed. Some see Donald Trump's election as a chance to change that.

Between 2000 and 2010 taxpayers ▶▶



▶ spent an estimated \$90bn on the southern border, which included paying the salaries of guards, building fences, x-ray machines that can peer into cargo trains and trucks, tower-mounted cameras, ground sensors, predator drones and drug-sniffing dogs. Expenditure on the northern border in the same period was in the millions rather than billions. Yet the northern border sees the world's largest bilateral daily flow of goods and people, on average \$190m and nearly 400,000 respectively. It offers more opportunities for illegal crossings: in many places a small white obelisk somewhere in a field is the only marker of the border. Some streets and buildings are shared between Canada and America. On the north side of Canusa Street in Vermont (Rue Canusa in Québécois) lies Canada; to the south is America. The Haskell Free Library and Opera House straddles both countries.

If America is to spend even more on border security, would marginal dollars be better spent on the northern border than the southern one? If the main purpose is to nab illegal immigrants, the answer is no. In 2016 border-patrol agents caught only 2,300 illegal migrants on the northern border, compared with almost 200 times as many (408,000) on the southern one. If the purpose is to prevent drug-smuggling, the case is a bit stronger. The DEA reports that lots of marijuana and ecstasy enters from the north, though in total the quantity of drugs seized is much lower: 700lb (318kg) of cocaine and marijuana in the north versus 1.7mlb in the south.

Those who see the northern border as alarmingly porous worry about terrorists crossing it, too. About the same number of Canadians and Americans joined Isis in Syria, which suggests that Canada has a bigger problem with home-grown jihadists (who might go south), points out Bruce Hoffman of Georgetown University.

For their part, Canadians are as fixated on their border with America as Americans are on theirs with Mexico, says Nik Nanos, a Canadian pollster. Ninety percent of Canada's population lives within a 90-minute drive of it. Some have started to fret about asylum-seekers crossing from America into Canada illegally to escape the immigration policies of the new administration. (If they crossed legally, at official border posts, they would be turned away under agreements between America and Canada, which say that refugees must request protection in the first safe country they arrive in.) Their numbers are small, in the hundreds perhaps, though this could change in the warmer months. Canadians continue to show their traditional generosity of spirit towards asylum-seekers, says Mr Nanos, but they also dislike people jumping the queue. All of which shows that it is usually easier to make the argument for harder borders than for more open ones. ■

## Russia and the Trump clan

# Trusting Volodya

ATLANTA

**The president's son-in-law is alleged to have sought a hotline to Moscow**

**A**FFABLE and portly, Sergey Kislyak seems nevertheless to be an eminently forgettable man. Jeff Sessions, the attorney-general, forgot to mention his contacts with the Russian ambassador during his confirmation hearings. Michael Flynn, briefly Donald Trump's national-security adviser, seems to have forgotten that he and Mr Kislyak discussed American sanctions, and paid with his job. Meanwhile Jared Kushner, the president's son-in-law, omitted his own meeting with the ambassador at Trump Tower from his security-clearance form. Now the alleged substance of their conversation has brought fresh embarrassment to Mr Kushner and Mr Trump.

On May 26th the *Washington Post* reported that, in his encounter with Mr Kislyak in December, Mr Kushner proposed establishing a back-channel between Mr Trump's team and the Kremlin. According to the *Post*, Mr Kushner suggested using equipment in Russian diplomatic facilities for these secret chats, presumably to conceal them from Barack Obama's outgoing administration. The proposal reportedly came to light through the interception of Mr Kislyak's own communications with his colleagues in Moscow.

It seems to have come to nothing. But, at a time when Russian meddling in the election was causing an uproar, what might Mr Kushner have been thinking? Mr Flynn was at the meeting, too, and one apparent aim was to connect him with Russian secu-

rity personnel, expediting Mr Trump's fanciful plan to co-ordinate the two countries' efforts in Syria. In Mr Kushner's defence, some American officials have maintained that such back-channels are routine. For his part, Mr Trump—who made a different kind of slip-up with Mr Kislyak, when he revealed classified intelligence to the ambassador on May 10th—again tweeted denunciations of media “lies”.

But given the various inquiries, in the FBI and Congress, into possible collusion between the Trump campaign and the Russians, speculation about Mr Kushner's motives is inevitable. It doesn't help that Mr Kislyak was not the only Russian he met in December: Mr Kushner also saw Sergey Gorkov of Vnesheconombank, a state-owned bank placed under sanctions by Mr Obama. It is hard to see why Mr Kushner might resort to this sort of arrangement when his father-in-law was due to inherit the White House within weeks.

Mr Kushner may clear up this and other questions in testimony to Congress. (Having declined an earlier subpoena, Mr Flynn was this week said to have agreed to turn over some documents to a congressional committee; Michael Cohen, Mr Trump's private lawyer, was also approached by lawmakers.) Still, assuming the *Post*'s report is true, one safe conclusion is that Mr Kushner underestimated the import of his scheme. Diplomacy—particularly with the Kremlin—is turning out to be trickier than Mr Trump and his associates expected.

Meanwhile the “witch hunt”, as the president terms the various Russia probes, has fresh impetus and is touching the White House itself. Another inference is sad but inescapable: whatever his purpose, Mr Kushner seems, in December, to have put more faith in representatives of a hostile foreign power than in America's own government. ■



From back-channel to front lawn



# Lexington | Like a wrecking ball

Zbigniew Brzezinski feared Donald Trump would demolish valuable alliances



**Z**BIGNIEW BRZEZINSKI, who died on May 26th, was a child of war. The smashing of his Polish homeland to rubble, first by Nazi invaders and then by the remorseless, brutish violence of Soviet communism, jolted him from a life of privilege—he was the son of a diplomat and nobleman—to one of uncertain exile. After that early brush with destruction and collapse, it is small wonder that the word “constructive” was among his highest praise for a policy.

The former national security adviser to President Jimmy Carter did not get every call right: he strongly backed a failed attempt to rescue American hostages in Iran in 1980, for instance. But he was prescient about the hidden divisions and weaknesses of the Soviet bloc in Europe. He was right about the risks of invading Iraq in 2003. He will be remembered as among the most eloquent champions of an American-led international order that took a generous view of the superpower’s self-interest. He often sounded like a master-builder when describing the global policy “architecture” needed to allow other nations to be free and to prosper. He saw America “buttressing” and stabilising a world being unbalanced by emerging powers.

Retreat may tempt many Americans, he wrote in his last book, “Strategic Vision—America and the Crisis of Global Power”, published in 2012. In that prophetic work he imagined nativists leading his country into a “garrison-state mentality”, even as other, more doveish Americans are tempted by “self-righteous cultural hedonism”. No other country is ready to take on America’s burden of leadership, argued Mr Brzezinski: certainly not China, an inward-looking power that prefers to play the long game. As for passive, fearful old Europe, it acts as if its goal is to become “the world’s most comfortable retirement home”.

Now America has a leader who is literally a builder. What is more, President Donald Trump seems to share Mr Brzezinski’s concern with extending American pre-eminence, at least for a few more years. As a candidate he accused foolish, cowardly and self-dealing political leaders of failing to see that America holds all the cards when competing with rivals like China. As president, he still talks of winning, a lot. He did so when addressing American soldiers, sailors and airmen in Sicily on May 27th, on the final stop of his first foreign tour, when he congratulated himself for

browbeating NATO governments over defence spending.

Yet a gulf separates the Brzezinski and Trump views of American leadership. In March Mr Brzezinski called Mr Trump’s handling of foreign affairs “chaotic, unclear, unfocused”. Mr Brzezinski’s career was spent thinking about and defending a Pax Americana, built around post-war alliances and formal institutions. If that meant America, the global hegemon, buying the consent of smaller nations by providing global goods, from security to rules underpinning an open trading system, that was a worthwhile long-term investment. To internationalists, America enjoys precious privileges as the designer of many multilateral organisations. No country has the same veto rights as America at the International Monetary Fund and the World Bank. No country has such power over which generals run NATO.

It is hard to convey how strongly that expansive worldview is rejected in Mr Trump’s White House. The president’s inner circle makes America sound like an ageing, declining hegemon with a grievance, one that may squeeze a few more years of primacy—but only if it becomes tougher and more selfish. Perhaps American businesses gained from schemes such as the Marshall Plan, by which Europe was rebuilt. Maybe, during the cold war, the CIA used American overseas development aid to advance the fight against communism. But somewhere along the way, according to TrumpWorld, bleeding-heart liberals took over and started giving away America’s wealth without measuring the returns.

During the Saudi Arabian leg of his foreign tour, Mr Trump pointed to \$110bn in Saudi spending on American arms and military kit as a concrete proof that his country was forging new and stronger partnerships to fight terrorism and advance security across the region and beyond. “We will be sure to help our Saudi friends get a good deal from our great American defence companies,” Mr Trump beamed, in almost the same breath as he promised not to “lecture” the 50 or so Arab monarchs and autocrats gathered to hear him on how they govern: a none-too-subtle promise to put interests ahead of values or human rights.

## Brand values

That is not the sound of an architect designing new policy structures. It is the sound of a promoter, wooing clients. One way to understand Mr Trump’s foreign-policy instincts is to consider his business career. Many of his property deals in recent years have been licensing agreements, in which the Trump name is slapped on a hotel or apartment complex designed, funded and built by others. If Mr Trump talks of new, American-led partnerships (aides have talked vaguely about an Arab NATO, for instance), the underlying thinking seems strikingly similar. To hear Mr Trump and his team describe statecraft, America sounds like a faded but still-valuable brand-name. The clever tactic is to bolt that name in giant brass letters on structures, even if they are built according to others’ standards. If other countries are ready to pay, Mr Trump is not about to judge.

Inside Mr Trump’s White House, the anxiety of foreign leaders is ascribed to their guilty consciences, after years of taking America for granted. It is an article of faith that previous generations of soft, weak leaders stupidly allowed others to push America into relative decline. Mr Trump’s inner circle sincerely scorns the foreign policies of previous administrations, from the Obama era back to the days of Bill Clinton or both Bushes. That contempt extends to the global institutions that Mr Trump inherited. This builder is a demolition man. ■



Mexico

## Keystone state

ECATEPEC

**The outcome of a governor's race could have a big effect on the presidential election next year**

THE wood-panelled walls of Rodrigo Moya Torres's study are decorated with hunting knives. On his desk lies a pistol; underneath is a rifle. Mr Moya, who wears a black Stetson and monogrammed cowboy boots, grew up on a ranch. But he has spent the past 31 years publishing a weekly newspaper in the town of Ecatepec, just north of Mexico City.

The firearms are for self-defence. The opinion pages of his newspaper, *Morelos de Ecatepec*, fulminate against corruption at all levels of government. Mr Moya has received death threats; a local politician tried to kidnap him, he says. No politician merits his respect. "They treat people badly and they don't look after them," he fumes.

Ecatepec is a violent part of the State of Mexico, which encircles the country's capital city almost fully and provides a home to many people who work there. Many of its inhabitants seem to share Mr Moya's contempt for politicians, which suggests that turnout in a gubernatorial election on June 4th is likely to be low. Despite their indifference, the outcome could affect the direction not just of the state but of the country.

The contest pits the Institutional Revolutionary Party (PRI) of Mexico's president, Enrique Peña Nieto, against Morena, the political vehicle of Andrés Manuel López Obrador, a left-wing populist who hopes to become Mexico's president next year. A loss would be traumatic for the PRI, which

has governed the state for 88 years, and embarrassing for Mr Peña, who has his political base in the state (he cannot run for re-election). Victory for Morena's candidate, Delfina Gómez Álvarez, would confirm Mr López Obrador as the favourite to win in 2018. He is a fierce critic of corruption, and of reforms introduced by Mr Peña to modernise the economy and Mexican schools. As president, Mr López Obrador, or AMLO, as he is known, would seek to clean Mexico up and drag it backwards.

The PRI's prestige is at stake in two smaller states it governs, Nayarit in the west and Coahuila in the north, which will hold elections on the same day (the eastern state of Veracruz will have municipal elections). But it is the result in the State of Mexico that really matters. With 16m inhabitants, it is the country's most populous state; its GDP is the largest after Mexico City's. Mr Peña was born in the state and governed it from 2005 to 2011. It is "the last bastion of the PRI", says Sergio Miranda, a historian at UNAM, a university in Mexico City. The current governor, Eruviel Ávila, won 62% of the vote in 2011.

The PRI's dominance has a feudal quality. Mr Peña is distantly related to six earlier governors. Alfredo del Mazo Maza, the PRI's candidate to succeed Mr Ávila, is an even better example of political inbreeding. His father and grandfather were governors. The state is said to be home to the At-

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lacomulco group, a clique of PRI politicians so shadowy that some doubt its existence.

Voters may be losing faith in dynasts and cabals. Crime is their biggest worry, says Fernando Moreno, who operates a one-man citizens' advice bureau in Ecatepec, the municipality with Mexico's fifth-highest number of murders. The state is not a hub of organised crime, but a "woman out getting milk in the morning will be robbed for the sake of 20 pesos" (about \$1), he says. On May 30th five policemen were killed by unknown gunmen in an ambush.

The national statistics office says the State of Mexico is the country's most corrupt, as measured by the number of corrupt acts per 100,000 people. The rate of off-the-books "informal" employment is higher than the Mexican average; the poverty rate rose from 42.9% in 2010 to 49.6% in 2014, the second-biggest increase among the 32 states. Under Mr Ávila's governorship there has been no improvement in the quality of life, says Eduardo Garduño of the state's Autonomous University.

### AMLO aims high

These grievances are regional echoes of national ones. Mr Peña is just as unpopular in his home state as elsewhere. People blame him for failing to reduce corruption, impunity and insecurity. They hate his government's decision to increase petrol prices sharply this year. Despite all this, Mr del Mazo is slightly ahead in some polls, but his lead, if it exists, is tiny and insecure.

If he loses, it will probably be to Ms Gómez, a former teacher and congresswoman. She is trying to become the first governor from Morena, the party Mr López Obrador created after he split in 2012 from the leftist (but more establishment-minded) Party of the Democratic Revolution ►►

▶ (PRD). Governors can be a big help to presidential candidates, by rallying voters and, if they are unscrupulous, by diverting money from the state to their parties. Moreno has spent a lot of its own money to win in the State of Mexico. If it does, that would create “the image that Mr López Obrador is unbeatable” in next year’s presidential election, says Jesús Silva-Herzog, a political scientist at Tecnológico de Monterrey, a university.

The main challenger to Mr López Obrador next year may be the candidate of the centre-right National Action Party (PAN) rather than the PRI’s nominee (both

have yet to be named). The PAN has a strong chance of unseating the PRI in Nayarit, where it is in alliance with the PRD, and in Coahuila. It could even win in the State of Mexico (though it trails behind the PRD, which is now in third place in the polls).

The PRI, by contrast, has all but given up on trying to win next year’s presidential election, suggests Alejandro Schtulmann of EMPRA, a political-risk consulting firm. A victory in the State of Mexico would not resurrect its prospects. Even so, it will remain a force to be reckoned with. In 2015 it had 5m members, many more than any other party. If it loses all three gubernato-

rial elections on June 4th, it will still run 12 of the 32 states.

Pundits predicted the PRI’s demise after it lost a presidential election in 2000 for the first time in 71 years; Mr Peña brought it back to power 12 years later. It retains a *voto duro*, a hard core of supporters, many from trade unions. That can give the party victory in elections when turnout is low. A loss by the PRI in the State of Mexico would wound the party but not destroy it. The bigger consequence would be the election of Mr López Obrador as president next year. That would leave a lasting mark on the country. ■

## Bello | The campus revolution

Latin America has had a boom in universities. Now it needs to make them better

HE LIVES in a house of cardboard and tin in Puente Piedra, a sprawling poor district on Lima’s northern fringe. His mother sells cooked food in the street; his father is a mechanic. Yet César Huamán is studying architecture at a new private university. To pay the fees of \$137 a month he works on building sites during the holidays. His parents and six siblings chip in. “We all want to have a professional in the family, even if it’s only one,” says Inés, his mother.

Mr Huamán is part of a revolution in higher education in Latin America. The region has some 20m students, more than double the number at the turn of the century. The gross enrolment rate, meaning the proportion of 18- to 24-year-olds in higher education, surged from 21% in 2000 to 43% in 2013, a faster expansion than in any other region in this period, according to a new report from the World Bank. Many of the new students are, like Mr Huamán, from hard-up families. While students from the poorer half of the population accounted for 16% of the total in 2000, in 2012 they made up 24% of the (bigger) total—an increase of 3m students from such backgrounds.

To meet this demand, since the early 2000s some 2,300 new universities or institutes offering diploma courses opened in the region. Many of them are private, and do not set an entrance exam. (Less than half of students are now at public institutions.) This huge expansion is a sign of rapid socio-economic progress in Latin America. It is the result of faster economic growth, the spread of secondary education and the aspirations of an emerging lower-middle class. It is a welcome change in a region with a big shortage of skilled labour. In Latin America, only 14% of the workforce has a higher-education diploma, according to María Marta Fer-



reyra, the lead author of the bank’s report. In the United States the figure is 42%.

But there is a catch. Almost half of those who enroll in universities drop out without getting a degree, Ms Ferreyra warns. And some of those who graduate will find that their course was a waste of money, in that the extra salary they might command will not compensate for the cost of the degree and the income forgone while studying. Students from poorer backgrounds are more likely than others to drop out. Neither the public secondary schools that they attend nor their parents, who often have little more than primary schooling, prepare them for the academic challenge of university.

After the headlong expansion, Latin America needs to rethink policies on higher education, especially because the region’s economic slowdown is forcing some governments to curb spending. The first problem is a lack of information about which courses at which universities are worthwhile. The region has too many students of law and social science, and not enough engineers and scientists. Many of the newer institutions offer a poor-quality

education. And the average degree course lasts for five years—an encouragement to drop out.

The second issue is whether public funds are being used effectively. Governments have expanded student grants and low-interest loans. But these can have unintended consequences. Free (ie, taxpayer-funded) university tuition, as Chile’s president, Michelle Bachelet, proposes, can ease the pressure on students to complete their degrees while being a gift to the better-off. In Brazil there is evidence that student loans have had the effect of pushing up tuition fees at for-profit universities. Peru and Colombia have both introduced schemes aimed at students who are both hard-up and clever, which look to be a more effective use of public money. Mentoring and help with preparing for university could increase the chances that poor students graduate.

Proper evaluation and oversight of universities is crucial, too. There has been some timid progress in this. Chile shut down Universidad del Mar, a large, shoddily managed institution with murky finances. Peru has closed several substandard teacher-training institutes. Above all, Latin America needs to offer more variety to its school leavers. Many of those attending bad universities might be better served by expanded and improved vocational training.

For people like Mr Huamán, studying at university represents a risky bet. Many families have gone into debt to finance their children’s studies. If universities do not offer a better and more predictable return, that is a formula for social discontent. Chile has already seen years of student protests over the high cost of studying. Governments should note that frustrated students are a potentially revolutionary class.



## Canada's new opposition leader

## Harper lite

TORONTO

## Andrew Scheer resembles the country's last prime minister

WHEN Stephen Harper stepped down as leader of Canada's Conservative Party after losing a national election in October 2015, it looked as if the party he had created might come apart. That 13 candidates came forward to succeed him was an indication of how many ideologies he had knitted together. Among them were three anti-abortion social conservatives, a libertarian and a Trumpian populist. Any one of these might have unravelled Mr Harper's coalition.

In an election on May 27th to choose his successor, the 140,000 party members who voted stayed with what they knew. Andrew Scheer, a genial, 38-year-old father of five from the western province of Saskatchewan, spent his 13-year political career under the leadership of Mr Harper, who was prime minister for nearly ten years. Mr Scheer shares his predecessor's enthusiasm for smaller government and lower taxes. Like Mr Harper he opposes carbon taxes and emphasises the need to go after "radical Islamic terrorists". The media dubbed him "Harper lite". He prefers "Harper 2.0". Now Justin Trudeau, the Liberal who defeated Mr Harper to become prime minister, will face a duly elected leader of the opposition for the first time.

The race was close. Mr Scheer won 50.95% of the vote after 13 rounds of counting. (About half the party's members voted, listing candidates in their order of preference; those who backed the least popular candidates in each round had their next preferences counted.) Maxime Bernier, a libertarian from Quebec who promised to dismantle protection for dairy farmers, remained in first place until the final round. Farmers from his own riding in Quebec organised against him.

Mr Scheer was a popular second choice. At the party's convention in Toronto, where a few thousand members voted, his team cannily asked them to "mark Andrew as number one or number two on your ballot". Social conservatives helped him win, although he has promised not to support legislation on issues such as abortion that would divide the Conservative caucus.

In choosing Mr Scheer, the Conservatives shunned both Mr Bernier's libertarianism and the populism of Kellie Leitch, who got a lot of attention by suggesting that immigrants and visitors be tested for "Canadian values". She received just 7% of first-round votes.

Despite his relative youth, Mr Scheer is

a seasoned career politician, having served as Speaker of the House of Commons. Like Mr Trudeau, he is fluent in French, the language of Quebec. But he may not solve the problems revealed by the Conservatives' defeat in 2015. The biggest is that the party appeals to ageing baby-boomers and their parents, but not to their children.

The generation gap is apparent on such issues as climate change. Conservatives from western, energy-producing provinces, like Mr Scheer and Mr Harper, tend to oppose costly action to reduce emissions of greenhouse gases. Mr Scheer promised in his victory speech to repeal the "job-killing carbon tax" that the Liberal government plans to impose on provinces that do not put a price on carbon. Michael Chong, the one candidate for the leadership to support a carbon tax, was booed for this during a pre-election debate. Alex

Kwong, a young Conservative delegate from Toronto, lamented that in rejecting such measures the party was distancing itself from millennial voters. Progressive Conservatives, one of the tendencies Mr Harper brought into his big-tent party, had made the environment "our issue", he said. The Liberals "took it away from us".

Mr Scheer's supporters are counting on his charm to infuse Harperism with new life. "Justin Trudeau is a likeable kind of guy, and we need somebody who has a good personality," said Katherine Federkiewicz, a Conservative delegate at the Toronto convention. Mr Scheer has more than two years to woo Canadians: the next election is in October 2019. He will need that time. A recent poll by Nanos shows support for the Conservatives at 29%—11 points behind the Liberals. Mr Scheer will have to smile a lot to overcome that. ■

## Cuba

## It's a wonderful weed

HAVANA

## A nuisance becomes a national treasure

THE peskiest weed in Cuba sprouts a charming flower. Pink and wispy, with a bushy yellow tail, it looks like a cross between a Chinese lantern and a Muppet. *Marabú*, as Cubans call the leguminous tree, covers 2m hectares, about 18% of the country's territory. It spread unchecked during the "special period" of the 1990s, when the Soviet Union stopped subsidising Cuba and farms fell into disuse. Uprooting it is time-consuming and labour-intensive.

Recently, though, Cubans have begun to view *marabú* as an asset rather than an irritant. Since 2009 Cuba has exported 40,000-80,000 tonnes a year of "artisanal charcoal" made from *marabú*, which is used for firing up hookahs in the Mid-

dle East and pizza ovens in Italy. That could rise after the United States in January approved *marabú* as the first legal import from Cuba in more than 50 years. There it will compete head-to-head with mesquite to fuel American barbecues.

Some businessmen have bigger ambitions for *marabú*. Three tonnes of the stuff can produce as much electricity as a tonne of fuel oil, a commodity in short supply. Havana Energy, an Anglo-Chinese firm, has entered a joint venture with Azcuba, a state-owned company, to build five generators. Built next to sugar mills, they will be powered by a mix of *marabú* and bagasse, the residue of crushed sugar cane. Andrew Macdonald, Havana Energy's boss, calls the *marabú* fields "outdoor mines".

Heated in a process called "thermal pyrolysis", *marabú* can become "activated carbon", which is used for such purposes as filtering water and decaffeinating coffee. In this form, it can fetch prices of up to \$2,400 a tonne, around five times its value as a barbecue fuel.

Donald Trump is considering whether and by how much to reverse the opening to Cuba that took place under Barack Obama. It is not clear whether *marabú* will remain the only item on the United States' list of approved imports, whether it will be struck off or whether new products will be added, such as organic honey, which costs even more per tonne than activated carbon. Whatever Mr Trump decides, there is demand for the Muppet-flowered weed. Cuba has the makings of a maraboom.



From bouquets to briquettes




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**Congo**

## The tinder box at the heart of Africa

KINSHASA

### Violence in central Congo could spread

“LET’S march on the president’s palace and drive him out,” howled the speaker, and a couple of hundred supporters, packed into a sweaty courtyard at the headquarters of the Democratic Republic of Congo’s main opposition party, yelled their agreement. Outside, a contingent of police, heavily outnumbered, waited nervously. The march never happened. It would not have got anywhere near the president, and no one, for the moment, wants to risk a repeat of the violence last September, when police opened fire on crowds and a hundred or so people died. But the economy is tanking, civil war is raging again in the centre of the country, and patience is wearing thin with Congo’s dictatorial president, Joseph Kabila, whose final term in office expired five months ago.

Mr Kabila has misruled Congo for the past 17 years, after he took over from his father, who was shot by a bodyguard. The past few months have been particularly desperate. Congo depends on copper and cobalt, and to a lesser extent diamonds, for hard currency. Nearly all manufactured goods are imported. Despite a mighty river and abundant rainfall, its broken-down infrastructure means it imports much of its food, too. At the Momo supermarket in the capital, Kinshasa, a ramshackle city of 12m people, you will find tin pans from Pakistan, toilet paper from Turkey, sandals from Thailand and glass tumblers from Brazil:

but virtually nothing from Congo itself apart from some of the chicken and beer.

The world copper price halved between 2011 and 2016. Cobalt is still well down, too, after a crash in 2008. The two commodities have recovered a bit this year, but this has not prevented the collapse of the Congolese franc, as the central bank printed more money in response to falling receipts: it has lost 50% of its value since November. Chantal Ngoyi, a trader at the big Victoire market, sells clothes (none of them made in Congo) out of big bundles of Western hand-me-downs she buys for \$250 from importers. The bundle used to cost 1.8m francs; it now costs her 3.6m, so she has to pass the increase on to her cus-

tomers. “Now no one can afford to buy from me,” she complains. John Mbala, who runs a liquor shop nearby, says demand for his imported booze has simply vanished. Even the cheap local hooch, like his eye-watering Boss Whisky, is not selling, because everyone is broke.

The news from central Congo is much worse, if little known outside. Back in August, in murky circumstances, a tribal chief and militia leader nicknamed Kamuina Nsapu (“Black Ant”) was killed by the security services in the province of Kasai Central after protests following the national government’s refusal to endorse him as the next “customary chief” in his area. His militia, also called Kamuina Nsapu, hit back. The government retaliated in typically heavy-handed fashion, and the violence has spread. No one knows how many have died (estimates run from 500 to 3,000 and more). The UN says that more than 1.2m people have been displaced by the fighting in the three Kasai provinces. Together with refugees from other conflicts, Congo now has more displaced people than any other country in Africa, and probably more than any country in the world bar Syria.

Two UN experts sent to investigate were murdered in March. At army headquarters in Kinshasa officers show videos of mounds of mutilated corpses and severed heads to underline the barbarity they face. Opponents accuse the army of slaughtering whole villages of Kamuina Nsapu “sympathisers”. Forty mass graves have been found by the UN so far. “This is a popular insurrection against the Kinshasa regime,” says Claudel Lubaya, a former Kasai governor. To the government, Kamuina Nsapu are simply terrorists.

The violence imperils the politics of the whole country. For Kasai is not just any region: it is a stronghold of the opposition to ▶▶





▶ Mr Kabila, and the home of the veteran opposition leader Étienne Tshisekedi. Mr Tshisekedi died in February, but his son Félix has taken over his party (politics is a family business in Congo). Under the terms of a deal worked out between the government and the opposition on December 31st, the government was given a year to hold elections, with Mr Kabila agreeing that he would not run again (he is termed out under the constitution, though some of his supporters say that the constitution ought to be changed). Voter registration, a vast and complex exercise in a country as decrepit as Congo, is under way, but it cannot take place in Kasai while things there are so dangerous. But both sides agree that there cannot be an election if Kasai cannot vote.

The opposition, a collection of parties grouped together under the name Le Rassemblement, smell a rat. They accuse the government of inflaming the situation in Kasai to delay the election and give Mr Kabila longer in office. Long enough, perhaps, to organise a referendum on a change to the constitution that would allow him a third term, a trick pulled off across the river in 2015 by Congo-Brazzaville's own veteran despot.

The opposition has other grievances, too. Under the terms of the December 31st agreement, the president was meant to appoint a new prime minister on the recommendation of Le Rassemblement. They picked their leader, Mr Tshisekedi, for that job, but instead Mr Kabila defiantly appointed a minor opposition figure, neatly dividing and weakening his enemies. "For now, we are trying to resolve this through diplomacy," says Mr Tshisekedi, a mild-mannered man of 53 who affects his father's somewhat incongruous flat cap for public appearances. "But when that is exhausted, we will ask our people to chase

the dictator out." Anything might happen in that sort of situation, including the return from exile of another popular opposition politician, Moïse Katumbi, mightily complicating things.

An hour's drive outside Kinshasa, the shell of a palace testifies to the impermanence of power. Startlingly obscene graffiti adorn the walls of the salon where a ruler once entertained his guests. Weeds choke what was once an ornamental crocodile pool. Every fitting has been stolen. It is exactly 20 years since Mobutu Sese Seko, the tyrant who ruled the country he called Zaire from 1965 to 1997, was overthrown by Rwandan-backed rebels who installed Mr Kabila's father in his place. Shortly afterwards, Congo plunged into a horrific civil war, sucking in several neighbours. The next few months will show whether the country can manage a peaceful transition of power this time or endure another lurch back towards chaos. ■

### Africa's economies

## Clouds over a continent

NYAMATA

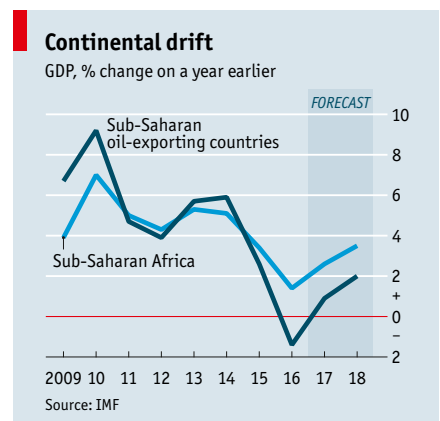
**Cheap commodities and poor polices are causing a painful slowdown**

**W**EARING a cowboy hat and holding two scrawny goats at the end of a tether, the farmer scowls when asked how business is going at Nyamata Market, a patch of dusty earth about 25km south of Kigali, Rwanda's capital. "People have no money," he grumbles, pointing at his unsold animals. As if to underscore the point one of the goats jets a stream of urine at your correspondent's shoe. Rwanda's economy, like many across Africa, has been hit by the twin blows of drought and low prices for minerals.

Growth in sub-Saharan Africa slumped to 1.4% last year, its slowest pace in two decades, reckons the IMF. Since the region's population is growing at about twice that rate, this means that GDP per head fell for the first time in more than 20 years. Economies slowed in two-thirds of countries south of the Sahara.

A year earlier, cheaper oil helped speed growth in some countries. Nigeria and Angola, where the black stuff used to account for as much as 90% of exports, were walloped. But countries that import most of their fuel, such as Kenya and Ethiopia, enjoyed a boomlet.

When the price of crude slumped further in the early months of last year, the big oil exporters fell into recession. This time there seemed to be no offsetting benefit for others. The misery was more widespread than in 2015, and more sustained than ex-



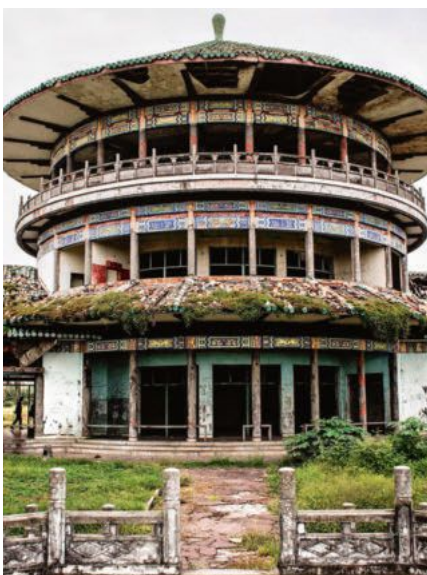
pected, for two main reasons. The first was a drought across much of east and southern Africa that shrivelled crops, driving up food prices and slashing farmers' incomes.

The second was that ill fortune was exacerbated by government policies that have hobbled growth in Africa's two biggest economies, Nigeria and South Africa. In Nigeria the government refused to let its currency float freely in response to the sharp drop in its export earnings from oil. Faced with an overpriced currency investors held back, waiting for the naira to fall. In South Africa, meanwhile, investment and growth dried up as news of government corruption and economic mismanagement spurred credit-rating agencies to downgrade the country's debt to junk.

Even many of the region's faster-growing countries have passed foolish economic policies. Kenya has capped the rate of interest banks can charge, prompting most of them to stop lending to businesses. Tanzania has barred its main gold producer from exporting gold concentrate. Cameroon's government, fearful of dissent, shut off the internet to English-speaking parts of the country, which is where technology startups cluster.

More worrying is that as economies slowed, the parlous state of public finances became clear. The ratio of public debt to GDP has jumped ten percentage points to 42% on average since 2014—the highest level for many countries since they had their debts written off a decade or so ago. The level may not look high by the standards of rich countries, but interest rates in Africa are much higher. The governments of Nigeria and Angola now spend more than half of all their revenue on servicing their debts. Countries such as Ghana, Zambia and Mozambique risk drowning in red ink, having ramped up government spending when GDP growth was stronger and global credit was easy.

Growth should pick up a little this year—the IMF hopes for about 2.6%—but its fragility highlights how the region has yet to kick its addiction to commodity exports, and how it can ill afford to keep piling on debt as it has in recent years. ■



Look on my works, ye Mighty



## Entertainment in Saudi Arabia

## No more shunning fun in the sun

RIYADH

The kingdom embraces entertainment, even country music

IT IS hardly surprising that Rachid and his friends had not heard of Toby Keith before seeing him perform. Mr Keith is an American country-music star who sings about drinking beer and chasing girls. Rachid and his pals live in Saudi Arabia, where that kind of thing is forbidden. So why did they go to his concert in Riyadh, the capital, last month? "I just wanted to see what was going on," said Abdulaziz, another attendee.

A better question is: why was Mr Keith in Riyadh? His arrival coincided with a visit by Donald Trump. But the concert, which included Rabeah Saqer, a popular Saudi musician, is also part of a push to make the kingdom more fun. With cultural life restricted under the kingdom's strict Islamic social code, so much so that even cinemas are banned, many Saudis head to places like Dubai for entertainment. The government wants to keep more of their money at home—and perhaps loosen things up a bit.

"What we aim to do is create happiness," says Ahmed al-Khatib, the chairman of the General Entertainment Authority (GEA), which is overseeing the push. Creating revenue adds to the pleasure. The GEA was formed last year as part of a broader effort to diversify the kingdom's oil-based economy. The authorities hope to double household spending on culture and entertainment inside the kingdom by 2030. "We're well on our way," says Mr Khatib.

There have been over 3,000 events so far this year, up from 300 last year, accord-



Don't get too excited

ing to the GEA. One was a packed performance by Muhammad Abdu (pictured), a Saudi singer, in Riyadh in March. Until this year there had not been a concert in the capital for nearly three decades. Of course, the fun is still restricted. Only men were allowed to attend the shows of Mr Abdu and Mr Keith. When a co-ed hip-hop dance group called iLuminate came to town, the creator toned down the costumes and took out hip movements. It helped that the show is performed in the dark.

Some Saudis still can't stand it. Cinemas and concerts are "a depravity", said the kingdom's grand mufti, Abdulaziz al-Sheikh, in January. But what really set off the conservatives was a Comic-Con event in Jeddah a month later. Young geeks dressed up as comic-book superheroes, boys and girls mingled and some even danced together. Imams accused the attendees of idolatry and debauchery.

## Nigeria

## Finding love in Lagos

LAGOS

The unwritten rules of Nigerian dating

LIFE in Lagos can be hard, even for a young, salaried professional. The long working hours, the endless traffic and the pressure to keep up appearances in a city that idolises wealth often leave people exhausted by the weekends, which are packed with lavish weddings and lengthy church services. They can also make it hard to find love.

Tinder, a dating app where users reject or select potential partners by swiping left or right, has not proved as popular in Lagos as it is with time-poor young people elsewhere. "Friends thought I was insane or looking to be murdered," says a female lawyer. For those who dare, men mostly find "runs girls" (aka sugar babies) looking for rich boyfriends to buy them gifts, or outright prostitutes. Women find cheating husbands. "The first time I signed up... I saw three guys I knew who were married," says Efuia Oyofu, who runs the blog Dating While Nigerian.

However, many young women in Lagos want to be the "side chick" of a married man, deeming them more responsible than the single ones. "It was crazy," a 26-year-old journalist says, recalling the sudden attention he got from young women in his office when he wore a ring on his fourth finger. "They're more patient," says Eve, a software developer who prefers older men. "And there's the money."

For heterosexuals looking for something serious, megachurches run singles events. Weddings are also seen as a good place to meet future spouses. "Unlike a

But many Saudis defended the event. "If you look at the culture today, it is much more open than five or ten years ago," says Mr Khatib. Last year the government curbed the *mutaween* (religious police), who harassed citizens for such infractions as wearing nail polish. Now Mr Khatib talks of backing the creators of a viral video featuring women in vibrant dresses riding skateboards. He has a powerful backer in Muhammad bin Salman, the young deputy crown prince, who is leading the economic reform effort. Cirque du Soleil is on its way, as is an "entertainment city", featuring a safari and a Six Flags theme park.

In the lounge at Mr Keith's concert, attendees ate dates on gilded couches and prayed towards Mecca. But there were also signs of the changing culture. "I want tequila and dancing and girls and democracy," said a young man after the show. That might take a bit longer. ■



nightclub it's actually a fairly well-lit event, so there's a sense you can survey the market," says Ore Disu, who runs Nsibidi Institute, a think-tank. However, many women worry that nuptials are frequented by "Yoruba demons", stereotypically promiscuous young men from south-west Nigeria. Gay Nigerians, most of whom are in the closet, tend to meet at private parties.

Whereas ethnicity is less of a barrier to love in Nigeria's cosmopolitan commercial capital, Christian-Muslim unions are still frowned upon. Parents also put pressure on their children to find a partner, inviting men over for dinner or sending women to meet their sons. For many young people the only way to date is to find someone who lives and works nearby—and spend time together during the long commute.

Syria

## Dairy godfathers

BEIRUT

For Syria's new elite, peace might be bad for business

**A**MID the ruins of Syria, Mohieddine Manfoush has carved out a kingdom built on cheese. An unremarkable man with 25 cows to his name before the conflict began, Mr Manfoush now has his own militia, a herd of 1,000 cattle and a company whose dairy products have become ubiquitous in Damascus.

For those with the right connections and an appetite for risk, the war has opened up lucrative sources of revenue. For Mr Manfoush, his new-found wealth is directly bound to the regime's preferred tactic of siege warfare. This has proved effective at isolating, containing and strangling rebel redoubts into submission without consuming too much of the regime's dwindling manpower. The sieges have generated lots of money, too.

Mr Manfoush's cash cow has been the siege of Eastern Ghouta, a large rebel-held region east of Damascus. In mid-2013, regime forces surrounded the area, whose rich farmland supplied the capital with most of its meat and cheese before the war began. As the siege tightened, its dairy farmers slowly lost access to their customers in the capital. With the ensuing milk glut in the enclave, prices collapsed.

Using his contacts, Mr Manfoush, who owned a small cheese business, struck a deal with the regime. He began to bring cheap milk from rebel territory in Eastern Ghouta to regime-held Damascus, where he could sell it for double the price. The regime received a cut of the profit. Mr Manfoush reinvested his share. He snapped up the region's best cows and dairy machinery from farmers and businessmen whose livelihoods had been hammered by the siege. As the business evolved, the trucks that left Ghouta with milk and cheese came back laden with the barley and wheat he needed to feed his growing dairy herd there and run the bakeries he bought.

As the only trader allowed to bring goods in and out of Syria's largest besieged area, Mr Manfoush could control prices. When these peaked in the winter of 2013, as the regime tightened the siege after killing 1,400 people in a sarin gas attack, Mr Manfoush was charging \$19 for a kilo of sugar (in Damascus the same amount cost less than \$1). With a captive market of 390,000 people and the sole right to import food, fuel, medicine and other necessities, Mr Manfoush's profits—and those of his patrons in the regime—rocketed. The rebels dug tunnels out of the enclave to try to

diversify supply, causing prices to fall back, though they are several times higher than in Damascus. Even with such competition, the checkpoint through which Mr Manfoush trucked his goods became known as the "Million Crossing". Residents believe it generates \$5,000 per hour in bribes for the soldiers who man it.

Foreign aid further boosted Mr Manfoush's profits. Organisations funding bakeries and local councils were forced to rely on him to transfer hard currency into Eastern Ghouta. This in turn generated even more money for the cheese king, who benefited from the different exchange rates inside and outside the rebel enclave.

Estimates of Mr Manfoush's wealth vary. What is known is that the cheese trader can afford to keep a private militia of about 500 men and a workforce of around 1,500 who are paid as much as \$250 per month—more than rebel commanders pay their fighters. He has bought up property in Damascus and his factories inside the rebel enclave churn out dairy products, crisps, canned goods and juice.

Aside from its cut, the regime has also won a degree of quiet from Mr Manfoush's part of Eastern Ghouta. "People see him as a sort of Robin Hood character. He's the only one bringing in food and their area is not being bombed like the others. They love him. People don't want the rebels to upset things," said Youssef Sadaki, a Syrian

political analyst who has studied the siege economy in Eastern Ghouta.

The new business elite does not just make money from the sieges, but from the general economic breakdown. During the course of the war, the country's economy has progressively withered. International sanctions and damage to infrastructure have crippled its oil and gas sector, once the main source of government revenue. The government has financed its huge deficits by printing money and eating up its foreign reserves. The Syrian pound has lost four-fifths of its value, and reserves have dropped from \$20bn to \$1bn since 2010. The IMF says Syria's GDP today is less than half of what it was before the war.

As the fighting dragged on, many of Syria's big businessmen fled, moving their assets abroad. Those who remained, mostly the owners of smaller firms, have filled the vacuum. The services they provide vary, but most involve facilitating the flow of goods into regime-held areas. Others have helped the regime skirt sanctions, establishing front companies that import fuel, food and luxury items.

Whether Mr Manfoush and his kind retain their wealth after the war will depend on how the conflict plays out and on the peace that follows. "He is swimming with the sharks," said a businessman who knows the cheese trader. "He doesn't know when the regime will bite him but they will, and they'll spit him out when he's no longer any use." Others, however, believe he will endure; that the networks and connections that war millionaires have built will survive. If they do, they will be well placed to benefit from the reconstruction money that will flow once the war ends. Those who have grown rich during their country's darkest hour may thus be the ones who are paid to rebuild it. ■



Life in Damascus goes on






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**Europe and Trump**

## Don't let him get to you

BERLIN

**Provoked by America, European leaders strain to keep cool**

IT WAS a friendly, local political event: a sweaty tent at a street festival in Munich on a Sunday afternoon. Angela Merkel arrived to a brass-band serenade and battled her way through the beery crowd to reach the podium. But her speech on May 28th made global news. Alluding to America and Britain, the chancellor said: "The times in which we could totally rely on others are to some extent over, as I have experienced in the past few days." To prolonged cheers she added: "We Europeans must really take our fate into our own hands."

This followed NATO and G7 summits at which Donald Trump offended European sensibilities. The president attacked the continent's leaders for (mostly) failing to meet the alliance's target for defence spending of 2% of GDP, and pointedly neglected to mention Article 5, NATO's mutual-defence clause. In one meeting he reportedly called Germany "bad, very bad", and threatened tariffs on the country's car exports to America. Mrs Merkel was venting her irritation. It was a risky move.

The chancellor is not prone to spontaneous outbursts. Her comments had been planned, and were aimed at German voters. Her Christian Democrats (CDU) have a comfortable double-digit lead in polls ahead of the general election on September 24th. But she remembers the 2002 and 2005 election campaigns, when Gerhard Schröder, the Social Democratic (SPD) incumbent, picked off CDU voters by oppos-

ing George W. Bush's wars. Ulrich Speck, an expert on German foreign policy, says Mrs Merkel learned that "during election campaigns, alignment with a right-wing American president is toxic."

Europe's anti-Americans could hardly design a president more favourable to their cause than Mr Trump. His disregard for the environment, his unilateralism, his materialism and his physical impoliteness raise the costs to European leaders of defending the transatlantic alliance. Mrs Merkel's SPD rival, Martin Schulz, is romantically pro-European, rails endlessly against Mr Trump and opposes NATO's 2% target. She needs to cover that flank—especially ahead of the G20 summit in Hamburg next month, which Mr Trump will attend.

The result has been a rhetorical arms race. On May 26th Mr Schulz thundered of Mr Trump: "I furiously reject the way this man takes it on himself to treat the head of our country's government." Sigmar Gabriel, the SPD foreign minister, said he had "weakened the West" and accused him of endangering the environment, peace and religious harmony. The following day Mr Trump tweeted of Germany's trade surplus and low defence budget: "Very bad for us. This will change." As the German election campaign approaches in September, people should expect "anti-Trumpism morphing into outright anti-Americanism", warns Thorsten Benner of the Global Public Policy Institute in Berlin.

France's new president, too, is showing that he wants to stand up to Mr Trump ahead of legislative elections on June 11th and 18th. At the NATO summit Mr Macron pointedly greeted Mrs Merkel first. In a separate encounter he gave Mr Trump a white-knuckle handshake. This show of force was "not accidental", he later admitted. At a meeting near Paris on May 29th he confronted Vladimir Putin about the role of Kremlin-backed broadcasters in France, which he correctly called "agents of influence and propaganda".

Yet it would be wrong to write off the transatlantic partnership. America's military establishment still firmly supports NATO and Mrs Merkel is far from anti-American. Three days before her trip to Munich she held a fond reunion with Barack Obama in Berlin; she is said to phone Mr Bush for advice. "For Germany the transatlantic alliance is (to use a favourite Merkel term) alternative-less," says Mr Benner. Her comments in Munich were partly aimed at convincing voters that the country needs to take its defence spending more seriously.

**Exaggerating for effect**

Whether they were wise is another matter. A war of words plays into Mr Trump's belief that every deal has a winner and a loser, raising the probability of a tariff war that would hurt both sides. The president will surely continue to offend Europeans, but neither Mrs Merkel, nor Mr Schulz, nor Mr Macron believes their continent can manage without America. Europe relies on the transatlantic alliance, whether Europeans admire the inhabitant of the White House or not. Wolfgang Ischinger, a former German ambassador to Washington, says this inconvenient truth leaves Mrs Merkel and other Europeans with just one strategy: "engage, engage, engage". ■



## Austrian politics

## Wunderkind

VIENNA

**Sebastian Kurz, a 30-year-old party leader, bids to remake the system**

**T**O UNDERSTAND Austria, visit the Karl-Marx-Hof. This vast municipal housing complex in Vienna is still riddled with bullet holes—not from fighting between Russians and Germans in 1945, but from a little-known civil war in 1934, when Austrian leftists and conservatives took up arms against each other. After the second world war, the country adopted a political system designed to prevent this from ever happening again: the Social Democrats (SPÖ) and the Christian Democrats (ÖVP) would rule together and divvy up public offices under a system known as Proporz.

For 43 of the past 72 years the two parties have run Austria jointly, in grand coalitions. Their networks politicise everything from school boards and business groups to social clubs and unions. The result is a uniquely corporatist country.

Today, however, that system is breaking up. Other parties—first the far-right FPÖ, then the Greens, then the liberal NEOS—have challenged the old duopoly. Both the SPÖ and the ÖVP have lost members. Economic stress adds to the pressure. A decade ago Austrian unemployment was a little over half that of Germany; now it is 50% higher. On May 10th Reinhold Mitterlehner, the ÖVP vice-chancellor, resigned and brought down the dysfunctional SPÖ-led grand coalition. Elections will take place on October 15th. “What is happening in this country?” marvelled *Profil*, a news magazine: “Austria is unrecognisable, and redefining itself breathtakingly fast.”

At the heart of the drama is Sebastian Kurz, Austria’s 30-year-old foreign minister, its most popular politician and the ÖVP’s new candidate for chancellor. In one sense, he is a product of the old-fashioned associational system, having soared



Chancellor, maybe

through his party’s ranks as head of its youth organisation. He turned the youth wing from a stagnant backwater into a dynamic network of local groups, putting on parties, pub nights, bike rides and various other opportunities for teenagers and 20-somethings to get it on with one another. In 2013 his youthful, liberal base, centred on Vienna, propelled him to the post of foreign minister. He then won over the party’s right-wingers by taking a tough stance on immigration.

Yet Mr Kurz is also determined to break Austria’s old political architecture. He accepted his party’s crown only after its bosses had agreed to several demands. These include the freedom to transform the ÖVP into a list of candidates, pick names for that list, bypass its powerful state bosses and formal interest groups (known as *Bünde*) and set its policies. Having soared in the polls (see chart), he is now trying to persuade prominent figures in NEOS, the Greens and civil society to join his list. Though his manifesto is a closely-guarded secret, insiders hint at liberalisations of Austria’s schools, labour market and transfer payments. “Taking money in taxes and paying it straight back in subsidies is wrong,” Mr Kurz argues.

Christian Kern, the SPÖ leader and current chancellor, is more defensive of the old model: “It made Austria strong”, he says. He suggests that Mr Kurz is more image than substance, and doubts whether he can escape the old ÖVP structures. But like his rival, Mr Kern is a businesslike type who reckons Austria’s paternalist model is dying. “In the past it ran from cradle to grave: you would spend your free time in the Alpine club, at work you would be a member of an SPÖ or ÖVP trade union, from the nurseries to the emergency services everything was parcelled up. These

connections have dissolved dramatically.” Mr Kern’s response is what he calls Plan A, a package of liberalising economic reforms and infrastructure investments.

Will Mr Kern or Mr Kurz succeed in re-making the system? Critics accuse the former of being a game-player whose grand plans amount to little. And they accuse the latter of merely rebranding the ÖVP. (Important tests include whether he omits unimpressive ÖVP placeholders from his list, whether he can persuade his party to support gay marriage and whether he can stand up to the teachers’ *Bund* in support of education reform.) Of the two, Mr Kurz is the most ambitious.

But the real barrier will probably be that of coalition formation. Messrs Kurz and Stern may agree, largely, on what is wrong with Austria, but after ten years of grand coalition their parties hate each other. Both would like to form a government with NEOS and the Greens, but the numbers look unpromising. That leaves the FPÖ, with which both the ÖVP and SPÖ govern at state level and with which both are willing to form a federal government in October, well aware of the diplomatic opprobrium this would attract.

Both of Austria’s prospective leaders accept that the country’s political system is breaking up. The problem is that, unless polls shift, whoever wins will probably be saddled with a government too weak to allow a thorough programme of reforms. Austrian society is evolving. But whether its politics can keep up is uncertain. ■

## Montenegro joins NATO

## The final push

PODGORICA

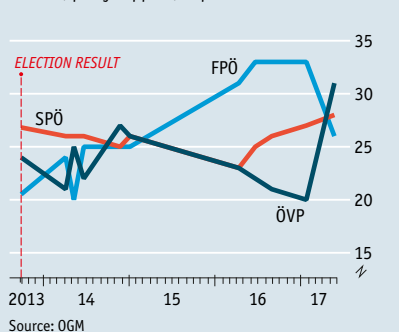
**The allies fill in the map of the Mediterranean’s north coast**

**W**HEN Donald Trump shoved Montenegro’s prime minister aside to get to the front of the pack at a NATO meeting on May 25th, a film of the incident went viral. But most people were interested in Mr Trump, not poor Dusko Markovic. For Mr Markovic the meeting was supposed to be a celebratory preparation for Montenegro’s formal accession to the alliance on June 5th. Instead the symbolic humiliation was seized on by those in the Balkan country who opposed joining. The Russian media, meanwhile, have been gloating.

In terms of muscle, Montenegro does add much to NATO’s strength. It has 1,950 military personnel, 13 helicopters, two frigates and three patrol ships. Its defence budget is €50m, or 1.7% of GDP. But its soldiers have taken part in NATO, European Union and UN operations, including the war in ▶▶

## Kurz spurts

Austria, party support, % polled





▶ Afghanistan. Mr Trump hectors NATO's leaders about the need to spend 2% of GDP on defence, but he still signed off on Montenegro's accession.

Montenegro's value has nothing to do with how many soldiers it has. Rather, its accession means that, apart from an insignificant strip of Bosnian coast, the entire northern shore of the Mediterranean from Portugal to the Syrian border belongs to NATO. The Bay of Kotor was a secure base for the Yugoslav and, before that, Austro-Hungarian navies. In 2013 Russia inquired about using Montenegrin facilities for its ships. Only when rebuffed did Russia realise that the Montenegrins were serious about joining the Western alliance. Every ex-communist country that has joined the EU first joined NATO.

Montenegrins hope that NATO membership will protect them in case, say, future Serbian or Albanian leaders try to whip up their ethnic kin inside Montenegro in pursuit of a Greater Serbia or Albania. But only about half of the country supports joining the alliance, according to polls. Among ethnic Serbs and Montenegrins, who together make up 74% of the population, it may be less than half. Bitterness at NATO's bombing during the Kosovo war of 1999 still runs deep.

The division over NATO has split the country along familiar lines. In 1918 Montenegrins were divided over joining Yugoslavia. In 1948, cleaving to two centuries of friendly relations with Russia, many Montenegrins supported Stalin when he expelled Yugoslavia from the Soviet bloc. Over the past 30 years the percentage of those identifying as Serbs or Montenegrins has oscillated; the country's Christian Orthodox citizens are often uncertain what to call themselves. During the independence vote in 2006, the split was as bitter as in 1918. "It feels like we are being annexed and occupied," laments Gojko Raicevic, an anti-NATO activist. Others feel just the opposite. "We need the NATO umbrella, because it often rains in the Balkans," says Drago, a driver at the defence ministry.

Last October the Montenegrin authori-

ties said they had foiled a coup attempt aimed at stopping NATO accession, which they claim was organised by Russian agents. Nonsense, say opposition leaders like Nebojsa Medojevic. He says the "fake state coup" was a government-produced drama cooked up to scare pro-NATO voters during the country's general election, which the governing party risked losing. One Western source says the evidence linking one of the organisers to Russian intelligence organs is "incontrovertible". Russian officials mock the idea.

In 1889 Tsar Alexander III said that Montenegro's Prince Nikola was Russia's "sole sincere and true friend" in the Balkans. Russian investors and tourists traditionally love the Adriatic republic. But now Russian media are smearing it as a dangerous country run by a mafia clique. According to *Pobjeda*, a Montenegrin newspaper, the Russian government has put the country's pro-NATO politicians on a blacklist. Montenegro is small, but its accession to NATO is a big defeat for Russia in the Balkans. ■

#### France's centre-left

## The descent of Macron

CONFLANS-SAINTE-HONORINE

The French president owes much to an old mentor, Michel Rocard

ON A wooded bend of the Seine, as it winds its way downstream from Paris, sits the fine town of Conflans-Sainte-Honorine. Houseboats are moored at the stone quay. Halyards frap against masts. Container barges chug past on their way to the coast at Le Havre. The town's embrace of the river that joins it both to France's capital and to the port town in Normandy hints at another sort of connection, too. For it embodies an intellectual current that flows to the new president, Emmanuel Macron, as well as his prime minister, Edouard Philippe.

Conflans-Sainte-Honorine is best known as the place that launched Michel Rocard (pictured), a former Socialist prime minister, who was the town's mayor in 1977-94. His ambition to create a moderate centre-left set him for years on a collision course with François Mitterrand, a former Socialist president, who was wedded to an anti-capitalist doctrine. Mitterrand won that battle, becoming president twice and sinking Rocard. If the former mayor of Conflans never realised his aspirations, though, the new French president whom he inspired is succeeding in ways he could hardly have dared imagine.

That Mr Macron was marked by Rocard is not in doubt. When the ex-prime minister died last July, Mr Macron described him

as "one of the great figures of the 20th century", and called his efforts to remodel the centre-left a "precursor" to what he dreamed of achieving. His description of Rocard as a "rare blend" of a statesman and a "convinced, extremely free and committed" politician sounded like a model for himself. Mr Macron met Rocard shortly after graduating from the prestigious Ecole Nationale d'Administration (ENA). They became close; Rocard was a guest at Mr Macron's wedding. After his death, Mr Macron vowed to continue his legacy.

Both men were educated at ENA, as is much of the French elite. Like Rocard in his time, Mr Macron argues that politics needs to overcome old ideological and partisan divides; he built his political movement, originally called *En Marche!* ("On the Move!") and since redubbed *La République en Marche!* (LRM), to that end. As a consensus-seeking prime minister, in 1988-91, Rocard governed without a majority, and repeatedly sought the backing of the centre-right to pass legislation.

Like Rocard, Mr Macron unapologetically backs enterprise and wealth creation, as well as redistribution. In his time, Rocard rejected the economic nationalisation espoused by Mitterrand, who allied the Socialists with the Communist Party. He struggled against his party's Marxist wing, preferring what he called the *deuxième gauche* ("second left"), a pragmatic centre-left based on a mix of market economics and efficient public services. Mr Macron may be a liberal centrist, but his roots, like Rocard's, are on the centre-left.

Finally, both embrace decentralisation. Rocard built his version of municipal socialism around self-governing local committees. Mr Macron founded *En Marche!* as a citizen-based movement rather than a top-down political party. On a walk ▶▶



Emmanuel's rock





▶ around Conflans, Mickaël Littiere, who runs one of the local *En Marche!* chapters, points out the office of a neighbourhood committee Rocard set up, still in use. When Mr Littiere held his first *En Marche!* meeting in a bar by the quay last September, he recalls with a laugh, only one person turned up. At the final presidential vote in May, 74% of the town voted for Mr Macron.

The current that links the new French president with the ex-mayor of Conflans flows further downstream still. Mr Macron's new prime minister, Mr Philippe, a figure from the centre-right brought in to run his post-partisan government, was previously mayor of the port of Le Havre. Born in Rouen, not far from Mr Macron's home town of Amiens, Mr Philippe was drawn as a student to Rocard's version of reformist social democracy. Disappointed after Rocard was sidelined, he then switched to the centre-right. Mr Philippe's past as a *rocardien* suggests that the two men now running France share a deeper bond than might first appear.

Perhaps the greatest difference between Rocard and Mr Macron is their conception of party politics, says Laurent Bouvet, a political scientist at the University of Versailles. Rocard was a lifelong party activist, and voiced doubts about Mr Macron's political startup. *En Marche!* has rekindled enthusiastic local activism, but that could bring its own dangers. Building up a citizens' movement has raised expectations, says Michèle de Vaucouleurs, the LRM parliamentary candidate in the constituency around Conflans: "Voters are no longer prepared just to vote, and hand the key to politicians."

On a ridge above the river at Conflans, where the former mayor converted a manor house into a youth cultural centre, the town recently unveiled a plaque renaming the area "Espace Michel-Rocard". "We were sad when he didn't run for president," recalls Marie-Hélène Lopez-Jollivet, head of another local *En Marche!* committee, contemplating the memorial inscription. Only recently, moderate centre-left politics was written off as lacking a demographic base and menaced by identity politics. "They said that social democracy could not offer hope," she adds: "But Emmanuel Macron has shown that it can." ■

## Sex, royalty and war

# Princesses of the blood

### Who are more bellicose, kings or queens?

**W**OMEN were less likely than men to support the Vietnam war, the Gulf war, or the invasions of Afghanistan and Iraq. They commit far fewer murders. They are less likely to favour drone strikes. For scholars such as Steven Pinker, a psychologist, and Francis Fukuyama, a political scientist, these are grounds for thinking that a world run by women would be more peaceful.

But European history suggests otherwise, according to a working paper by political scientists Oeindrila Dube, of the University of Chicago, and S. P. Harish, of McGill University. They studied how often European rulers went to war between 1480 and 1913. Over 193 reigns, they found that states ruled by queens were 27% more likely to wage war than those ruled by kings.

This was not all the queens' fault: men, seeing them as soft targets, tended to attack them. After Mary Tudor became queen of England in 1553, the Protestant reformer John Knox declared "the Monstrous Regiment of Women" unfit to rule: "nature...doth paint them forth to be weak, frail, impatient, feeble, and foolish." Echoing that sentiment, Frederick the Great of Prussia declared: "No woman should ever be allowed to govern anything." Within months of reaching the throne in 1740, he fell upon the newly crowned Archduchess of Austria, Maria Theresa, and seized Silesia, her empire's richest province. Despite years of war, she never recovered it. Indeed, unmarried queens were attacked more often than any other monarchs. Think of Elizabeth I, the historical figure with whom Theresa May most identifies, fending off the Spanish Armada.

But perceived weakness is not the whole story. Queens, the researchers found, were more likely to gain new territory. After overthrowing her husband, Catherine the Great (pictured) expanded her empire by some 200,000 square miles (518,000 sq km), which is a lot of territory, even for Russia. (She was the first, though not the last, Russian ruler to annex Crimea.) And married queens were more aggressive than single queens or kings, whether single or married.

The authors suggest several reasons for this. First, married queens may have been able to forge more military alliances, emboldening them to pick fights. While female martial leadership remained taboo, male spouses had often served in the army before they married,

and were well placed to cement military ties between their homelands and their wives' states.

Second, unlike most kings, queens often gave their spouses a lot of power, sometimes putting them in charge of foreign policy or the economy. Ferdinand II, who ruled Aragon and Castile with Isabella I between 1479 and 1504, led the expulsion of the Moors from Granada. During the 1740s Maria Theresa's husband, Francis I, overhauled the Austrian economy and raised money for the armed forces while his wife ruled much of central Europe. Prince Albert was Queen Victoria's most trusted adviser, shaping her foreign policy until his death in 1861. This division of labour, the authors suggest, freed up time for queens to pursue more aggressive policies.

In the democratic era, too, female leaders have fought their share of wars: think of Indira Gandhi and Pakistan, Golda Meir and the Yom Kippur war, or Margaret Thatcher and the Falklands. The number of countries led by women has more than doubled since 2000, but there is plenty of room for improvement: the current level of 15 represents less than 10% of the total. A world in which more women wielded power might be more egalitarian. Whether it would be more peaceful is a different question.



Russia was big, but she wanted it bigger



# Charlemagne | Rebuilding the House of Euro

With the economy looking up, Europe must seize the chance to fix its currency



**P**ICK a note, any note. The bills of Europe's single currency are adorned with handsome bridges, arches, vaults and aqueducts, testament to the glorious architectural history of the old continent. True, the constructions are a little lacking in character; the notes' designers were told to depict generic examples rather than specific structures to avoid offending countries whose splendours might be overlooked. But they speak of strength, sturdiness and the confidence of what some used to believe might be the world's next reserve currency.

The euro itself, though, remains a wobbly, half-built enterprise, desperately unprepared for the next shock. When Europe caught America's flu after 2008, bond markets picked off the euro's weakest members one by one. Greece, Portugal, Ireland and Spain were forced into bail-outs. Italy, the euro's third largest economy, tottered. Emergency funds were created, the European Central Bank implied it would create unlimited quantities of cash if needed, and the euro limped on. Today, growth is picking up and unemployment falling. But no one believes that the euro, which lacks the political and fiscal institutions typical of a currency area, can remain half-built forever. Investors are uncertain of its future, and governments have piled on debt since the last crisis, shrinking the space available to respond to the next one.

The case for reform is well trodden. The creation of the euro in 1999 denied its members the option of restoring competitiveness by devaluing. Labour-market mobility and fiscal transfers, which smooth the effects of shocks in other currency areas, were limited by rules and by culture. Bail-outs and belt-tightening were the prescribed solution for governments hit by sudden capital stops, which annoyed everyone: creditors resented opening their wallets; debtors contracted an acute case of austerity fatigue. The currency turned from an instrument of convergence between countries to a wedge driving them apart. Just compare Germany's unemployment rate with Greece's.

All this created a legacy of mistrust that haunts the euro zone today. That helps explain why, despite this litany of woes, conversations about euro-zone reform have gone nowhere. Indebted countries like Italy have grown addicted to the ECB's cheap money, ignoring pleas from Mario Draghi, the bank's president, to use the time he has bought them to reinvent their economies. Hard-

liners like Germany are more convinced than ever of the need for strict rules on spending and structural reform. Anxious officials wonder where the political impetus for a debate on the euro's future might come from.

The election of Emmanuel Macron as president of France provides one answer. Mr Macron campaigned on a promise to deepen integration in the 19-member currency area, adding a common finance minister, parliament and budget. If such ideas are hardly original, they have resonated more than usual thanks to Mr Macron's talent for soothing nerves. He has promised Germany that it will not have to help cover other countries' old obligations, or to permanently fund their budgets. Officials speak of a window of opportunity for reform after Germany's election in September.

This fertile soil has already begun to yield fruit. A new "reflection paper" on the euro's future from the European Commission cautiously entertains such ideas as repackaging euro members' bonds into joint securities (without asking countries to stand behind each other's debts), and an unemployment-reinsurance fund to help treasuries cope with recessions. The euro-zone budget Mr Macron seeks could help countries manage when the next crisis strikes, by protecting public investment or covering the immediate costs of structural reforms with long-term benefits, such as changes to pension rules.

Grand ideas to reinvent the euro zone have traditionally run into the sands in Berlin, where suspicion that European deadbeats want to fund their profligacy with German money is sharper than ever. But some detect a shift. Many Eurocrats heard in Angela Merkel's striking call for Europeans to take charge of their destiny an attempt to prepare voters for hard compromises to come. During Mr Macron's post-election trip to Berlin last month the chancellor declared herself open to changing the EU treaty, which major euro-zone reforms would require.

But first things first. Bar some possible Franco-German initiatives on investment and tax rules, nothing much will happen on the economic front before Germany's election. The make-up of its next government could be crucial; a coalition that includes the thrifty Free Democrats will be fiercer on euro reform than one with the Social Democrats. And while the brighter economic climate should make deal-making easier, the euro area has generally struggled to reform itself outside of crises, notes Sarah Carlson at Moody's, a credit-rating agency.

## A capital idea

If the euro area is capable of taking advantage of good conditions, best to build confidence slowly. Start with the incomplete banking union, which still lacks a common deposit-insurance scheme (thanks to German objections), and a backstop for its resolution fund. The much-vaunted capital-markets union, which aims to reduce European firms' reliance on banks for finance, is only getting off the ground. Improving cross-border financial flows matters as much as the more contentious fiscal risk-sharing.

In time, that might open the way to the more radical changes Mr Macron seeks. They will require the sort of political courage for which the euro zone has never been known, but it could turn out to be less painful than some suspect: polls find record support for the single currency among voters, and a surprising appetite for reform. Like self-hating addicts, governments have shivered in the euro zone's halfway house for too long, hooked up to Mr Draghi's monetary medicine and convincing themselves that they deserve no better. It is time to move on. ■



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The Labour Party's surge

Cor!

HULL  
**Labour's leader has beaten expectations, giving the Tories a fright and perhaps saving his job**

“I'M ENJOYING every minute of this election!” declares Jeremy Corbyn at the end of the stump speech that he has been making at rallies around the country. Coming from a politician who became leader of his party almost by accident in 2015 and is tormented mercilessly by the press, the claim has sometimes rung hollow. But with just a week left until polling day, it is sounding more convincing.

Written off by the pollsters and dismissed by his opponents when Theresa May called the election in April, Mr Corbyn and his Labour Party have seen a surge in their support in the past two weeks. The Conservatives' average lead has fallen from nearly 19 points in April to six. It

amounts to one of the steepest swoons in four decades of elections (see charts).

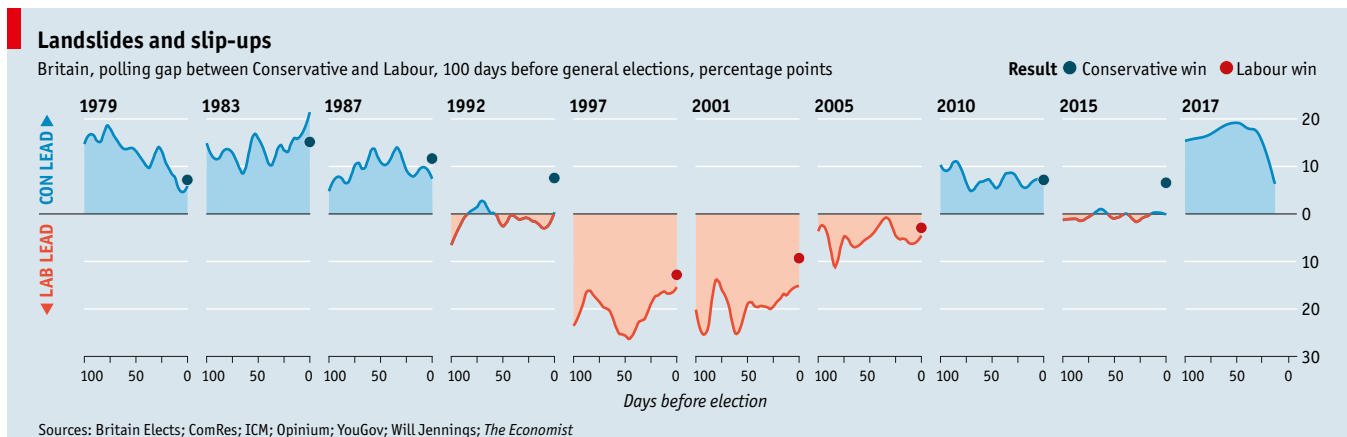
The Corbyn camp is elated. Not only are they giving the Tories a fright, they are proving to their Blairite opponents in the Labour Party that a far-left programme need not flop. Even some of Mr Corbyn's staunchest detractors concede that he has run a good tactical campaign, shifting the agenda off leadership and Brexit—the ground on which the Tories are strongest—and onto public services such as schools and hospitals, safe Labour territory.

He has been helped by some bad missteps by Mrs May. Her U-turn on a plan to fund social care for the elderly, four days after it was heralded as the centrepiece of

the Conservative manifesto, turned her slogan of “strong and stable leadership” into a punchline. Her few unscripted public appearances have been underwhelming. On May 31st she was pilloried for being the only party leader not to take part in a televised debate, sending her home secretary, Amber Rudd, instead.

Mr Corbyn, by contrast, has tended to exceed the rock-bottom expectations that most voters have of him. This is important, argues Robert Ford of Manchester University, because for moderate Labour supporters who might have abstained in protest at Mr Corbyn's far-left agenda, he is no longer such a “deal-breaker”. Ruth Cadbury, a Labour MP defending a thin majority in the west London seat of Brentford and Isleworth (who voted to oust Mr Corbyn as leader last year), says that on the doorstep people say he is “not the bogeyman portrayed in most of the press...that he's fair and principled.”

The strengths and weaknesses of the Labour campaign can be seen at Mr Corbyn's rallies. Part rave, part agitprop, they draw in thousands. The crowd is warmed ▶▶



► up with dance music; the enemies of the people—mainly bankers and the “mainstream media”—are ritually booed; and then Mr Corbyn recites a list of promises of how under his Labour government the state will pay generously for the public services that the Tories want to starve. This draws a crescendo of cheers.

Mr Corbyn's team argues that these rallies, together with the aggressive use of social media, are the only way that their man can bypass the biased media and deliver his unfiltered message to voters. Bernie Sanders, a left-wing senator who ran against Hillary Clinton for last year's Democratic Party presidential nomination, is invoked as a model.

But take a closer look at a Corbyn rally and its limits are apparent. The crowd is mainly young; much of Labour's recent surge comes from a rise in support among young voters, from an average of 43% in mid-April to 57% now. The snag is that they may not vote in the numbers expected by some pollsters (see next story). Backing among the elderly, who turn out like clockwork, has risen by just four points, to 19%. “I will take the surge seriously if Labour's doing better with the over-65s,” says Andrew Harrop, head of the Fabian Society, a centrist Labour think-tank.

Furthermore, most Corbyn rallies take place in solid Labour seats, where the leader preaches to the converted. There is little evidence of the campaign attempting to persuade Conservative voters to change sides; most of the effort is going into minimising losses. By contrast, the Tories are invading Labour turf (see Bagehot).

Nonetheless, Mr Corbyn looks on course at least to achieve two things that were in doubt a month ago. If his poll numbers hold up, he is likely to deny Mrs May the landslide that she must have hoped for when she called the election. A slimmer majority would embolden Tories who disagree with her brand of Conservatism—and there are plenty of them—to grumble more loudly. Opposition to her Brexit plan may be stronger, from both Remainers and her own hardline Eurosceptics.

Second, Mr Corbyn is better placed for the battle after the election if Labour loses. Labour centrists have long wanted rid of him. His supporters say his case for staying on, or nominating a like-minded successor, will be stronger if he exceeds the 30% share of the vote achieved in 2015 by Labour's previous leader, Ed Miliband (never mind if Mr Corbyn wins fewer seats). Richard Angell, head of Progress, a moderate Labour pressure-group, acknowledges that members “are going to rally around him. They've had a shot in the arm.”

It is depressing that the prospect of a higher vote-share than in the disastrous 2015 election is enough to inspire such excitement. If Mr Corbyn has succeeded in one thing, it is managing expectations. ■

## Psephology

# Parliamentary prospects

## Mapping national polls onto constituencies yields sharply varying results

AS THE race narrows and election day approaches, each new opinion poll is awaited with more anticipation. Yet turning national polling results into projections in Parliament is tricky. Britain's first-past-the-post electoral system means that a party's share of the national vote is a poor indicator of the number of seats it will win in Westminster. Constituencies are won and lost on local issues as well as national ones.

A rare constituency-level analysis by YouGov, a polling firm, published by the *Times* on May 31st, caused a minor shock by suggesting that the Conservative Party could lose 20 seats, leading to a hung parliament. The pound fell by 0.5% against the dollar on the news, which challenged the widespread expectation of a Tory majority.

Is such a result likely? Since the election was called on April 18th the Conservatives, who have campaigned clumsily, have seen their average lead over Labour dwindle from 19 to six percentage points. YouGov's projections are based on a much slimmer, three-point Tory lead, as well as demographic information, which partly explains how it reached its surprising conclusion.

A different constituency-level model by Chris Hanretty of the University of East Anglia projects a much brighter outcome for the Tories. He also finds that their prospects have declined since April, when they might have snapped up 413 seats, enough for a crushing 184 majority. But his central estimate now is that they will win 379 seats, yielding a still-impressive majority of 116 (see chart). They would gain most of their new seats from Labour, as well as a handful from the Scottish National Party. But they also

stand to lose five MPs, all of them in Wales. In contrast to YouGov, Mr Hanretty puts the odds of a hung parliament at just one in 50.

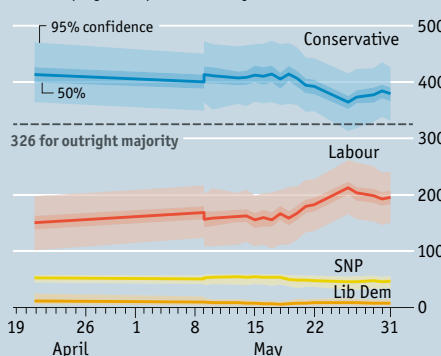
As the widely varying predictions suggest, there is still masses of doubt. But whatever the accuracy of such models, some Labour supporters worry that the underlying polls themselves could be wrong in a way that overstates support for the party. Labour owes its apparent resurgence to the young, who are its keenest fans but the laziest voters. Some polling firms have what look like very high expectations of young voters' turnout. One, Survation, puts the Conservatives' lead at six percentage points, based on the rosy assumption that 82% of people aged 18-24 will vote.

It is true that Labour's leader, Jeremy Corbyn, has fired up many youngsters. But such a turnout would be quite a change from 2015, when only 43% of this age group voted. What's more, a surge in the youth vote could serve mainly to improve Labour's performance in its safe seats, doing nothing for its clout in Parliament. Of the 20 seats with the highest proportion of young people, Labour already holds 16 of them.

British pollsters still have much to do to repair their reputations. In 2015 they missed the Conservatives' victory by an average of 6.6 percentage points. Most of them got the Brexit referendum wrong, though it was a close-run thing. After making methodological changes, their projections this year are accompanied by plenty of uncertainty. With predictions currently ranging from a Tory landslide to a hung parliament, a lot of forecasts are going to be wide of the mark, whatever the outcome.

### Seating chart

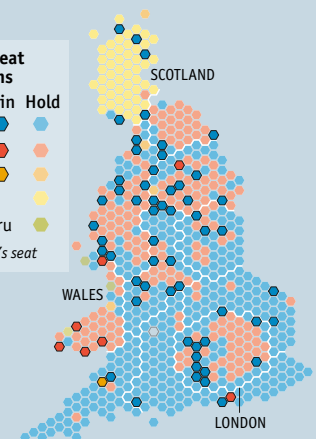
Britain, projected parliamentary seat totals, 2017



Source: Chris Hanretty, University of East Anglia

### Seat-by-seat projections

Gain Hold  
 Con ● ●  
 Lab ● ●  
 Lib Dem ● ●  
 SNP ● ●  
 Plaid Cymru ● ●  
 Speaker's seat ○





# Bagehot | Blue-collar Toryism

The Conservatives are hunting for votes deep inside traditional Labour territory



**N**ORTHFIELD, a constituency on the southern tip of Birmingham, possesses all the features of post-industrial exurbia. Its biggest employer, the MG Rover car plant, closed down in 2005, throwing 6,000 people out of work. The most conspicuous buildings are supermarkets. The district shows some signs of life: the old Rover plant has sprouted an innovation centre and the Cadbury's chocolate factory still operates, though under foreign ownership. But there is a sense that people are holding on by their fingertips. "This is where normal people live," says Meg Powell-Chandler, the local Tory candidate.

Ms Powell-Chandler was dropped into this unpromising constituency at the last moment: she didn't know the place well, having grown up as a country girl in neighbouring Worcestershire, and had to interrupt campaigning to get married ("Weddings are too big a sunk cost to cancel"). The sitting Labour MP, Richard Burden, has held the seat since 1992. Yet when she says that she has a good chance of winning, she is doing more than indulging in a candidate's compulsory bravado. Mr Burden's majority has fallen from 29 percentage points in 1997 to six points in 2015. The constituency voted for Brexit by 62%. The Conservatives' successful campaign to make Andy Street mayor of the West Midlands has left them with infrastructure and momentum.

Ms Powell-Chandler is part of a concerted Conservative attempt to advance into Labour territory. The Tories launched their manifesto in Halifax, a Yorkshire town with a long history as a bastion of the Labour Party. Theresa May's itinerary looks like a guided tour of post-industrial Britain. The central pitch of her manifesto is that the state has a duty to protect people against the vagaries (including immigration) that can make it impossible to cling onto respectability.

The Tories' election campaign has lost its sense of inevitability to mixed polls and backbiting. But it is worth bearing two things in mind. The first is that the Conservatives have made most of the running: Labour has been fighting to defend its home turf by campaigning in Labour constituencies and promising to expand the welfare state and nationalise industries. The second is that the Tories' strategy is a bold one. They believe that the inhabitants of post-industrial Britain have been ripe for the picking for years—these are the grandchildren of industrial workers, who be-

long to the world of Netflix and all-you-can-eat buffets rather than the mill and the chapel—and that the plucking has been made even easier by three recent events: the rise of Jeremy Corbyn, the selection of Mrs May and Brexit.

The blue-collar strategy was responsible for the biggest mess-up of the campaign. The decision to include a pledge in the manifesto to require old people who live in valuable houses to meet more of the costs of their in-home care was intended to demonstrate that the Conservatives are not just the party of elderly, rich southerners. It went down well with working-class voters, who didn't see why they should pay for the care of people in million-pound houses. The problem was not just that the policy failed to put a cap on how much people might pay. It was that it revealed the clash of interests between the people the Tories already represent and those they want to convert.

It was also responsible for the biggest frustration of the campaign: Mr Corbyn's failure to self-destruct. The Conservatives calculated that working-class voters would instinctively prefer Mrs May, a proud product of middle England, to Mr Corbyn, a hard-line leftist who represents a trendy bit of London, Islington North. But the story has been more complicated. Mrs May's refusal to turn up to a debate with the leaders of the main parties on May 31st made her look weak. And Mr Corbyn's long record of backing hopeless causes has made him look strong and stable. Ed Miliband, his predecessor, irritated voters because he always seemed to be apologising for himself. Mr Corbyn doesn't think he has anything to apologise for.

Yet even if the going is tougher than the Tories imagined, the strategy may still yield results. The clearest reason for this is Brexit. Post-industrial England and Wales voted overwhelmingly for it, and leavers seem to feel more strongly than remainers. Hampshire is not likely to go Labour but Northfield may well go Tory. The less obvious reason is people like Ms Powell-Chandler. David Cameron's modernisation of the party has yielded a crop of sensible-looking and hard-working candidates who are now trying to sell the Conservative brand in unfamiliar territory.

## Tricky to collar

Bagehot's whirlwind tour of working-class constituencies in the West Midlands, Northumberland and Durham suggests that opinion is in flux. People are angry with the political establishment, annoyed about being asked to vote again and disappointed in the choice on offer. Labour voters are divided over their party, responding to Mr Corbyn's call for a more just and generous society but worrying about some of his views—particularly his lack of patriotism—and his incompetence. And there are a growing number of outspoken Tory supporters deep behind Labour lines. Raymond, a tattooed Glaswegian who has lived in Bishop Auckland, a Durham constituency, since 1995, proclaims that he will be voting for Mrs May because "I'm a Brexit man. I want the politicians to be accountable to the people—I'm sick of them hiding behind Europe." He adds that his wife loves Theresa.

The most interesting seats to watch will be traditional Labour ones like Northfield and Bishop Auckland. Failure there will mean that Mrs May's strategy has flopped and that her future is in doubt. Success will not only indicate a big Tory majority. It will suggest that a significant political realignment may be in progress, with the Tories becoming a one-nation party again and Labour, cut off from its working-class roots, becoming the party of public-sector employees and professional protesters. ■




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**America's foreign policy**

## Goodbye to values

**Past presidents believed that American power should be used as a force for good in the world. Not Donald Trump**

ON APRIL 29th Donald Trump rang Rodrigo Duterte, the president of the Philippines. According to a leaked transcript, he said: "I just want to congratulate you because I am hearing of the unbelievable job on the drug problem." Since Mr Duterte was elected in June last year, his anti-drugs campaign has led to the killing of around 9,000 people, mainly petty dealers and users. A couple of weeks earlier, Mr Trump had called the Turkish president, Recep Tayyip Erdogan, to congratulate him on winning a referendum granting him sweeping new powers. Since an attempted coup last year, more than 100,000 Turks have been arrested or detained: the judiciary has been shredded, journalists jailed and media outlets shut down.

Last week, in Saudi Arabia on the first leg of a nine-day foreign trip, Mr Trump praised Egypt's president, Abdel Fattah el-Sisi (pictured). "Safety seems to be very strong" in Egypt, he gushed. Mr Sisi's regime has locked up tens of thousands of dissidents. Not once in Saudi Arabia did Mr Trump raise the kingdom's habit of flogging, torturing and not letting people choose their government, preferring to trumpet a \$110bn arms deal: "Hundreds of billions of dollars of investments into the United States and jobs, jobs, jobs."

Mr Trump's meetings later in his trip with NATO and G7 heads of government were, by contrast, sour affairs. The pattern

is clear: this is a president who gets on better with authoritarian regimes than America's traditional democratic partners.

Mr Trump's secretary of state, Rex Tillerson, conveyed a similar impression to his department's employees on May 3rd. He used the loaded phrase "America First"—coined by isolationists seeking to keep America out of the second world war—to define the new administration's foreign policy. Central to his theme was that the pursuit of interests must take precedence over the promotion of values. Diplomats could express support for democracy, the rule of law and human rights, but only if that did not put an "obstacle" in the way of national-security and economic interests.

This represents a rupture with at least four decades of bipartisan consensus in favour of liberal internationalism. Far from conflicting with America's interests, argues Ted Piccone, a former foreign policy adviser in the Clinton administration now at the Brookings Institution, advancing normative values is essential to those interests, and is the basis for America's national prestige and international legitimacy.

In a recent article Eliot Cohen, an adviser to the State Department under George Bush junior, observed that open societies governed by the rule of law "make infinitely better allies in the long run than thugs sitting on powder kegs". America has always based its foreign policy on national

interests, says Shannon Green of the Centre for Strategic and International Studies, but until now has seen advocating human rights as complementary to those interests. It had relationships with dictators, for example to co-operate against terrorism, but it also criticised them.

John McCain, the Republican candidate for the White House in 2008, who was tortured while being held as a prisoner of war by the North Vietnamese, has condemned the purely "transactional" approach to foreign policy as "dangerous". Responding to Mr Tillerson's speech, he wrote that "Depriving the oppressed of a beacon of hope could lose us the world we have built and thrived in." He knows from experience that jailers often say to prisoners that they have been forgotten. Soviet dissidents such as Natan Sharansky have told of the courage they drew from Ronald Reagan repeatedly calling for their release.

### Good deeds in a naughty world

Mr Trump's hostility towards refugees has dashed the hopes of vulnerable people, says Audrey Gaughran of Amnesty International, and his refusal to raise concerns about human rights signals to authoritarian regimes that they can oppress with impunity. She fears that if America no longer speaks up for human rights in international forums, the consensus on such things will be at risk. Ms Green points to people-trafficking as an issue where American engagement has made a big difference. Since 2000 America has produced a "Trafficking in Persons" report each year, which it uses to lobby other governments. In 2001 only 12 countries met the highest "tier 1" standard; now 36 do, and 169 are party to a UN protocol on trafficking.

America has had close relationships with odious regimes in the past, and has ▶▶



on occasion offered hypocritical justifications for self-interested policies. But the guiding principle, articulated by Woodrow Wilson a century ago, that it should use its power for good in the world has endured.

Dean Acheson, secretary of state in the early 1950s, described “the American idea” as an inspiration to people who could only “dream of freedom”. But he knew that dream was constrained by a nuclear-armed communist Russia. In reality, says Sir Lawrence Freedman, a British strategist and historian, the ideological struggle with the Soviet Union took precedence over human rights. A description of Anastasio Somoza, Nicaragua’s dictator, sometimes attributed to Harry Truman—“He’s a bastard, but he’s our bastard”—was often cited to excuse poor company. Richard Nixon and Henry Kissinger put reaching detente with the rival superpower ahead of what they saw as grandstanding on human rights.

A turning point came in 1975 when President Gerald Ford refused to meet Alexander Solzhenitsyn, an author who exposed the evils of the Soviet gulag. Conservative Republicans, such as Reagan, Jack Kemp and William Buckley, accused him of appeasement, as did Democrats, including Henry Jackson and Jimmy Carter. In a speech in 1977 Mr Carter marked a return to Wilsonianism: “It is a new world that calls for a new American foreign policy... We have reaffirmed America’s commitment to human rights as a fundamental tenet of our foreign policy.”

Although Mr Carter ran into difficulty over America’s support for the Shah of Iran, his vision was shared by his successor, Reagan. Liberals and conservatives had found something they could agree on. Human rights also helped win the cold war. The part of the Helsinki Final Act of 1975 (an accord between East and West) covering human rights did much to legitimise dissent in the Soviet empire.

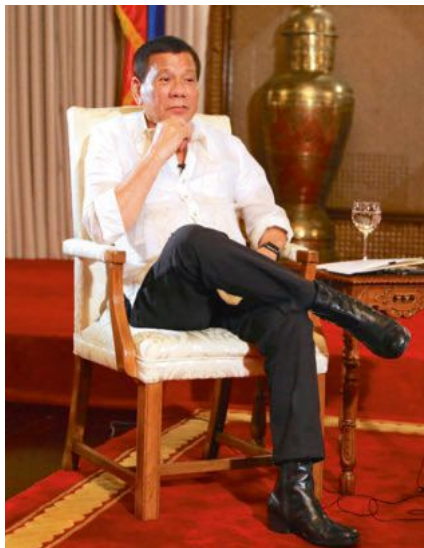
In the early 1990s, with the cold war over, values-based foreign policy went into overdrive with what Tony Smith, a historian at Tufts University, calls neo-Wilsonianism. He argues that it rested on three ideas shared by neoconservatives and neoliberal interventionists. The first, “democratic peace theory”, held that as democracies did not wage war on each other, the more countries had democratic institutions, the more peaceful the world would be. The second, “democratic transition theory”, postulated a great global momentum towards democracy. The West, with its free-market economic model, primacy in multilateral organisations and human-rights pressure groups could accelerate the spread of democracy even in places with few of the institutional underpinnings. The third was “responsibility to protect” (known as R2P), a reworking of just war theory developed after the world’s failure to prevent the Rwandan genocide in 1994.

Together, these formed the framework for interventions in Bosnia, Sierra Leone and Kosovo. Britain’s prime minister, Tony Blair, a keen advocate of the new interventionism, laid out its principles in a speech in 1999 co-authored by Sir Lawrence. But early success spawned hubris. Combined with the “global war on terror” launched by George W. Bush after September 11th 2001, it led to flawed attempts at “nation-building” in Afghanistan and Iraq. Sir Lawrence says: “R2P pushed us into doing more than we reasonably could.”

Barack Obama did not renege from the human-rights agenda. But he became increasingly doubtful about using military force to buttress it. Ms Green, who served in the American agency for international development under Mr Obama, says he set great store by “civic-society engagement” to push authoritarian regimes towards international norms. He also believed that speaking out on human rights when meeting autocrats boosted campaigners, even when his lecturing grated.

Mr Obama was more of a Wilsonian than a neo-Wilsonian; his idealism tempered by a cool realism that verged on cynicism. For him the Middle East, exemplified by Libya, was a “shit show” that America could do little to change. But critics saw his reluctance to intervene in Syria as an abdication of American responsibility.

Mr Obama reflected a loss of confidence in the certainties of the neolib and neocons. He may have allowed the pendulum to swing back too far, but he reflected the mood of war-weary voters. Mr Trump stands for something different and darker: a contemptuous repudiation of the use of American strength in the service of anything other than self-interest. His enthusiasm for a brute like Mr Duterte gives heart to brutes everywhere. The consequences for America’s power and influence are likely to be grave. ■



Duterte: the wrong sort of friend

## The UN and human rights

# America, you’re still needed

GENEVA

**The Human Rights Council is flawed, but an American exit would worsen it**

TO MANY, the UN’s Human Rights Council is a den of hypocrites, where brutal regimes wax self-righteous about Israel in particular and the West in general. And indeed, it has wasted a vast share of its time castigating Israel while failing to bring vile malefactors elsewhere to book. At its next session, starting this month, Donald Trump’s ambassador to the UN, Nikki Haley, is expected to say whether America will stay or, as it did under George W. Bush in 2006, leave in a huff. She is likely, at the least, to put the council “on notice”.

Yet virtually everyone who cares about human rights hopes America will stay. Though selectively and patchily, the council has promoted justice around the world. When America has backed it or argued from within, it has been more effective. Even Israel’s government says America, for the time being at least, should stay in.

In 2006 the council replaced the UN Commission on Human Rights, which had been irredeemably discredited, not least by being chaired just a few years earlier by Libya, then ruled by the despotic Muammar Qaddafi. The new body was smaller, and its 47 members would be elected (in five geographical clusters) by the UN General Assembly, which could, by a two-thirds majority, chuck out any member judged to have committed “gross and systematic violations of human rights”.

This has happened too rarely. Of the current members, some have dire records: Burundi, Rwanda, Saudi Arabia and Venezuela, for instance. Regional blocs have often been biased, shielding their members from criticism. “It is an assembly of states, not a beauty parade of saints,” says a human-rights campaigner.

Israel still receives outsized criticism, not least because a standing agenda topic (“Item 7”) on the Palestinian Territories must be raised at every session. According to UN Watch, a Geneva-based pro-Israeli monitor, in the council’s first decade 68 resolutions were passed against Israel and 67 against everywhere else. By contrast, says UN Watch, Syria has been condemned 20 times, North Korea nine times, Iran six and Sudan three. (The UN classifies its resolutions slightly differently, and says UN Watch exaggerates.) Though the new body provides for “special sessions” to discuss gross human-rights violations, governments committing atrocities in places such as Chechnya and Zimbabwe have never been condemned outright.



▶ The most effective diplomats in Geneva are probably Cuba's, says Andrew Clapham of Geneva's Graduate Institute of International and Development Studies. "They are skilful, well-trained and have a lot at stake"—not least in shielding fellow anti-democratic regimes from condemnation. A so-called Like-Minded Group within the council, whose sturdiest component is African, tends on principle to oppose "country-specific resolutions", meaning direct criticisms of abusive governments.

Moreover, the council has continued to make partisan appointments. From 2008 to 2014 Richard Falk, an outspoken anti-Zionist, was the special rapporteur for Palestine. Jean Ziegler, a Swiss revolutionary apologist for Fidel Castro and Qaddafi, is an adviser to the council. In 2015 Saudi Arabia was chosen to represent its regional bloc on a consultative committee that helps choose the special rapporteurs and experts for particular countries or themes.

### Let's go bloc-busting

Yet the council is a lot better than the commission was, and is still improving. The most important difference is the system of "universal periodic reviews" that all members of the UN are subjected to, at a rate of about 40 a year. The number of special rapporteurs, most of them truly independent, has risen, too. Since 2011 there have been investigations into human-rights abuses in Burundi, the Central African Republic, Eritrea, Iraq, Ivory Coast, Libya and North Korea, as well as Gaza. The council has steadfastly monitored the horrors in Syria and played a helpful role in Myanmar, Colombia and (after a poor start) Sri Lanka.

The disproportionate focus on Israel is lessening. From 2010 to 2016 only one special session was held on Israel/Palestine, down from six in the previous four years, says the council's spokesman. The share of time spent on Item 7 has halved, to 8%.

The quality of members may improve, too, as regional groups are a bit less willing to shield their own. Last year Russia lost its seat, receiving 32 votes fewer than Hungary, and two fewer than Croatia. In the past few years Belarus, Iran, Sri Lanka, Sudan and Syria have failed to be elected or have withdrawn their candidacies. None of the nine worst human-rights offenders, as ranked by Freedom House, a Washington-based NGO, (Syria, Eritrea, North Korea, Uzbekistan, South Sudan, Turkmenistan, Somalia, Sudan and Equatorial Guinea) has ever been elected to the council. In a telling moment in 2014, a forcefully critical resolution on Sri Lanka was passed.

Things started to change in 2010, says Marc Limon, a British former official in the council, who now heads the Universal Rights Group, a Geneva-based think-tank, when a clutch of independent-minded countries, including Mauritius, Mexico and Morocco, began to vote more freely, of-

### Preventing torture

## First, admit it's wrong

GENEVA

Anti-torture laws help, even though they are often broken

OF THE 160-plus countries that have signed the UN's convention against torture since its adoption in 1984, a good half still practise it. Around 80 have also signed an "optional protocol" of 2002 which provides—among other things—for international monitors to visit prisons without warning. Alas, some of those signatories then block such visits.

Yet the convention and protocol, even if flouted, are not pointless. They lock countries into a legal framework that enables victims and their lawyers to put perpetrators under a spotlight. They erode impunity and increase the likelihood that victims are heard.

While rich countries have led the way, about a fifth of the world's governments—those that do not even pretend to uphold human rights—have refused to sign. "It's the in-betweens that have seen dramatic improvements," says Felice

Gaer of the New York-based Jacob Blaustein Institute for the Advancement of Human Rights, one of ten elected experts on the UN's Committee against Torture. Reforming governments who replace authoritarian or despotic ones tend to be keenest to tackle torture, often confronting their own army or police. Chile after the fall of Augusto Pinochet in the 1980s, Turkey in 1988 and Fiji after its return to democracy in 2014 all banned it.

Mark Thomson of the Association for the Prevention of Torture, an NGO in Geneva, cites key legal safeguards that have made torture less common. Anyone arrested must be brought swiftly before a judge, be informed of his rights and have access to a lawyer and doctor of his choice. Governments seeking to deprive prisoners of such rights will find it harder if they have signed up to them.

It is hard to gauge the prevalence of torture, let alone its severity (remember that American phrase "enhanced interrogation"). Even so, Richard Carver of Oxford Brookes University, a co-author of "Does Torture Prevention Work?", reckons that laws such as those that ban torture and rule evidence gathered with its use inadmissible in court have probably made it less common. UN bodies such as the Committee against Torture also help, he thinks.

But continued progress will be harder when the president of America is ambivalent. "Would I approve waterboarding?" Donald Trump asked during his election campaign. "You bet your ass I'd approve it. In a heartbeat. And I would approve more than that... OK? It works... and if it doesn't work, they deserve it anyway for what they are doing to us."



At least, it used to be

ten for American-backed resolutions. Before then, members of the 57-strong Organisation of Islamic Co-operation (OIC) and the African Group (whose members often overlapped and later reconfigured as the Like-Minded Group) "virtually controlled the council", he says. Anti-Westerners have recently been defeated or forced to compromise on several issues. A resolution to exempt blasphemy from free-speech protections was fended off against the wishes of the Like-Minded. The same group failed to block a resolution to appoint an independent expert to investigate discrimination against gay and transgender people.

American diplomacy under Barack Obama was a big reason for the shift. "It's a fact that the US takes the lead in protecting

people around the world," says Navi Pillay, a former high commissioner for human rights, citing America's key role in persuading the council to take on Sri Lanka in 2014. As for Israel, says a Western ambassador, "It would have been much worse for it if the US hadn't been there."

Ms Haley is likely to make two demands. The first, to drop the permanent anti-Israel item from the agenda, will probably be refused. The second, that members should be elected competitively rather than by regional blocs voting for "clean slates" (pre-cooked lists), is more feasible but still unlikely. What is more certain is that if America walks out, the cause of human rights would be weakened—along with American influence. ■





### Indian state-owned companies

## The everything makers

MUMBAI

**Inefficient and unnecessary, most of India's state-owned firms are ripe either for sale or for closure**

**E**ARTH movers, fertiliser, artificial limbs, uranium, rickshaws, hotels, textiles, tea, mutual funds, petrol, broadband, pills, coal, fighter jets, sex toys and much more beside: the range of products and services purveyed by Indian state-owned firms would put even the most sprawling of conglomerates to shame. A legacy of India's socialist years from 1947 until the early 1990s when the country shifted towards a more market-based economy, few of the 244 "public-sector undertakings" (PSUs), as the government calls them, are paragons of productivity. Plans to slim down their collective girth, and so leave more room for the private sector in India's economy, are as tentative as they are overdue.

Roughly one in six of every rupee spent goes to a PSU. Only in China's avowedly communist economy does a greater share of spending go to state-owned firms. Often run by executives who have risen through the government bureaucracy, they eke out profits mostly in industries where government fiat grants them lucrative monopolies, such as coal and oil. Even in a buoyant economy, one in three made losses in the year ending in March 2016. One in five has racked up three years of straight losses including BSNL, a telecoms operator which offers 3G services in a market where 4G ones are the norm. Another example is Air India, a financial black hole that flies habitually-delayed aeroplanes.

That 1.2m Indians toil in companies that form part of the relatively unproductive PSU sector, a traditional mainstay of formal employment, is largely seen as a benefit, not a problem. But if labour is abundant in India, capital is not, and state-owned firms guzzle it. The assets they sit on are worth an estimated \$500bn. Excluding four firms that have lucrative state-mandated monopolies, their return on capital employed is a meagre 8% and falling. Most gauges of financial returns have been on a long decline (see chart on next page). That spells rapid value destruction in a country where a company's weighted cost of capital is usually in the double digits.

Not all are financial disasters. Some 80% of the total profit made by state-owned firms, or 1.2trn rupees (\$18bn), comes from coal, petroleum products, power generation and oil PSUs. They receive regulatory protection that helps them relative to private-sector rivals. That does not mean they are efficient: Coal India, the biggest PSU by most measures, reportedly has an output per man-shift that is just one eighth that of Peabody Energy, an American rival. India has both funded a PSU domestic jet-fighter programme at vast expense, and bought similar jets from a French supplier, Dassault Aviation, when the homemade plane failed to meet the air force's needs.

Worse problems arise when flat-footed

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PSUs face the market. The economic liberalisation of the early 1990s introduced competition in many consumer-facing industries. This shunted PSUs off the commanding heights of their respective parts of the economy. Air India (the only airline whose cabin livery makes a brand-new Boeing Dreamliner appear mired in the 1970s) has lost money continuously since 2007, barely managing an operating profit even after a crash in the price of aviation fuel propelled its private-sector rivals, such as Jet Airways, to vast riches. Mostly, PSUs have drifted from monopolist to bit-player. Air India is a fading force. Few Indians willingly use PSU telecoms providers. Public ports have gone from handling nearly three-quarters of stuff being shipped in and out of India less than a decade ago to just over half now. HLL Lifecare went from being a monopolist condom-maker to an also-ran, hence its more recent foray into vibrating gizmos.

State-owned banks are in a league of their own in terms of dominating their sector: they form a network of 21 listed but government-controlled entities that account for 70% of India's banking system by assets. Many of their loans are unlikely to be repaid, a state of affairs that private lenders usually manage to avoid. The latter are growing at a rapid clip: they are responsible for nearly all the growth in the financial system. In the early part of 2016, the market capitalisation of all 21 listed public-sector banks was on a par with that of a single private rival, HDFC Bank, set up back in 1995.

The result is what Ruchir Sharma of Morgan Stanley, a bank, calls "privatisation by malign neglect": the PSUs stay in state hands, but their market share (and their value) seeps steadily to nimble newcomers. Soft loans, subsidies and bail-outs ►►

▶ keep them afloat, protecting unproductive jobs at vast expense.

Such neglect has resulted in pockets of acute financial distress. Nearly two dozen PSUs have loans greater than their total assets; 84 generate too little operating profit to cover the interest on their borrowings. And PSUs owned by India's 29 state governments, of which there are thought to be over 1,000, are if anything in worse shape. A recent bail-out of local power distribution companies, which traditionally have overlooked non-payment of bills by customers whose votes politicians craved, has resulted in a vast and costly debt restructuring which has weighed heavily on the public finances.

Poor performance by PSUs is hardly surprising given the way in which they are managed. A report from the authorities in 2011 described how "over-governance promotes conservative, cautious and risk-averse organisational culture, with procedures being paramount and outcomes secondary." Bosses with no obvious qualification—the managing director of Air India, for example, is a rail and tourism civil servant—are overseen by pliant boards. Better not to make decisions than to make one which could attract the attention of the auditors who oversee public spending.

Pay scales borrowed from the bureaucracy mean chief executives get paid around \$50,000, pushing the brightest sparks to the private sector. Replacing them is hard: according to a recent report in *Asian Age*, a newspaper, as many as 42 PSUs are lacking bosses after a change in the method to appoint managers in June 2016 stalled any new hires.

Even the 47 non-bank, listed PSUs, where the government owns a majority and calls the shots, are run for motives that include profit but much else besides. Just under half of all jobs are earmarked for selected, disadvantaged castes; a quarter of all unskilled workers must be ex-servicemen or dependents of those killed in action. Little thought is given as to whether such aims, noble as they might be, are best met through maintaining largely unprofit-

able corporate structures.

PSUs are made to foot the bill for government programmes that are uneconomical. Coal India and NTPC, a power utility, have been asked to revive two defunct fertiliser plants, in Jharkhand and Uttar Pradesh, for example, largely on the grounds that they have spare cash. The government also wants state-owned enterprises to take over running companies that have defaulted on loans made by all those state-owned banks (the default was often for good reason).

Many had expected the era of PSUs to be drawing to a close by now. A few were privatised in the early 2000s by a right-wing government which—not coincidentally, some think—was booted out of office soon afterwards. Narendra Modi, while running for prime minister in 2014 declared: "I believe that government has no business to be in business."

Sell-offs have long been mooted but have yet to materialise. Vaunted "disinvestment" of PSUs has so far consisted of listing them, or selling stakes in those already listed, while making sure the government keeps majority ownership. Neither achieves much. Around 462bn rupees was raised in this way in 2016-17, which was below the target that had been set but a significant increase from previous years. Many stake sales happen in the last few weeks of the financial year when the government is desperate to balance its books. PSU assets are sold to other PSUs, or to state-owned pension funds, doing little to shrink the overall size of the state.

Ominously, two years into Mr Modi's mandate, in April 2016 the so-called Department of Disinvestment was rechristened Department of Investment and Public Asset Management. Some suggest Mr Modi is lukewarm about flogging PSUs. As chief minister of Gujarat for over a decade before his rise to national office, he turned around a slew of state-owned firms there, and is said to believe the same can be done at national level. Job creation is perceived as one of the weakest spots in an otherwise solid economic record: privatising PSUs now, only to see them fire lots of workers in the run-up to elections in May 2019, is a non-starter.

Some progress has been made. Reformers hope that more minority stakes in companies being listed may force improvements in corporate governance. About a dozen "sick" PSUs, a euphemism the authorities use for often deeply dysfunctional firms, are in the process of being closed down. Many of them have had years or decades of no production (but plenty of workers still clocking in and out of factories, if only to pick up paychecks). Hindustan Photo Films, based in Tamil Nadu, whose black-and-white production equipment has been obsolete for decades, and Hindustan Cables, based in West Bengal,

which stopped making said cables in 2003, are no more. Air India is now openly discussed as a sell-off candidate.

But moving from discussion to divestment has proved hard. "Privatisation is the art of the possible," says Arun Jaitley, the finance minister. Ministries protect the PSUs on their patch, which give their bureaucrats considerable power of patronage, for example when dishing out contracts. Labour unions that are affiliated with political parties are intent on stymying reforms. Extracting bureaucrats from India's boardrooms is likely to prove a slow process. ■

## British Airways

# Grounded

### An IT disaster reflects the vulnerability of the entire industry

IT IS easy to blame infrastructure when things go wrong, as they did on May 27th when British Airways (BA) grounded planes across the globe after a global IT systems crash. More than 1,200 flights, booked to carry over 75,000 passengers, were cancelled over three days; hundreds of thousands more miserable travellers had their trips ruined by delays, lost luggage and missed connections. Analysts estimate that the total cost to BA of refunds, plus compensation of up to €600 (\$675) for each delayed passenger, could climb as high as £150m (\$192m).

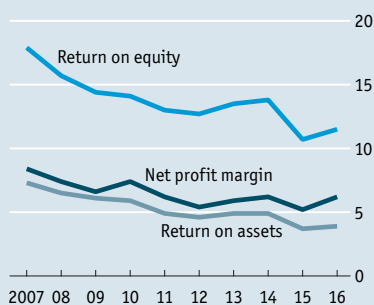
But such calamities are also man-made, and a trail of incompetence led to this one. Alex Cruz, the chief executive, is better known as a cost-cutter than a communicator, and it showed. Though he was quick to apologise in public, in private he muzzled his employees and offered vague explanations, linking the computer failure to a "power-supply issue". Others pour scorn on this interpretation.

His staff, though often trying their best, were ill-prepared. They had no clear plan to deal with passengers caught up in the chaos. For flight delays and cancellations, the television bulletins broadcast at London's Heathrow and Gatwick airports, BA's two main hubs, were more helpful than its stewards on the ground. Without working backup systems, airline representatives were unable to prioritise customers in most need of help. In the fray, tempers flared. One BA employee at Venice airport even threatened to call the police when a passenger asked about its policy on paying for hotel rooms during delays.

Mr Cruz has promised that it will "not happen again", but that is also off the mark. It is the fourth time in a year that BA's computer systems have suffered a major crash. ▶▶

## Plodding along

India, public-sector undertakings, %



Source: Department of Investment and Public Asset Management



## All systems stop

Airline computer-systems failures, selected

**British Airways** May 27th 2017

A "power-supply issue" caused a computer-systems failure that resulted in the cancellation of around 1,200 flights over three days

**ExpressJet** March 20th 2017

A systems failure forced ExpressJet to delay or cancel a third of its contracted operations for Delta Air Lines, United Airlines and American Airlines that day

**United Airlines** January 22nd 2017

A technical glitch forced United Airlines to halt all of its departures to American destinations for over two hours

**British Airways** September 6th 2016

British Airways hit by a third glitch to its check-in system worldwide

**Delta Air Lines** August 8th 2016

A faulty piece of power-supply equipment at the headquarters of Delta Air Lines in Atlanta, Georgia, caused more than 2,000 cancellations over three days

**Southwest Airlines** July 20th 2016

Flights in America were grounded after a systems failure caused by a faulty router. Over the next three days, the airline cancelled 2,300 flights and delayed thousands more

**British Airways** July 7th 2016

British Airways hit by a second glitch to its check-in system worldwide

**British Airways** June 19th 2016

British Airways hit by a glitch to its check-in system worldwide

**American Airlines** September 17th 2015

Flights to three of American Airlines' largest hub airports, Chicago, Dallas and Miami, were halted after the airline experienced "connectivity issues"

Source: Press reports

► And debilitating IT breakdowns are becoming increasingly common across the industry (see timeline). Since a wave of mergers a decade ago, all four of America's major carriers have been hit by problems. Among the worst was at Delta Air Lines, almost a year ago, when a malfunctioning piece of power-control kit caused a fire at the carrier's data centre, as a result of which 2,000 flights had to be cancelled.

The sheer quantity and complexity of the data they handle make airlines particularly vulnerable to IT disasters. The tasks they must deal with include scheduling crews and checking in passengers as well as accepting bookings and tracing bags. This time, there were no apparent problems with the software BA uses during the crisis, but servers storing everything from customer details to aircraft flight paths suddenly became inaccessible. Backup systems failed to kick in when they were most needed. And without passenger lists and other information required to load planes safely, BA's operations came to a horrible standstill.

The first lesson from such painful experiences is to refrain from pruning investment in IT too far, as some airlines may have in their desperate efforts to fend off budget competitors. "Legacy carriers like BA saw spending on this as an overhead," says Henry Hartevelt of Atmosphere Re-

search, a consultancy. "But it should be seen as a cost of doing business." In 2015 airlines spent 2.7% of their revenues on IT, half the norm across all industries and a lower share even than hotels.

Second, backup systems need to be tested regularly to ensure that they work. Even financial groups, which spend copiously on backups for regulatory reasons, do not test them as much as they should, says Frank Ford of Bain & Company, a consultancy. Firms in many industries fear that tests could disrupt business too much, and as a consequence skimp on them.

Above all, airlines need contingency plans for when IT faults do occur. As they have become more automated, the knock-on effects have become more severe—and expensive, says George Hamlin, an aviation expert based in Virginia. Ground staff used to be able to revert to manual systems during IT failures, but such backups are no longer favoured by supposedly tech-savvy firms. At the very least, the unfortunate staff who have to deal with irate would-be holidaymakers need to be trained to deflect the worst of the rage.

Airlines will never be able to make sure there is no repeat of last weekend's chaos. Margins in the industry are simply too thin to support the vast spending that would be needed for multiple backups and failsafes. But slashing spending on IT systems is a false economy. Ryanair, a paragon of thrift among Europe's low-cost airlines, is increasing investment in its digital operations. Far more costly than the compensation BA will have to pay, says Andrew Charlton of Aviation Advocacy, a research firm, will be the damage its ham-fisted response has done to its own reputation. ■

## Film piracy

# Your bitcoin or your blockbuster

**Pirates used to put pilfered films online. Now some seek ransoms from studios**

**R**IPPING off films still reaps riches: the business model holds even in the internet age. Someone makes a digital file of a film, either with a camera in a theatre or by copying a DVD, then sells the file to operators of dodgy websites, many of whom make millions a year from online advertising and customer subscriptions—illegal versions of Netflix.

This year pirates introduced an entrepreneurial plot twist. They have begun asking Hollywood studios for ransoms. In several cases the rogues have told leading makers of films or television programmes that if they do not pay up, digital copies

will appear online before the official release date. It is Hollywood's version of WannaCry, the ransom malware.

No one has been seen to pay up so far, but the threats are not all idle. Netflix, one victim, saw certain episodes of its new season of the show "Orange is the New Black" released by a pirate who goes by the alias "thedarkoverlord" (who had demanded payment in bitcoin, a digital currency). Disney too was blackmailed over a forthcoming film (possibly "Cars 3", though the studio will not say). It is unclear if Disney's foes actually have the goods; Bob Iger, the chief executive, mentioned the case at a company event in New York last month, saying the firm was working with the authorities. Neither Disney nor Netflix has disclosed the sums demanded.

In a third case earlier this year, an arrest was made before any content was released, according to the Motion Picture Association of America (MPAA), which did not name the studio involved. More trouble may be on the way. Late in 2016 hackers reportedly compromised computers at Larson Studios in Los Angeles, a facility often hired by Hollywood studios for post-production work, and got away with copies of television programmes made by Netflix, ABC (a network owned by Disney) and others.

The pre-release demands for money are new to the industry, says Dean Marks, head of global content protection for the MPAA. It is unclear if it is the beginning of a trend, or if vagabonds are taking advantage of rare booty to test a new line of business. The innovation is a little puzzling because the existing model of online piracy seems lucrative enough, and much less risky: the top 30 websites trafficking in digital copies of films and TV shows may have collected nearly \$100m in 2014, according to an estimate by NetNames, a research firm.

Most of these sites are supported by dodgy ads (the MPAA has persuaded many reputable brands to blacklist them from their ad buys). But the majority of their revenue comes from an illicit version of "subscription" services, in which customers pay membership fees to access content. Most of the films and programmes on offer have already been released in formats that are easy to copy. Profit margins tend to be high and the chance of getting arrested low, partly because the thieves work in countries where American law-enforcement agencies find it hard to get co-operation. Mr Marks says pirates also reap tidy sums in another way: by selling their best content early to "top release" groups, which cater to select clients, including wealthy people in the Middle East, who want to watch a Hollywood film in their home cinemas. But now miscreants appear to think they can earn more by going directly to the content producers. So far they do not appear to have got their Hollywood ending. ■

## Turkish white goods

## Cleaning up

## Arcelik is a rare bright spot in corporate Turkey

**F**ORGIVE a maker of washing machines a fondness for spin. Hakan Bulgurlu, who manages Arcelik, the biggest producer and seller of white goods in Turkey, claims a “strong mood” has returned to his domestic market. Sales there leapt by 35% in the first quarter compared with the same time last year. His forecast is upbeat. “Turkey is more resilient than it looks from the outside,” he says, citing cheery reports from dealers who run his 3,000 own-brand shops.

Reality is less whiter than white. Many investors and traders remain spooked by political dramas, a coup plot last year and by an authoritarian president, Recep Tayyip Erdogan. The IMF gave warning in February that low business profits, a lack of credit and political uncertainty all bode ill for Turkey’s economy. A splurge of public spending and stimulus measures—a special tax on appliances has been suspended for a few months—have brought forward sales of appliances to before the usual, summer, shopping season. Firms cannot trust in a domestic recovery just yet.

Arcelik’s prospects, however, depend more on tapping distant markets than on rebounding local ones. It wisely branched out after the mid-1990s (when Turkey joined Europe’s customs union) and today has 18 factories, with nearly 30,000 staff, in seven countries. Last year it generated global sales of €4.8bn (\$5.4bn), 60% outside of Turkey, and a decent 11% pre-tax profit. Much came from western Europe.

It counts as a rare bright light for corporate Turkey. Its Beko brand of kitchen and other appliances is among the most popular in Britain as shoppers switched to lowish-priced goods after the financial crisis. The firm aims to be among the top three in every European market as it expands in the face of bigger rivals, notably Electrolux of Sweden and Germany’s BSH.

Size is important. Industry consolidation leaves smallish firms at risk of being swallowed, though Arcelik looks secure because it is mostly owned by Koc Holding, one of two hefty, family-run conglomerates in Turkey. What is more, firms’ success depends on their devoting resources to research, such as for finding uses once appliances are digitally connected via the “internet of things”. Arcelik brags of securing lots of patents. It touts an oven that chills food by day before cooking it in the evening. Another innovation is a fridge that tests gases released by food such as

meat when it is going off.

A bigger growth spurt, however, depends on the firm breaking into Asia’s fast-growing markets. That means competing with global giants, notably Haier Group of China. Arcelik is trying. It has a factory and sells in China. Last year it bought a Pakistani producer of white goods for \$243m, and opened a fridge factory in Thailand. Last month Mr Bulgurlu trumpeted a \$100m joint venture with Tata, one of India’s largest companies, to make and sell fridges under a local brand, Voltas. (It will import other goods from Turkey.) He talks, optimistically, of annual sales in India reaching \$1bn within a decade. Doing business in such spots can be tough, but with experience in Iraq and Syria, Arcelik clearly expects all to come out in the wash. ■

## Online regulation

## Going its own way

SHANGHAI

## China’s new cyber-security law overreaches

**“I**F YOU want to stay in China, you have to go all in.” So says James Fitzsimmons of Control Risks, a consultancy, of the impact China’s new cyber-security law will have on multinational companies (MNCs). These firms have moaned for months about the law’s intrusive and vague provisions and asked for a delay in its implementation, but to no avail. It came into force on June 1st, and foreign firms are now scrambling to figure out its implications. Mr Fitzsimmons, for one, is convinced that they must take the costly step of separating their local IT systems from

their global networks.

At first blush, the law seems a reasonable effort at tackling two areas of policy in need of reform. The first is cyber-security. Companies in industries deemed to be critical must now ensure that their technology systems are “secure and controllable.” They must store important data locally, and will be subject to audits by official inspectors. Susan Ning of King & Wood Mallesons, a Chinese law firm, thinks that foreign firms should be familiar with such rules since, on her firm’s analysis, European regulations on cyber-security are tighter than those found in the new law.

The other neglected area taken on by this law is data privacy. Firms in China have long amassed and manipulated consumer data as they have pleased. And as Ronald Cheng of O’Melveny, an American law firm, observes, online fraud, malware and mobile-phone scams are rife. Under the new rules, companies must be much more careful with data about, or acquired from, individuals in China. They are required to maintain such data on local servers, and must obtain permission before sending bulk data abroad.

However reasonable these goals seem, two big worries linger. First, the law is overly broad and mischievously vague. It provides little guidance on what constitutes “critical information infrastructure” (though impact on “social or economic well-being” is a criterion) and which firms are “network operators” (so even individuals with multiple computers could fall foul of the law). Kenneth Jarrett, head of the American Chamber of Commerce in Shanghai, argues that the law’s far-reaching restrictions could harm both foreign firms and cross-border trade. The law’s ambiguity is forcing MNCs in many industries to reconsider how they hold data, and Chinese consumers may pay the price. A foreign firm used to monitor its energy turbines in China from its headquarters, using its real-time global data to optimise operations; it now keeps the Chinese information on the mainland, efficiency be damned. A provider of global online education was sending data on Chinese users overseas to allow them to access its courses abroad; it is now rejigging its IT system to keep such data inside China and may have to curtail its offerings.

The second big worry about the new law is that it may be a Trojan horse designed to promote China’s aggressive policy of indigenous innovation. This push has already led Microsoft, an American software giant, to enter into a local joint venture and reveal its source code to officials in order to sell a local version of its Windows 10 operating system. Other foreign technology firms fret that they will be forced to divulge intellectual property to government inspectors, with no guarantees that such secrets will not be passed on to local rivals. ►►





► They are right to worry, say legal experts. Officials may also decide that certain foreign services do not pass the nebulous test of being secure and controllable. This uncertainty is already boosting the fortunes of such local vendors as Huawei and Lenovo, makers of servers and other hardware, as well as Tencent and Alibaba, both of whom are making a big push into cloud services. Informed sources say these firms

have had a hand in crafting the new law.

The local champions should not celebrate quite yet. As Mr Cheng observes, China's best technology companies are increasingly active abroad, and so they too will need to harness international flows of consumer data in the future. A law that seems rigged in favour of locals ultimately may end up harming both Chinese firms and consumers. ■

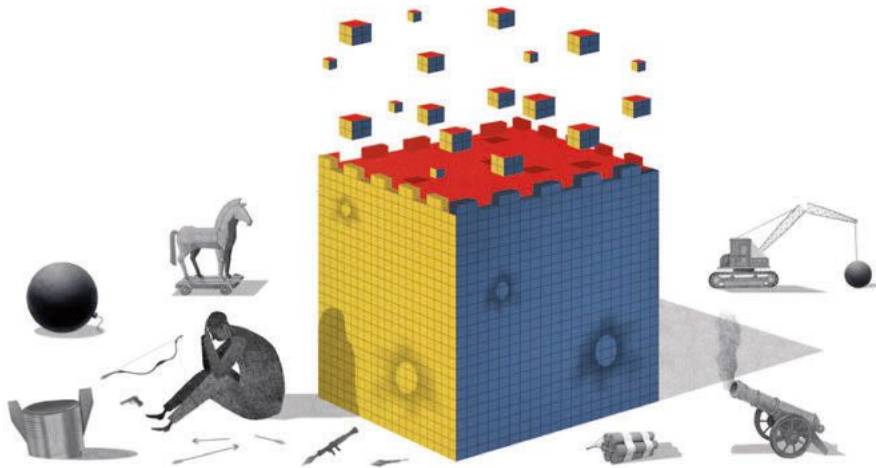
fazed. According to a recent IBM survey of government leaders (conducted by the Economist Intelligence Unit, our sister company), nine in ten government organisations say they plan to invest in blockchain technology to help manage financial transactions, assets, contracts and regulatory compliance by next year.

Valery Vavilov, BitFury's head, says blockchains are not merely a business opportunity, but a way to change how governments serve their citizens. Born in Latvia, Mr Vavilov watched as his parents "lost everything" after the Soviet Union collapsed. He then spent his early professional life writing software for the new Latvian government. He came to believe that blockchains could become the "foundation to build a trusted, transparent and auditable system".

Elsewhere, Sweden is testing a blockchain-based land registry and Dubai wants distributed ledgers to power its entire government by 2020. The most active early adopters, however, have been former Soviet republics. Estonia, recognised as a pioneer in e-government, has long used blockchain-like technologies to secure health records and undergird its shared government database system, x-Road. Being a young country has its advantages. "It can be much easier to build a digital society if there are no legacy systems and you can start from scratch," says Kaspar Korjus, head of Estonia's e-residency programme.

With BitFury's help, Georgia's National Agency of Public Registry has recently moved its land registry onto the blockchain. Some 160,000 registrations have already been processed. Thea Tsulukiani, the country's Minister of Justice, believes that the blockchain will mean Georgian citizens can "sleep quietly" when it comes to property rights. The main barrier to introduction, officials say, has not been technical, but educational. Even Ms Tsulukiani did not know what the blockchain was when her deputies first proposed to use the technology. "We want to move slowly in terms of explaining to society, and quickly in terms of implementation," she says.

BitFury has also signed a memorandum of understanding with the government of Ukraine, which wants to become "one of the world's leading blockchain nations". The country's e-governance agency sees the technology as a way to address "historic distrust of government," says Aleksey Vyskub, its deputy head. The agency has plans for all kinds of blockchain-based registries, including of land and businesses. As with most reforms in Ukraine, efforts to launch these projects have faced resistance from the entrenched bureaucracy. Yet, explains Mr Vyskub, the technology's novelty and complexity have provided some cover: "Most officials don't understand what we're doing, so they don't sense the threat." ■



## Blockchain

# Land grab

TBILISI

## Tech firms are selling crypto tools to governments

IN THE hills overlooking Tbilisi, Georgia's capital, sits a nondescript building housing rows of humming computer servers. The data centre, operated by the BitFury Group, a technology company, was built to "mine" (cryptographically generate) bitcoin, the digital currency. But now it also uses the technology underlying bitcoin, called the "blockchain", to help secure Georgian government records. Experts are eyeing the experiment for proof of whether blockchain technology could alter the infrastructure of government everywhere.

While the blockchain originally sought a foothold in financial services, and digital currencies attracted early attention from investors, now interest in using the technology in the public sector is growing. Brian Forde, a blockchain expert at the Massachusetts Institute of Technology, argues that governments will drive its adoption—an ironic twist for something that began as a libertarian counter model to centralised authority. Backers say it can be used for land registries, identity-management systems, health-care records and even elections.

The blockchain and similar distributed

ledgers are databases that are not maintained by a single entity, such as a bank or government agency, but collectively by a number of their users. All changes are encrypted in such a way that they cannot be altered or deleted without leaving a record of the data's earlier state. In theory, all sorts of information, from birth records to business transactions, can be baked into a blockchain, creating permanent and secure records which cannot be tampered with, for instance by corrupt officials.

Fans argue that, if properly implemented, distributed ledgers can bring improvements in transparency, efficiency and trust. Naysayers respond that wider adoption may reveal security flaws. It is certainly early days for the blockchain: some compare it to the internet in the early 1990s, so growing pains are sure to follow. And blockchains can always be only part of the solution: no technology can turn crooked leaders straight and keep them, for instance, from feeding in spurious data.

Creating robust standards will also take time. And integrating databases across vast and complex bureaucracies will need huge investment. Yet governments do not seem

# Schumpeter | Money mountains

## Is there any rational justification for tech firms' huge cash piles?

TAKE a moment to admire—and fear—the ascent of America's big-five tech firms. Apple, Alphabet, Microsoft, Amazon and Facebook have recently become the five most valuable listed companies in the world, in that order. With a total market value of \$2.9trn, they are worth more than any five firms in history.

Elevated tech valuations used to be a sign of hysteria. Today's investors believe they are making an ice-cold judgment that these firms are the dominant oligopolies of the 21st century and will extract a vast, rising, flow of profits. There is one gnawing doubt, however: the formidable five's cash-rich balance-sheets, which are built as if they expect a crisis, not to dominate the world.

It is easy to see why investors are keen. Billions of users are tied into these firms' social-media networks, digital assistants, operating systems and cloud-computing platforms. The five firms are squeezing traditional competitors such as IBM and Macy's. Together they make \$100bn of profits. Analysts forecast this will rise to \$170bn by 2020. The rebels of Silicon Valley have evolved into slick moneymaking machines with high market shares. For investors it just doesn't get any better.

Old-economy oligopolists, such as cable, telecoms and beer companies, are confident about their ability to extract reliable rents from customers, so they finance themselves largely with debt, which is cheap but inflexible, and return most of the cash they make to shareholders. Yet, oddly, the biggest tech firms have the opposite approach. Together they have \$330bn of net cash (cash less debt), a ratio of twice their gross cashflow.

The pile far exceeds the cash buffers that tech and pharmaceutical firms traditionally carry to compensate for their lack of physical assets that debt can be secured against. For example a selection of five cash hoarders from an early generation of tech giants—Cisco, Intel, Oracle, Qualcomm and Texas Instruments—together have had an average ratio of only 1.3 times since 1996.

The money mountain will get much bigger as profits soar. The five firms have policies for returning some cash to shareholders. For example, Alphabet and Facebook will not pay dividends for the “foreseeable future” but have small buy-back programmes, albeit with no deadlines. Apple pays a meaty dividend and has a budget for repurchasing shares until 2019. Factoring in these programmes, and analysts' profit forecasts, their total net cash will reach \$680bn by 2020, or three times gross cashflow. Even Amazon, which has a relatively small pile now, will reach \$50bn.

One reason for the cash build up is tax: 80% of the five firms' gross cash is held abroad, allowing them to defer the levy American firms pay when repatriating profits. The bill for bringing half the cash home might be about \$50bn. That is not to be sniffed at, but being clever about tax has become an excuse for firms to obfuscate and dither about their plans for their balance sheets.

The cash cushion is far larger than is needed to absorb shocks, such as a financial crash or a hacking attack. Schumpeter has devised a tech “stress test”. It assumes that staff are paid in cash not shares, which might happen after a stockmarket collapse, and that firms pay all their contingent tax liabilities (including all repatriation levies) as well as regulatory and litigation claims. It also includes a year of contractual payments—for instance Apple has to pay \$29bn to component suppliers. Including all of these costs, the five firms would still have \$380bn of net cash by 2020.

Nor could fresh investments soak up all the cash. The five tech firms together put \$100bn last year into research and development and capital spending, three times more than half a decade ago. A torrent of money is already flowing into data centres, soft-

ware, new headquarters and “moon shots” such as driverless cars and immortality drugs. In order for the firms to spend all of the cashflow they are on track to retain, annual investment would need to rise to almost \$300bn by 2020.

That is over twice what the global venture-capital industry spends each year. It is 51 times the annual cash burned up by Netflix, Uber and Tesla, three firms famous for being cash hungry. And it is 37 times the average annual amount of cash the five firms have in total spent on acquisitions to gain new technologies and products, such as Facebook's \$19bn purchase of WhatsApp, a messaging service in 2014, or Google's \$3.1bn acquisition of DoubleClick, an advertising firm, in 2007.

Might these firms hoard cash just because they are run by megalomaniacs who are too rich and odd to obey any rules? That seems glib and out of date. Apple and Microsoft are no longer controlled by their founders. Those behind Alphabet were pragmatic enough in 2015 to appoint Ruth Porat, the former finance boss of Morgan Stanley, as its chief financial officer, to instil more discipline. Jeff Bezos's interest is arguably for Amazon to pay a dividend—in the absence of one he is selling \$1bn of his shares every year to raise cash to finance his space-rocket firm.

## Valleys of death

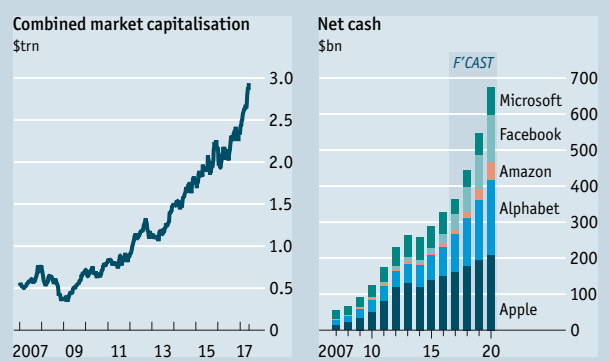
Maybe if the tax code is reformed the great cash build up will end. The most mature firms, Apple and Microsoft, would make a large one-off return of cash to shareholders. Amazon, Alphabet and Facebook would adopt sensible frameworks for returning cash to shareholders as their profits soar.

But perhaps these firms love their giant insurance policy. Imperious on the outside, inside they may worry about obsolescence and regulation. Anti-trust authorities are getting hostile. Only five years ago Facebook and Google were struggling with the shift from desktops to devices. Both depend on advertising for over 85% of sales. Apple's health depends on its latest iPhone, Amazon has thin margins and Microsoft's profits have yet to rise.

If earnings do soar as forecast, the big-five tech firms could be plotting giant acquisitions of media, car or hardware firms, to diversify away from their core business. But they may simply be uneasy that profits will not rise as high as Wall Street now expects. Either way, the \$330bn safety blanket that lets Silicon Valley sleep at night should lead investors to keep one eye open. ■

## Profits warning?

America's “formidable five” tech firms



Sources: Bloomberg; company reports; *The Economist* estimates



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Global monetary policy

# He still has your back

## Shuffle up and deal—low interest rates are still “the only game in town”

AT ITS outset, 2017 seemed likely to mark a turning-point for global monetary policy. The Federal Reserve had just raised its main interest rate by a quarter-point and was expected to add three such increases this year—or perhaps even more, if a new Republican Congress could agree on tax cuts with a new Republican president. In that case, low interest rates would no longer be the “only game in town” in terms of policy stimulus. The European Central Bank (ECB) would begin to wind down its programme of quantitative easing, or QE, probably by mid-year. The Bank of Japan would cut back on QE, too. In September it set a target yield for ten-year bonds, of 0.0%, which would probably require fewer asset purchases. Of the global giants, only China seemed likely to keep its policy settings as loose as in 2016.

In this context, the ECB's meeting on June 7th and 8th was not long ago eyed as pivotal. The bank's staff would produce new, upbeat economic forecasts. Many ECB-watchers (and maybe some of its governing council) reckoned it might signal the “tapering” of QE. That now looks unlikely. Figures this week showed that underlying inflation fell to 0.9% in April, well short of the ECB's target of below-but-close-to 2%. On May 29th Mario Draghi, the ECB's boss (pictured), told the European Parliament that the bank was “firmly convinced” that an “extraordinary amount” of monetary support was still needed.

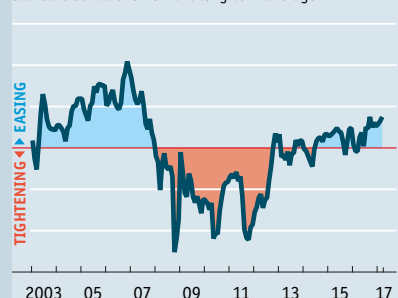
Elsewhere, too, things are not going entirely to plan. The Fed raised interest rates in March and is widely expected to do so again in June. But thereafter markets have priced in little in the way of further increases. And few other central banks are following its lead. Indeed several have cut rates. Mr Draghi's ECB is not alone in its taper caution. The pace of the Bank of Japan's purchases has not fallen much. The balance-sheets of these three central banks, in aggregate, are still expanding. They are unlikely to start shrinking until 2019. A broad measure of rich-world monetary conditions compiled by Morgan Stanley, which incorporates short-term interest rates, bond yields, share prices and other

variables, suggests that monetary policy is becoming looser, if anything (see chart). The wild card is still China—but in an unexpected way; banks' borrowing has in fact been squeezed. But even there, the authorities are keen not to go too far.

Central banks are treading carefully in part because of low inflation. Headline rates of inflation have risen this year, but largely because of higher oil prices. Price indices that exclude volatile food and energy costs tell a different story. The underlying rate on the index preferred by the Fed fell to 1.5% in April, for instance. But monetary policy also reflects the specific risks to financial stability in America, Europe and China. The goals of stable inflation and steady finance are not always compatible. For instance, the ECB's benchmark deposit rate is negative: ie, it charges commercial banks for holding deposits with it. The result is a check on banks' profits. The ECB's judgment has been that the positive effect of negative rates on the economy is worth the risks. The Bank of Japan also has a negative deposit rate, but is kinder to banks: its policy of “yield-curve control” ensures ▶▶

### One direction

Morgan Stanley's financial-conditions index\*  
Standard deviations from the long-term average



Sources: Morgan Stanley Research; Thomson Reuters

United States, euro area and Japan, central banks  
Balance sheets, \$trn



\*United States, euro area, Japan and Britain



▶ that long-term interest rates are higher than short-term ones, which helps banks make profits.

Yet the main risk highlighted in the ECB's recent Financial Stability Review is a sudden rise in bond yields. A hasty withdrawal of QE could plausibly set off such a change, especially in countries such as Italy with large public-debt burdens. That is one more reason for the ECB to go slow. In contrast, China, where debt has risen from 150% of GDP in 2007 to 280% in 2016, faces a dicier trade-off. It is trying to tackle dangers in the financial system without slowing down the economy unduly. The People's Bank of China, the central bank, has not raised its benchmark one-year lending rate, currently 4.35%—the way it has tightened monetary policy in the past. Instead, it has been stingier in supplying short-term

liquidity to banks. Seven-day interest rates in the volatile interbank market have gone up by about half a percentage point since February, to around 3%. The goal is to restrict funding from China's big, state-owned banks to so-called "shadow banks" that use the interbank market to finance risky lending.

China's bank regulator has added to the squeeze. It has clamped down on irregular or complex transactions in the interbank market, and on ruses used by banks to increase leverage. The authorities have tried to limit the potential damage to the economy: by giving banks liquidity for medium-term loans; and through state-directed finance for infrastructure by "policy banks", such as the China Development Bank. But a broad measure of credit growth has slipped, from around 16% in 2016 to

14.5%, according to Morgan Stanley. It might decline further, to 13%, by the end of the year. GDP growth will also slow.

The Fed faces no such conflict. It is raising interest rates for standard reasons: to head off excessive inflation. Financial risks are quite low down its list of worries. In a speech on May 30th, Lael Brainard, a member of the Fed's board of governors, noted mild concern about the car-loan market and corporate debt. But in general, finance was stable, she said. House prices are aligned with rents, in contrast to the mid-2000s; stockmarkets are dear but less so than in the late 1990s. Her main concern was not that equity prices are frothy but that weak inflation might persist. She noted that the underlying rate is falling and wage growth is not picking up, despite lower unemployment.

Though most market participants expect the Fed to increase the target range on its main interest rate on June 16th by another quarter-point to 1-1.25%, the markets are pricing in very little beyond that. Investors are betting that the federal-funds rate will be just 1.5% at the end of 2018. If the Fed lives up to the median forecast of its rate-setting committee, the rate by then should be 2.25%. But sluggish inflation may well force a rethink. In any event, the Fed has prepared the ground for a reduction in its balance-sheet, to begin soon. As things stand, the Fed reinvests the proceeds of maturing bonds, but the plan is to allow a fixed amount of those to run off. Initially the cap would be set at a low level (as little as \$12bn a month on one reckoning) and would gradually increase every quarter. Economists at JPMorgan Chase reckon that shrinking the Fed's balance-sheet by \$1.5trn would eventually push up ten-year yields by 0.25%. But the Fed is likely to move so slowly that the effect will be barely perceptible. Since the plans were outlined, the yield on ten-year Treasuries continued to fall, reaching 2.2%, down from a recent peak of 2.6% in March.

In large part, falling bond yields reflect a growing conviction that short-term interest rates are unlikely to rise quickly or soon. Central banks are fearful of cutting short the synchronised global economic upswing and, with inflation quiescent, see no real need to take the risk. They are buying lots of assets: the ECB and Bank of Japan are acquiring more; the Fed is still reinvesting. In short, little is afoot to upset the bull-market mood: "They've still got your back", is the message that investors are taking from central banks, says David Riley, of BlueBay Asset Management. Global stockmarkets are buoyant. The cost of short- and long-term borrowing remains low by any standards. The dollar has retreated. In the broadest terms, financial conditions are easy. The global upswing is still receiving plenty of support from central banks. An extraordinary amount, in fact. ■

## Monetary policy in Sweden

# Full blast

STOCKHOLM

Despite a thriving economy, monetary policy remains ultra-loose

ON A recent balmy day, people thronged the parks and promenades of central Stockholm. Swedes have much to feel sunny about. Real economic growth, at a heady 3.2% in 2016, has averaged 2.8% annually since 2009, compared with the euro area's 1.1% per year. In April, Swedish inflation was close to the target of 2% aimed at by the Riksbank, Sweden's central bank. Yet it decided not only to maintain the main policy rate at -0.50%, where it has been since February 2016, but to increase the amount of asset purchases under quantitative easing (QE) by a further SKr15bn (\$1.7bn) during the second half of 2017.

One explanation for keeping policy so loose is that the inflation figure is deceptive. Johan Javeus of SEB, a bank, points out that some of the increase was driven by one-off factors, such as rises in air fares and energy prices. After raising rates prematurely in 2010 and 2011, the Riksbank is loth to do so again.

But also, it is hemmed in by the European Central Bank (ECB). The Riksbank fears that tightening before the ECB would lead to a strong appreciation of the krona, hurting exports while making imports cheaper and dragging inflation down. Other small European economies outside the euro area have the same problem more acutely. Denmark, with its peg to the euro, is forced to shadow the ECB. The Swiss central bank has seen its balance-sheet swell to over 100% of GDP as it has sought to dampen upward pressure on the Swiss franc, traditionally seen as a safe haven. Even the Czech central bank was forced in early April to aban-



don a cap on the koruna.

In Sweden QE itself prompts worries, notably about property prices, which rose by 8% in 2016 and 10.8% in 2015. A financial crash is unlikely: banks learnt from Sweden's severe banking crisis in the early 1990s, and the assets of Swedish households easily exceed their debts. But rising mortgage payments might lead to a drop in overall demand. The Riksbank, for its part, has decided to focus only on inflation, leaving the property market to Sweden's financial regulator.

More broadly, perhaps the greatest cause for worry is the employment gap between high-skilled locals (with an unemployment rate of 3%) and low-skilled migrants (at 33%). In that, the Riksbank is powerless. As Sweden has struggled since 2013 to absorb more than 300,000 asylum-seekers, the politics of immigration and employment make monetary policy look easy.

## Taiwan's economy

## Tsai's brighter side

TAIPEI

Now for the hard part: making the upturn last

**T**AIWAN'S president, Tsai Ing-wen, has had a tough first year in office. Her popularity has plummeted as she has struggled to find a path through thorny policy debates. Hope that she might have a staunch ally in Donald Trump has receded. China has ratcheted up pressure, leaving Taiwan more isolated internationally. Less noticed is that Ms Tsai has, for now, won over one important group: investors. Cash inflows from abroad have made Taiwan's stockmarket and currency among Asia's best performers. Foreign direct investment in the electronics industry has also surged.

The government, to be sure, cannot take too much credit. A revival in global trade is the main reason for Taiwan's improved fortunes. Exports rose 15% in the first quarter, the fastest rate in six years. The big gains for Taiwan's stockmarket—up 40% in dollar terms since Ms Tsai's inauguration—are about the same as those in South Korea, another economy whose growth is fuelled by the global electronics sector.

Nevertheless, without a deft touch from Ms Tsai, things could have been worse. It is easy to forget that, a year ago, the odds seemed stacked against Taiwan's economy. Falling exports had tipped it into a recession. Slowing smartphone sales pointed to little relief ahead. Most worrying was the political backdrop, with Ms Tsai caught between her supporters, many of whom crave independence, and China, which demands that she acknowledge Taiwan to be part of "one China".

Ms Tsai has, so far at least, steered a middle course, neither ceding ground to China nor taking actions that might provoke a harsh response. Investors, judging that cross-strait relations are frosty but generally stable, have felt confident enough to scoop up Taiwanese assets. The \$8.3bn in foreign direct investment in Taiwan last year was more than triple the 2015 amount and the highest on record. If exports remain strong, the economy has a good chance of beating the government's forecast of 2% growth this year.

A focus on commercial ties with Asian countries other than China has helped tourism. Ms Tsai's election prompted China to push its travel agencies to send tour groups elsewhere in the region. In the first three months of this year Chinese arrivals in Taiwan were down by some 42% from the same period in 2016. Taiwan, however, has made up for much, if not all, of the loss by attracting visitors from Japan, South Korea



Tsai takes the flak

and South-East Asia.

The real test for Ms Tsai's stewardship of the economy will be whether she can make progress on a series of deeper problems over the remaining three years of her first term. Taiwan's electronics businesses are under threat as China moves up the value chain. Productivity growth has slowed and wages have stagnated. Many of the most talented young Taiwanese are moving abroad, including to China, to work. And the rapid ageing of the population is taking a toll: there is a heated debate about how to prevent pension liabilities from crushing the state budget.

Ms Tsai's economic strategy has three main prongs. First is an NT\$882.4bn (\$29.3bn) infrastructure stimulus, covering projects from the railways to renewable energy. Second, she wants to lessen Taiwan's reliance on China with a "New Southbound Policy", of closer ties with countries in South-East and South Asia. Finally, Ms Tsai is crafting an industrial policy to promote innovation, talking, for instance, about creating an "Asian Silicon Valley".

All sensible enough, but each prong, on closer inspection, looks flimsy. The stimulus will be spread over eight years, providing a smaller boost than advertised. Variations of the southbound policy have been tried for decades: the smaller economies of South-East Asia are no substitute for the Chinese giant next door. And just about every country aspires to foster innovation; few succeed.

Gordon Sun, director of the Taiwan Institute of Economic Research, says the main conclusion from Ms Tsai's first year is that "our government is very good at making many noises." Investors like the story they have been told. But if Ms Tsai's plan to revitalise the Taiwanese economy falls flat, it will soon start to ring hollow. ■

## Islamic fintech

## Catching up

The race heats up to become a Middle Eastern fintech hub

**F**OR all the sophistication of some of its financial centres, and despite the ubiquity of smartphones, the Middle East has been a late adopter of financial technology, or fintech. Of more than \$50bn in fintech investment globally since 2010, according to Accenture, a consultancy, only 1% has gone to the Middle East and north Africa.

Khalid Al Rumaihi, head of Bahrain's Economic Development Board, blames institutional foot-dragging and a lack of infrastructure and venture capital. Yet he insists innovation is inherent to Islamic financial tradition. The modern cheque derives from an Arabic instrument, a written vow to pay for goods on delivery, to avoid carrying money on dangerous journeys. "In the 9th century", he says, "a Muslim businessman could cash a cheque in China drawn on his bank in Baghdad."

Several cities are now jockeying to establish themselves as fintech hubs. Last year Cairo launched two "accelerators"—schools to nurture startups. Abu Dhabi has created the region's first "regulatory sandbox", allowing new products to be tested for two years without full regulatory compliance. In March, the city's financial centre signed an agreement with the Monetary Authority of Singapore, the island-state's central bank, to undertake joint fintech projects, for example in mobile payments and the blockchain. Dubai's new fintech accelerator, the first in the Gulf region, has begun accepting applications.

Not to be outdone, Qatar and Bahrain have held fintech conferences. Bahrain, too, has teamed up with Singapore to develop a fintech ecosystem. In 2010 there were fewer than 20 fintech startups in the Middle East and north Africa, according to Wamda, a website devoted to regional entrepreneurship. By 2015 there were 105.

Their market includes the masses of migrant workers in need of remittance services. But Chris Skinner, a financial commentator, says it also encompasses the region's many expatriates accustomed to high-quality services, and the local ultrarich. At the other end of the scale, fintech can also bring cheaper services to the unbanked: over four-fifths of the population in the region—a higher proportion than anywhere else in the world, according to the World Bank.

Islamic banks are enthusiastic about the prospects. A recent report by EY, a consultancy, says 40 of the biggest have approved investment of \$15m-50m for digital ►►

► initiatives. The industry reaches nearly 100m customers worldwide but the potential market is six times that. Fintech, especially blockchain technologies, ought to be a boon for Islamic finance, because it can streamline transactions between institutions that apply different versions of Sharia law. Islamic-banking users are keen: three out of four say they are ready to look elsewhere for a better digital experience.

Mr Skinner is sure these cities can become fintech hubs. Dubai, he notes, was barely on the map 20 years ago; now it is, by one ranking, the world's 18th-largest financial centre, above Frankfurt. Others will find their niche, perhaps as hubs linking economies in Asia and Africa or servicing wealthy Saudis next-door. Saudi Arabia is not so global in perspective, he notes, and in Bahrain you can have a drink. ■

### Venezuelan bonds

## Socialism or debt

### Goldman Sachs draws opprobrium for buying Venezuelan bonds

**B**ONDS are bought and sold every second of every day without attracting attention. But it is not often that the seller is the central bank of a brutal, cash-strapped regime faced with protests; the buyer, a bulge-bracket American investment bank; and the size of the deal in the billions of dollars. A report in the *Wall Street Journal* on May 28th that Goldman Sachs had bought bonds with a face value of \$2.8bn issued by Venezuela's state-owned oil company, PDVSA, for 31 cents on the dollar (ie, for \$865m) caused a stink.

Julio Borges, an opposition politician and president of the National Assembly, lambasted Goldman on May 29th in an open letter to its chief executive, Lloyd Blankfein, for its decision to "aid and abet Venezuela's dictatorial regime". For all its sins, that regime has met its obligations to bondholders. Mr Borges vowed to advise future Venezuelan governments not to repay the bonds in question. Protesters gathered outside Goldman's headquarters in New York. The bank acknowledged buying the bonds but said it had done so from a broker, not directly from the government, and invested because it believed that life in Venezuela would get better.

Prominent banks financing nasty regimes is not new. Nor is Venezuela the first dictatorship to give priority to debt service over providing necessities to its people. But one factor that has changed is the role of indices in directing investment.

Just days before this transaction came to light, Ricardo Hausmann, a former Vene-

### Tax evasion

## Gimme shelter

### The super-rich may pay even less tax than previously realised

**O**FLIFE's two certainties, death cannot be dodged even by the well-to-do. Taxes are another matter. Quantifying quite how much they manage to keep from the taxman, however, has always been tricky. One common approach governments take is to conduct randomised audits of tax returns. This methodology can give regulators a rough sense of overall tax revenues lost. But it is far from ideal. For instance, studies based on randomised tax audits are usually both too small and too crude to reflect accurately the financial shenanigans of the most egregious tax-dodgers: the super-rich.

A new study by Annette Alstadsæter, Niels Johannesen and Gabriel Zucman, three economists, tackles this problem by investigating two recent financial-data hoards: the "Swiss leaks", a record of bank accounts held at HSBC in Switzerland; and the "Panama papers", files that document the use of offshore accounts and shell companies by clients of Mossack Fonseca, a law firm in Panama. By matching the leaked information with wealth data from Denmark, Norway and Sweden, the authors are able to construct the most detailed estimate to date of the extent of tax evasion.

Their research leads to two conclusions. First, tax evasion is extremely concentrated (see chart). The average Scandinavian household paid around 3% too little in taxes in 2006; the richest 1% of households, with net assets of at least \$2m, underpaid by around 10%. The truly rich, though, behave truly differently. The top 0.01% of households, with net assets of over \$40m, short-changed the taxman by a whopping 30%.

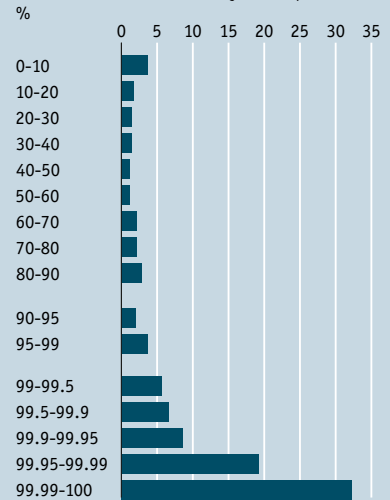
Second, the numbers imply that

previous estimates of wealth inequality, often based on tax data, have understated the problem. And the Scandinavian statistics may provide a conservative estimate of worldwide tax-dodging: only around 2% of Scandinavian household wealth is held in offshore accounts, compared with the global average of 4%.

Globalisation has disproportionately benefited the rich in part by rewarding capital more handsomely than labour. But globalisation has also made it easier for the well-heeled to hide their wealth. In that sense, maybe the data should cause even more surprise: despite the best efforts of a lucrative global tax-evasion industry, Scandinavia's ultra-rich are paying 70% of their taxes.

### Haven it all

Scandinavia\*, taxes evaded by wealth percentile %



Source: Annette Alstadsæter, Niels Johannesen and Gabriel Zucman \*Denmark, Norway and Sweden, 2006

zuelan minister now at Harvard, had argued that JPMorgan Chase should exclude Venezuelan-government bonds from the emerging-market bond indices it compiles. Investors, he alleged, were profiting from the suffering of Venezuelans by buying what he called "hunger bonds".

In some indices, such as JPMorgan's EMBI+ or Morningstar's "emerging-markets high-yield bond" one, Venezuelan-government and PDVSA bonds represent only a small slice of the portfolio (around 5%), but are so cheap they contribute nearly a fifth of yield. Bloomberg also includes Venezuelan bonds in its indices. But JPMorgan's is the most widely quoted, and drew Mr Hausmann's ire.

Such indices serve both as a benchmark for active managers (ie, those that seek to beat an index for their investors) and to determine the allocation of exchange-traded funds (ETFs) run by such firms as BlackRock or Vanguard. America's largest ETF for emerging-market bonds is a BlackRock one with \$11.6bn under management. It tracks a different JPMorgan index but holds nearly \$275m-worth of Venezuelan bonds at current market prices, and derives over 10% of its total yield from them. Goldman's big bet has drawn a lot of attention. But indexmakers, ETF providers, asset managers and, of course, their investors have all been happy to make money out of Venezuela's unsavoury debt. ■



## Pension bail-outs

## Saving orphans

WASHINGTON, DC

## Will President Trump rescue failing pension funds?

TO THE exasperation of budget hawks, Donald Trump has long made clear that he will not reform Social Security (public pensions). But maintaining these entitlements does not fully protect workers' retirement income. For many, pension promises from their employers are more important. These can shrink or vanish when firms fail. And, like Social Security, the programme that protects retirees against such losses—the Pension Benefit Guaranty Corporation—is going bust.

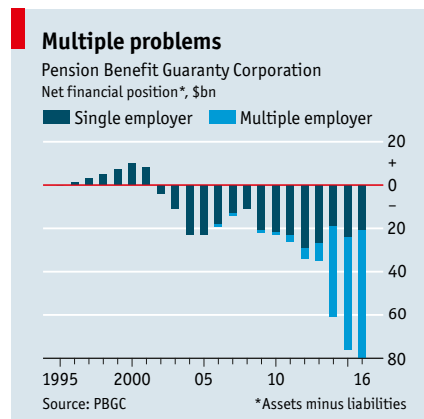
The PBGC levies premiums on defined-benefit pension plans in order to bail out those that fail (up to a maximum payout per worker). On current trends, one of its insurance schemes will probably run dry by 2025. The problem is so-called “multi-employer” funds (see chart). These involve multiple firms, usually under an agreement with an industry-wide union. They cover about 10m Americans, roughly 1m of whom are in a plan that admits it is probably broke. The biggest struggler is the Central States fund, which covers about 400,000 current and former truck drivers.

A multi-employer plan is a fragile thing. When a participating firm goes under, others must pick up the tab for its workers, or “orphans”. But surviving firms have an escape route. They may withdraw from a plan so long as they pay their share of its projected deficit. Because funds often assume unrealistically high investment returns, such shortfalls are usually understated. That makes withdrawing from a plan a good deal for the firm and a bad one for the orphans.

Over time, reality bites. So just as it is best to be at the front of the queue during a bank run, it is best to be the first firm to exit the plan. The only obstacle is that the relevant union must agree to a withdrawal. But workers, fearing that their employer might go bust, or needing to win concessions on other matters, often do. For example, UPS, a delivery firm, pulled out of the Central States plan in 2007.

Such exits have caused the health of multi-employer plans to worsen rapidly. In turn, that threatens PBGC, which is on the hook whenever a plan fails. At last count, the agency's multi-employer programme had assets of a little over \$2bn supporting liabilities of over \$61bn.

What is to be done? The Trump administration's proposed budget for 2018 plugs the hole by raising premiums dramatically, charging more to plans with bigger deficits,



and levying a punitive “exit premium” on quitters. This builds on an Obama-era proposal simply to let PBGC decide what premiums to charge. Firms, fearing hefty rises, hated that idea, and will probably lobby against Mr Trump's plan, too, should it become draft legislation.

In any case, raising premiums can only

## America's community banks

## Relief rally

WASHINGTON, DC

## Local lenders groan about regulation, but hope the load will be lightened

A FEW weeks ago Standard Financial, a bank with assets of just \$488m and a mere nine branches, merged with Allegheny Valley Bancorp, a slightly smaller neighbour in the suburbs of Pittsburgh. The main reason for the deal, says Tim Zimmerman, Standard's chief executive, was the rising cost of regulation—though competition from PNC, a \$371bn colossus based in the city, also played a part. “Without the regulatory overreach...since the crisis,” Mr Zimmerman says, “we'd probably both have gone along on our own, I think.”

Standard is one of America's 5,400 community banks: local lenders, funded chiefly by deposits, who pride themselves on knowing their turf by the inch and their customers by name. Their size can range up to \$10bn in assets, but most are much smaller: over 5,000 banks and savings institutions have less than \$1bn and more than 1,500 under \$100m. They account for 92% of federally insured banks. Though they make only 16% of all loans, they provide 43% of small-business loans.

But their numbers are in long-term decline, falling by one-third in the past ten years. More than 400 failed between 2008 and 2012. Only four have opened since. Yet four disappear every week—most, like Allegheny Valley, by merging with another community bank.

do so much. If firms quit plans en masse, there will be nobody left to pay premiums, says Joshua Gotbaum, who ran PBGC from 2010 to 2014. So it is more important to prevent failures by allowing firms to trim future payouts. A law passed in 2014 set up a process for such restructurings. Its prime target was the Central States plan. Yet the Obama administration rejected its restructuring proposal in 2016.

Mr Trump's attitude to pension cuts is still unknown. (It may already be too late to save Central States.) Left-wing Democrats oppose benefit cuts, because they want the taxpayer to prop up failing plans. Yet an attempt at this failed in 2010, when Democrats controlled government. With Republicans in charge it is a pipe-dream.

That is true even with the populist Mr Trump in the White House. During recent budget negotiations, a push to bail out miners' pensions failed (only their health plan got more money). And if miners cannot win concessions under Mr Trump, it is unlikely that anyone else can. ■

Despite their thinning ranks, community banks are practised lobbyists: almost every congressional district has at least one. In late April and early May the Lilliputians—in the guise of the Independent Community Bankers of America (ICBA)—were warmly welcomed to Brobdingnag. Greeting more than 100 of them at the White House, Donald Trump called them “the backbone of small business in America” and promised to roll back regulation, notably the Dodd-Frank act of 2010. Both Jeb Hensarling, chairman of the House of Representatives Financial Services Committee, and Steven Mnuchin, the treasury secretary, addressed the ICBA at breakfast, before the bankers headed for Capitol Hill.

Regulation, especially of mortgages, is community bankers' number-one complaint. Preston Kennedy, who runs Bank of Zachary, in Louisiana, which has assets of \$250m, says he has had to expand his mortgage department from three people to six, and add a senior officer to oversee it, in the past five years. Mr Zimmerman says borrowers must sign or initial a typical mortgage agreement in well over 30 places. Reading the papers in full would take hours, but after just one “their mind would be fried anyway”. The idea is to help customers make better decisions (after the disastrous pre-crisis subprime boom), but ►►

▶ he doubts that it does.

Camden Fine, head of the ICBA, likens the rules to a “cookie-cutter”. In essence, only “qualified” mortgages meeting certain criteria (eg, on the ratio of debt to income) may be sold to Fannie Mae and Freddie Mac, the government-owned giants that dominate the secondary market. Banks fear that if they make loans that do not fit the template, borrowers who are unable to repay may sue, claiming that lenders were careless. The ICBA knows of no suits yet, but bankers are nervous. Scott Heitkamp, chief executive of ValueBank Texas, in Corpus Christi, says he no longer makes such loans, although “they were our bread and butter for years”. Mr Zimmerman does, “with trepidation”.

Despite all this, community banks’ business model has held up pretty well. In the 12 months to March, according to the Federal Deposit Insurance Corporation (FDIC), the main supervisor of most of them, community banks’ loan books grew by 7.7%, more than twice the rate at other, mainly much bigger, lenders. Net income rose by 10.4%, against 12.7% for the whole industry. Returns on equity, at 9.2%, were a little below the average.

Nevertheless, the fixed costs of regulation weigh more on them than on bigger lenders. And they have other troubles to contend with. Perhaps most important is the cost of keeping up with information technology—both to provide customers with the online services they have come to expect (see box) and to guard against cyber-attacks—which, like regulation, is a heavier burden the smaller you are. The expense of “two delivery channels” creates “another pressure point”, says Standard’s Mr Zimmerman.

Another concern is succession planning, which at a bank requires finding someone with specialised expertise. Many community banks are family-run, and children may not always follow in their par-

ents’ footsteps (though plenty do: Rebeca Romero Rainey, who succeeds Mr Fine at the ICBA next year, runs Centinel Bank in Taos, New Mexico, founded by her grandfather in 1969). Mr Zimmerman says this may cause more trouble at banks like his, which are not family firms and have to look outside. A happy by-product of the merger is that it equips Standard with his successor, Allegheny’s boss, Andy Hasley.

A third preoccupation is finding and keeping capable staff. Not everyone wants to work in out-of-the-way places—and holding on to people in cities, where big banks prowl, can be hard too. And fourth, margins between lending and borrowing rates, from which community banks make most of their money, have been thin, and have lately declined slightly.

Community bankers blame the paucity of new banks, too, on heavy-handed regulation. The FDIC, arguably too slow to act before the crisis, became more cautious after it. Among other things, it extended the period of closer scrutiny of new banks from three years to seven (it has since been cut back to three). But the decline in banks’ price-to-book ratios after the crisis was probably also important, encouraging mergers and purchases of existing banks rather than the opening of new ones. This arithmetic may be going into reverse: five applications for charters are pending. But that is still just a trickle.

The bankers hope lighter regulation is on the way. Mr Mnuchin is due to send Mr Trump a report soon on which rules are ripe for overhaul. Cheered by the ICBA, last month Mr Hensarling’s committee passed a bill easing the conditions for conforming mortgages, cutting paperwork and relaxing other rules. After the whole House votes, the bill may struggle in the Senate, yet ValueBank’s Mr Heitkamp believes “the wind has shifted” in Washington. Wall Street has friends in high places. But so do American banking’s little guys. ■

## Eastern Bank

# Keeping up

WASHINGTON, DC

## A 199-year-old bank’s tech adventure

LIKE other local bankers, Bob Rivers is counting the cost of red tape. At the end of 2015 and 2016 Eastern Bank, a Boston lender of which he is the chief executive, held its balance-sheet below \$10bn by briefly parking some deposits elsewhere. Now Eastern—America’s oldest and largest mutual bank, founded in 1818—has crossed the threshold. It will thus become subject to a limit on the debit-card fees retailers pay to bigger banks, and lose \$9m of revenue, Mr Rivers says. Other rules will also kick in, costing \$6m. The \$15m total is one-sixth of Eastern’s pre-tax earnings.

At least, unlike America’s many much smaller lenders, Eastern has the wherewithal to tackle another costly burden: information technology. It is just small enough to be called a “community bank”, but also just big enough to invest in IT. Being a mutual is essential too, Mr Rivers says: he does not have to answer to shareholders about quarterly profits.

In 2014 Eastern set up an incubator, Eastern Labs, into which it has put 1% of revenue, or \$4m a year. It grew to house 130 of its 1,900 employees. Last month Eastern span off its first startup, Numerated Growth Technologies, which raised \$9m from Venrock, a Silicon Valley venture-capital firm, and other investors. Eastern is keeping nearly 25% and is planning what Mr Rivers calls “Labs 2.0”.

Numerated is taking a platform developed at Eastern Labs for small-business lending, offering loans of up to \$100,000. Borrowers who might have waited weeks for approval can get the nod within five minutes. Dan O’Malley, Numerated’s chief executive, explains that the software does more than automate lending. It also markets loans to prospective customers—who are less likely to come into branches—tickling up demand. Eastern lent around \$100m on the platform in 18 months before the spin-off, at three times the pace for the same loans (and at twice the interest rate) before Mr O’Malley and his colleagues got to work.

Mr O’Malley says that having techies alongside bankers in Eastern Labs was a boon, as was Eastern’s mutual status. That may help to explain the interest of other banks. Three have licensed the platform already: each uses a different core IT system—indicating its flexibility, Mr O’Malley notes. Around 100 have made inquiries. What others cannot afford to build, they can still rent.



# Free exchange | Left behind

Donald Trump's election has American Democrats rethinking their economic shibboleths



DEMOCRATS thought they knew the boundaries of acceptable economic discourse. Then came Donald Trump, who trashed them, yet won the presidency. He upended Republican positions on trade, and exposed the vulnerability of the Democratic Party on its home economic turf: the well-being of American workers. He also seems to have liberated the left to think big ideas—and confront hard questions.

Since 1992 Democratic economic policy has been rooted in technocratic centrism, meant to smooth the rough edges of the market. “We reject both the do-nothing government of the last 12 years and the big-government theory that says we can hamstring business and tax and spend our way to prosperity,” read the party platform in 1992. “Instead we offer a third way.” This was a desperate effort to escape the political wilderness. Yet it also reflected intellectual trends in economics. Inflation and falling productivity in the 1970s seemed to bear out the views of economists such as Milton Friedman, that faster growth could only be achieved through freer markets. Left-leaning economists largely conceded the point. Democrats sought to level the playing field a bit through education and progressive taxation, but generally they accepted that a limber economy offered the best route to growth and good jobs.

Confidence in the approach ebbed as wage growth stalled in the 2000s. Republicans spent Bill Clinton’s budget surplus on tax cuts for the rich, and, in 2008, the American economy fell into its worst crisis since the 1930s. In 2011 Dean Baker, a left-leaning economist at the Centre for Economic and Policy Research, published a book attacking “loser liberalism”. He argued that Republican policies—from trade deals that above all affected low-skilled manufacturing jobs to “right-to-work” laws that sapped labour power—could be seen as ways to alter the balance of economic power as much as principled attempts to liberate markets. Democrats’ narrow focus on efficiency, playing down labour’s loss of bargaining power, meant workers were taken for suckers.

That view is increasingly held across the American left. Stagnant wages and rising inequality seem to vindicate critics of the “neoliberal” approach. Recent research lays bare how feebly workers were able to adjust to the costs of globalisation, and suggests that inequality and inadequate government spending

could doom the economy to perpetual, “secular” stagnation.

The left is yet to decide how to respond. Leading voices, like Bernie Sanders and Elizabeth Warren, full-throatedly declare that the economy has been rigged against working people. Their proposals are far bolder than recent Democratic platforms. A plan to make tuition at public universities free for most people, and to reduce student-loan debt, would allow young workers more room to experiment with different careers after graduation. A single-payer health-insurance system would allow workers to leave jobs they do not like without fear of loss of health-care coverage, boosting workers’ leverage.

In contrast, the orthodoxy among centre-left economists has not shifted much. They favour investment in public goods, like education and research, and wage subsidies, which boost incomes of the poor without discouraging work. Some, like Larry Summers, reckon that chronically weak demand implies a need for bigger government deficits, ideally spent on worthwhile infrastructure projects. Worries about corporate concentration and market power are renewing interest in antitrust policy.

As the left grapples with these issues, it is considering two wildly ambitious proposals for reforming the welfare state. One envisages a job guarantee: a policy once embraced by Martin Luther King and more recently endorsed by the Centre for American Progress, a centre-left think-tank. Any adult who wants a job would be promised one, paying a salary (and benefits, for those who work sufficient hours) of perhaps \$12 per hour. The government could assign work directly, or serve as a clearing-house matching would-be workers with openings in projects submitted by communities or local governments. The aim of the policy would be to set a floor for living standards and private-sector job quality, while meeting unmet social needs.

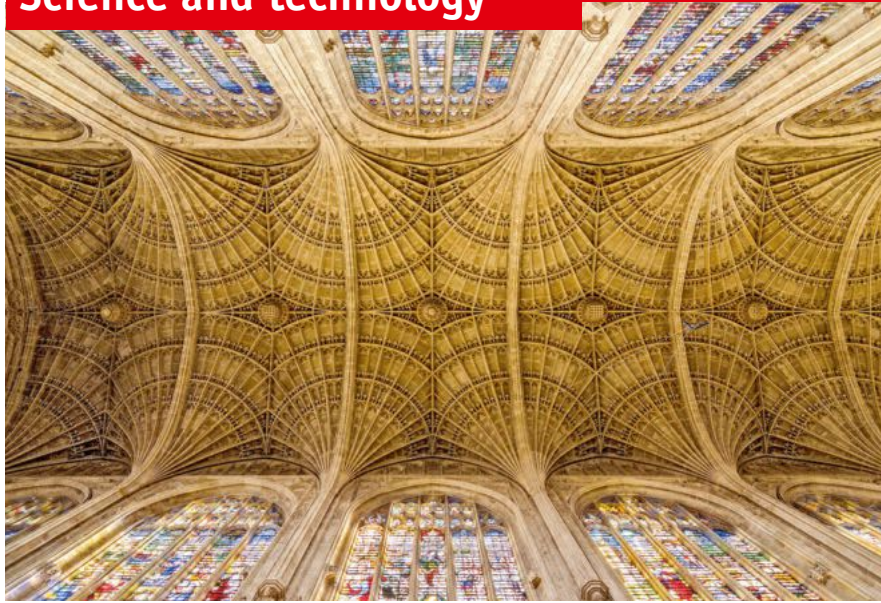
The other big idea is a universal basic income (UBI): a “citizen’s dividend” paid to every adult whether working or not. A UBI is not exclusively a lefty proposal. Some envision it as a simpler replacement, in the form of a cash payment, for lots of other government-benefit programmes. Silicon Valley moguls are enthusiastic about it; Mark Zuckerberg (whose politics are obscure) praised the idea in a recent speech. On the left, a UBI is often seen as a welcome new entitlement that would enshrine the idea that, no matter their circumstances, all deserve to benefit from economic growth.

For now, both policies remain pie in the sky. If implemented nationally, they would require vast increases in tax collection, and could generate large, unforeseeable and unwelcome side-effects. But the two policies share an important feature: they give workers the ability to walk away from lousy private-sector jobs.

## Labour’s love lost

Should they prove politically viable, such ideas nonetheless leave the left in a bind. Both a job guarantee and a UBI create paths (albeit diverging ones) to a world where most people do not hold paying, private-sector jobs. Although the ability to reject bad jobs is crucial to establishing labour power, it might also hasten the day when lots of workers are simply unnecessary to the functioning of the economy. That is a difficult and risky pill to swallow for a party historically committed to strengthening the role of labour. Political relevance, like middle-class prosperity, is harder to sustain than once appreciated. ■






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**High-tech construction**

## Back to the future

DONCASTER AND ZURICH

**Clever computers and 3D printing allow builders to design lavish, complicated and highly efficient structures**

SET in the heart of Cambridge, the chapel at King's College is rightly famous. Built in the Gothic style, and finished in 1515, its ceiling is particularly remarkable. From below it looks like a living web of stone (see picture). Few know that the delicate masonry is strong enough that it is possible to walk on top of the ceiling's shallow vault, in the gap beneath the timber roof.

These days such structures have fallen out of fashion. They are too complicated for the methods employed by most modern builders, and the skilled labour required to produce them is scarce and pricey. Now, though, new technologies are beginning to bring this kind of construction back within reach. Powerful computers allow designers to envisage structures that squeeze more out of the compromise between utility, aesthetics and cost. And 3D printing can help turn those complicated, intricate designs into reality.

In a factory that makes precast concrete, 16km south of Doncaster, in northern England, a robotic arm hangs over a wide platform, a dribble of hard pink wax dangling from a nozzle at its tip. The arm is mounted on a steel gantry which lets it move about in three dimensions, covering a volume 30 metres long, 3.5 metres wide and 1.5 metres deep. Called FreeFAB, the system uses specialised wax to print ultra-precise moulds that, in turn, are used to cast concrete panels. Hundreds of these panels are being installed in passenger tunnels as part of Crossrail, Europe's biggest construction

project, which is digging a new east-west railway line across London.

Run by Laing O'Rourke, a construction firm, FreeFAB is the first 3D-printing technology used in a big commercial building project. Show offices and show homes have been printed in places such as Dubai and China, but are, for now, just concepts. The problem, says Bill Baker, an engineer who worked on the Burj Khalifa in Dubai, the world's tallest building, is that printed concrete is currently produced in layers, which are fused together to make a thicker panel. But the boundaries between the layers introduce weaknesses that make the panels unsuitable for real buildings. "These things can peel apart," he says.

### Breaking the moulds

FreeFAB gets around that problem by printing moulds rather than trying to print structural material directly. Invented by James Gardiner, an Australian architect, it has big advantages over traditional mould-making techniques. One is that it creates far less waste. Ordinary moulds are made from wood and polystyrene, and can only be used to produce a single shape. Once they are finished with, they are scrapped and sent to landfill. FreeFAB's wax can be melted down and poured back into the tank, ready to be re-extruded into a new form. It took Dr Gardiner three years to find a wax which could be printed, milled and recycled.

The system also makes it cheaper to

make even complicated moulds. Production of traditional moulds is highly skilled work. Making a mould for a concrete panel that curves along two different axes, like the ones used in Crossrail, takes about eight days, says Alistair O'Reilly, general manager at GRUK, the firm in whose factory FreeFAB is installed. FreeFAB can print one in three hours. That speed makes it possible to meet the design demands of more complicated buildings. Subtly curved panels can be used inside houses to deaden sound and keep certain rooms quiet, for instance. Doing that with traditional methods would be too expensive. FreeFAB—or something like it—could make such components much cheaper. And because the concrete itself is not being printed, the panels are just as strong as ones made in the traditional way. FreeFAB's parts do not peel, and have withstood twice the required force in bomb-proofing tests.

It is early days. The factory in Doncaster has had teething problems—it has proved tricky to print moulds without flaws big enough to be visible in panels cast from them. For now the factory supplies concrete cast from a mix of traditional moulds and 3D-printed ones. But if the technology matures enough, Laing O'Rourke plans to spin it out as a startup focused on this new way of creating buildings.

If that happens, Philippe Block, an architectural engineer at the Swiss Federal Institute of Technology, in Zurich, might be an early customer. Dr Block makes floors that have the flowing, veined look of biological membranes. Just a few centimetres thick, they are modern versions of the chapel ceiling at King's. Instead of building floors that rely on steel reinforcement to hold them up, Dr Block builds them under compression, so that each bit of the floor holds up the rest in a shallow vault. Each is bespoke, designed by a computer to effi- ▶▶



Walking on an eggshell

ciently deal with the specific loads it must bear. This allows him to build much thinner structures out of materials much weaker than reinforced concrete.

Such floors are useful as well as beautiful. In skyscrapers, for instance, the floors and the structures that support them account for a good deal of the building's mass. Dr Block calculates that his new, thinner floors would need only about a third as much material as a typical floor slab. At the same time, their thinness allows him to claw back enough vertical space to fit three floors into the space that would be taken by two floors built in the standard way.

Dr Block has already tested many versions of his ideas, most recently at the Venice Architecture Biennale in 2016. There, he and a team constructed a 15-metre vaulted "tent" out of 399 blocks of cunningly shaped limestone, each precisely milled to match the pattern of forces necessary to hold the vault up. Called the Armadillo Vault, its dome was half as thick as an eggshell would be at the equivalent size.

The next test is in a real building, specifically a demonstration house called NEST in the Zurich suburbs. Dr Block's group will make the floors for a new part of the building called HiLo. The main bottleneck in the production of Dr Block's structures is the creation of each element. It is expensive and slow to mill all the parts from blocks of stone, or to build traditional moulds for each individual component. So Drs Block and Gardiner are planning to work together on HiLo, using FreeFAB to print moulds that will produce segments of the floors. If all goes according to plan, the work should be done by 2018.

That could be just the beginning. Dr Gardiner talks of using ductal concrete, which is reinforced with steel fibres that make it lighter than concrete reinforced with steel rods but just as strong, to build thin bridges that span rivers in a single bound. For now, that is a project for the future. But all the components are in place. ■

## Treating autism

# Blast from the past

A sleeping-sickness drug first discovered a century ago may help with autism, too

MICE are not humans. But they are similar enough that many drugs that work in mice turn out to work in people as well. Three years ago Robert Naviaux, a researcher at the University of California, San Diego, published a paper suggesting that a drug called suramin could alleviate the symptoms of autism in mice. That was interesting, for despite all the research into autism, few effective treatments are available. Now, in a paper published in *Annals of Clinical and Translational Neurology*, Dr Naviaux reveals that the experiments have been repeated on humans, and the drug seems effective for them, too.

Nobody is sure what causes autism. One theory points the finger at something called the "cellular danger response". This involves compounds known as purines, which command cells to halt their usual activities and brace for an imminent viral attack. That response is normal and, provided it switches off when the danger has passed, beneficial. But some researchers believe that the mechanism can end up switched on permanently. This, they think, can encourage the development of autism.

Dr Naviaux's past work with mice shows that when mothers are exposed to a virus-like stress while pregnant, the cellular danger responses of their pups can become permanently activated. And one side-effect of the response is to inhibit the growth of neural connections that is normal in young brains. The result is a set of behaviours—difficulty with social situations, and a strong preference for familiar

things and for routine—that bear a strong resemblance to autism in humans.

Suramin, which was discovered in 1916 and has long been used to treat the sleeping sickness spread by tsetse flies, blocks purines from binding to neurons. Dr Naviaux reasoned this might help the neurons of young mice afflicted with autism to begin making connections again. Sure enough, as long as the mice were on the drug, they shed many of their autistic traits. The next step was to see if the same would happen with humans.

Like all early-stage clinical trials, this one was small. Dr Naviaux and his colleagues recruited 20 autistic boys between the ages of five and 14. The boys were paired by age, IQ and the severity of their autism, such that for every participant who was given suramin, a similar participant was given saline solution as a placebo. This pairing, and a decision to exclude any recruits who were found to be taking prescription drugs, left the experiment with ten participants in total.

All had suramin levels in their blood monitored for six weeks. Each was given tests designed to measure language ability, social interactions and repetitive behaviours. All the tests were run before the drug was administered and then again seven and 45 days later.

Every participant given suramin showed statistically significant improvements in their performance on the tests at seven days. Those on the placebo showed no significant improvement. At 45 days, the ▶▶



Distant cousins



▶ boys who were given the drug were performing better on the tests than they had before the infusion, but it was clear that as suramin was leaving their system, their autistic traits were returning.

Those findings matched the experience of the children's parents. They did not know whether or not their children had been given suramin or a placebo. But those who had received the drug reported big changes in behaviour. One said that her 14-year-old boy, who had only been able to speak in single words and fragments of words before the infusion, started singing in the days afterwards. One week later, he walked up to his father in the kitchen and said "I want to eat chips." It was the first full sentence he had uttered in 12 years. Another boy of five began smiling after receiving his infusion. Soon after he began to giggle and laugh, telling his mother, "I just don't know why I'm so happy."

Such stories are informal and are therefore not listed in the paper (instead, Dr Naviaux has collected them on his website). But they add to the impression that he may be onto something. The next step is to try long-term doses of the drug to see if the benefits can be sustained. If they can, then a potential treatment for autism may have been hiding in plain sight for decades. ■

## Astronomy

# In a different light

## Gravity-wave detectors are both physics experiments and telescopes

ONE of the biggest bits of science news in 2016 was the announcement, in February, that gravitational waves had been detected for the first time. A prediction of Albert Einstein's theory of general relativity, theorists had long suspected that such waves—rippling distortions in the fabric of space itself—were real. But no one had seen one. They were eventually revealed by a billion-dollar instrument called the Laser Interferometer Gravitational-Wave Observatory (LIGO), which is based at two sites in Louisiana and Washington. LIGO works by bouncing lasers down tunnels with mirrors at each end. A passing gravity wave will stretch and compress space, causing tiny changes in the time it takes a beam to traverse the tunnels.

The waves that LIGO spotted were caused by the joining, 1.3bn years ago, of a pair of black holes, 36 and 29 times as massive as the sun. Such mergers are among the most powerful events in the universe: the coalescing holes briefly pumped out 50 times more energy than all the rest of the stars in the universe combined.

## High-tech cricket

# Test match

## Smart bats and drones are the latest additions to the great game

THE signature sound of cricket is the thwack of a willow bat hitting a leather ball. At the ICC Champions Trophy Tournament, though, which started in England and Wales on June 1st, the bats were emitting more than those soothing reverberations. They have been fitted with sensors that enable them to fire off wireless reports that reveal how a batsman played the ball. Spectators were also treated to the slightly less pleasant whine of electric motors, as a drone armed with infra-red cameras performed reconnaissance flights over the pitch.

Both gadgets are the brainchildren of Intel, a chipmaker commissioned by the International Cricket Council (ICC), the sport's governing body, to find new ways to keep fans entertained. Cricket is no stranger to technology. Until now, though, attention has been focused mainly on the bowler and the ball. A system called "HawkEye" tracks the ball's trajectory, helping pundits analyse bowling styles and umpires judge leg-before-wicket decisions. "HotSpot" uses infra-red cameras to determine where a ball struck the bat, or the batsman.

But the subtleties of a batsman's style have so far escaped scrutiny. Commentators must rely on little more than educated guesswork, says Anuj Dua, an Intel director. To fix that, Intel and Specular Technology Solutions, a firm based in Bangalore, have developed BatSense, a diminutive gadget that players can attach to the top of their cricket bat.

Based on a coin-sized Intel micro-computer, BatSense incorporates accelerometers, a gyroscope and a wireless transmitter, allowing it to beam data to the commentary box on everything from bat angles to stroke speed. Besides snazzy graphics on match day, the system can also help hone a batsman's skill, says Atul Srivastava, Specular's boss. A version aimed at amateurs that enables the device to transmit to a smartphone is

They are also fairly common. LIGO's first detection took place in September 2015. Three months later, it saw another such event. And on June 1st, LIGO announced its hat-trick, reporting a third detection which had taken place on January 4th, 2017. The first detection was a spectacular piece of physics that will likely earn LIGO's masters a Nobel prize in due course. But the second and third—and others that the instrument will surely make in future—belong more to the realm of astronomy. For



Activate the bat signal

under development.

Cricket's languid, civilised pace can pose problems for commentators, who feel the need to keep talking even when not much is happening on the field. A favourite topic is the state of the pitch, the strip in the centre of the field where most of the action happens, and the state of which can have a big impact on bowling. But as with talk of a batsman's technique, such discussions are often little more than conjecture.

Hence the drones. Before the matches, and again at lunch, a machine of the sort used to analyse farmland flies over the pitch. It maps things like topography, grass density and soil moisture, providing hard data for pundits to chew over.

Such augmentations may seem out of place in a game so wedded to tradition. The trick, says Mr Dua, is to feed fans' appetites for fresh insights without distracting them from the game itself. So drone flights will be limited. And because BatSense is so small and unobtrusive, there should be no change to that talismanic sound of leather on willow.

LIGO is both a physics experiment and a telescope that offers an entirely new way to look at the universe.

Most telescopes make use of the electromagnetic spectrum, from high-frequency gamma rays to low-frequency radio waves and every wavelength (including visible light) in between. Gravity waves are not part of the electromagnetic spectrum, and are produced by different physical forces. They can therefore be used to examine things that traditional astronomy ▶▶



cannot. LIGO's most recent detection, for instance, seems to have been caused by the merging of two black holes whose spins were not aligned. That implies that they lived separate lives before coming together as a pair. How common such encounters are is an open question in astronomy. The more such detections LIGO makes, the better the understanding astronomers will have of how black holes evolve.

In the future, the trickle of data should become a flood. Virgo is a European detector whose staff are collaborating with the LIGO team and which is due to reach its full capacity in 2018. A Japanese instrument

named KAGRA should begin taking data that same year. Indian researchers are keen to build a detector of their own. Things will really heat up in 2030, when the European Space Agency plans to launch LISA, a set of three satellites that together will form a space-going gravity-wave detector. The sensitivity of ground-based instruments such as LIGO is limited by the length of their tunnels. Freed from such constraints, LISA's lasers will travel between spacecraft 2.5m km apart. That will make it far more sensitive than instruments like LIGO, and help crack this new window on the universe wide open. ■

concerned. But reviewers' names could be reattached when it is time for performance appraisals, giving their bosses proof of the extra work. And while traditional peer review is done before publication, Publons also allows reviewers to assess a paper after it has been published.

Such "post-publication" peer review is already common on websites such as arXiv, where physicists and mathematicians post early versions of papers that will later be published in journals. The extra scrutiny may catch problems other reviewers have missed. Mr Preston points to a paper published in October in *Nature* called "Evidence for a limit to human lifespan". It passed traditional peer review. It has a very high "Altmetric" score, which measures how much attention it has gathered in the press and on social media. But Publons's reviewers do not rate it. Six post-publication reviews give the paper an average score of 4.7 out of 10, claiming concerns with the way it analysed its data.

Another goal is to fight fraud. In April Springer, a big American publishing firm, retracted 107 papers from *Tumor Biology* after discovering that the authors had tricked the journal's editors into soliciting reviews from fake e-mail addresses, which invariably offered glowing reviews. Having acquired Publons, Clarivate hopes that linking researchers' citation records with their records as reviewers will make it easier for journal editors to select reliable reviewers and harder for duplicitous authors to deceive them. (Such services are how Publons, which is free for researchers to use, hopes to make money.)

The Moscow sculpture honouring peer reviewers was paid for by an online crowdfunding campaign. On its tongue-in-cheek website, it quotes Andre Geim, a physicist who won a Nobel prize in 2010, saying that peer reviewers are "unsung heroes of science" who do their work "out of a sense of responsibility". That is admirable. But as any student of the Higher School of Economics could tell you, self-interest can be an even stronger motive. ■

## Scientific publishing

# Review and prosper

Peer review is a thankless task. One firm hopes to change that

AS SCULPTURES go, it is certainly eye-catching. On May 26th a small crowd gathered outside Moscow's Higher School of Economics to watch the unveiling of a 1.5-tonne stone cube shaped like a six-sided die. Its five visible sides are carved with phrases such as "Minor Changes", "Revise and Resubmit" and "Accept". Called the "Monument to the Anonymous Peer Reviewer," it is, as far as anyone can tell, the first such tribute anywhere in the world.

Peer review underpins the entire academic enterprise. It is the main method of quality control employed by journals. By offering drafts of a paper to anonymous experts, poor arguments or dodgy science can be scrubbed up or weeded out.

That is the theory. In reality, things are murkier. Anonymity makes peer review unglamorous, thankless work. That matters, for these days scientists are under relentless pressure from universities and funding bodies to publish a steady stream of papers. Anything that distracts from that goal—including reviewing the research of others—could mean forfeiting grants or career advancement. Perhaps unsurprisingly, studies suggest many reviewers do a poor job of spotting shortcomings in the papers they are critiquing.

One solution is to make peer review more desirable and less of a duty. That is the idea behind Publons, a firm which allows scientists to track and showcase their peer-reviewing contributions. It has just been bought for a tidy sum by Clarivate Analytics, which runs Web of Science, an index that tracks how often researchers cite each others' papers. Scientists who sign up will get a verifiable, trackable measure of their contributions. Their reviews will even be given their own "DOI" numbers,

unique identifiers currently used for keeping track of papers.

The hope is that once scientists can quantify their reviewing work and boast about it on their cvs, universities and funding bodies will take it into account when handing out promotions or cash. Making scientists keener to review papers could also speed up publishing, says Andrew Preston, one of the firm's founders. At the moment, much of a journal editor's time is spent tracking down potential peer reviewers, then badgering them to contribute. By making reviewing more attractive, hopes researchers might start volunteering instead. Since Publons's founding in 2012, more than 150,000 researchers have signed up, writing more than 800,000 reviews.

The firm hopes to shake up the system in other ways. Reviewers can choose how much information to reveal, and in what context. So a review of a colleague's paper might appear anonymously in the journal



Publish on a six




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**People and horses**

## A partner like no other

### How an animal shaped human history

SIX THOUSAND years ago wild horses roamed the plains and steppes of the world. They were like many prey: fleet of foot, alert to threats and largely unaggressive. Then, in the Copper Age, the Botai people east of the Urals found a way to hunt them—for their meat and skins—and, later, to domesticate them. In horses, the Botai and succeeding civilisations found the best of partners. Horses are seen to be quick-witted and forgiving. Unusually, unlike almost all mammals other than humans, they sweat to cool themselves, which means they can work harder and run faster, for a long time.

This last attribute was central to the horse's usefulness. Over the millennia, people have made full use of this equine companion, as two superb new books relate. "The Age of the Horse" by Susanna Forrest and "Farewell to the Horse" by Ulrich Raulff pay homage to the role of the horse in forging history—and more. Neither book purports to be a comprehensive equi-story; instead, by arranging their narratives thematically rather than chronologically, both authors have granted themselves the freedom to range as widely as the ancient wild horses, the Takhi and the Tarpan, once did, grazing on a pasture rich in anecdote, allegory and pathos as well as in historical importance.

**The Age of the Horse: An Equine Journey Through Human History.** By Susanna Forrest. *Grove Atlantic*; 432 pages; \$27. *Atlantic Books*; £20

**Farewell to the Horse: The Final Century of our Relationship.** By Ulrich Raulff. *Allen Lane*; £25

Ms Forrest introduces her book as a "wander down six bridle roads", each relating to a different way in which people have made use of horses. It is full of the sort of detail that gets edited out of more traditional histories. The Sybarites in sixth-century southern Italy "taught their warhorses to caper to the sound of flutes". In ancient Ghana the royal family kept their mounts in the palace, "where they slept on mats and were tended to by three grooms each who held copper pots to catch their urine". The *bidet* of French-bathroom fame was named after the 19th-century Parisian scrub horse (you straddle both). In the midst of the second world war, the Heck brothers, whipped on by Hermann Göring, traversed Europe to capture some of the last remaining wild ponies, from which they attempted to breed a genetically pure race to populate the parks of Berlin.

In addition to these historical nuggets

Ms Forrest also presents a thesis: that horse power allowed people to explore, to conquer and to develop. "Britain owed its industrial and agricultural revolutions not just to gentlemen engineers and labouring masses, but to the broad chests, treelike legs and willing nature of its horses," she writes. Victorian London rang with the language of horsemanship: the clopping hooves of cabbies, vanners, sweepers, vestry horses, costers' ponies, brewery Shires, bussers, growlers and trammers as well as the riding horses of the gentry. By 1901, when there were more horses in towns than in the country, working horses consumed almost exactly the same amount of grain and hay as was produced by British farmers.

But their days as "forced labourers", as Mr Raulff describes it, were numbered. "For a century, the oat-powered engine was the universal and irreplaceable power unit in the forced mechanisation of the world," he writes—until "the last generation of the 19th century realised that as motors, horses were costly, sensitive and unreliable...the mechanical horse is lighter, stronger, faster, more enduring, cleaner, easier to steer." The change, when it came, was rapid. In 1901 over 1m horses still worked on British farms. By 1956 there were 147,000—and 370,000 tractors.

"Farewell to the Horse" ostensibly covers the period of the "long 19th century", which starts with Napoleon and ends with the first world war. But to call it a history underplays its scope. Mr Raulff gallops through time and space, art criticism, philosophy and economics, plaiting in tales of Kafka, Tolstoy and Comanche, the hard-drinking stallion who was the only non-Indian survivor of the Battle of Little ▶▶



► Bighorn. His is a category-defying, often dizzying, piece of writing; both books are imbued with hippophilia.

Over the past century horses in the West have evolved from labourers into what Mr Raulff calls a “part-time job as a recreational item, a mode of therapy, a status symbol and a source of pastoral support for female puberty”. (Although, as Ms Forrest points out, in 2011 60% of all horses and 95% of donkeys were working in the developing world, with the money generated for each animal being sufficient to support a family of up to 20.) In the developed world they have been replaced with machines. The irony is hard to miss: humans tamed horses and put them to work until they invented something that worked at greater speed and lower cost, which replaced them. Could humans one day make themselves obsolescent in the same way?

In a section about war, Ms Forrest tells of 12 cavalry horses, veterans of the Battle of Waterloo, that were bought at auction by the king’s surgeon, who brought them home, operated on them and turned them loose to graze. “One morning...the surgeon saw the 12 horses form a line, shoulder to shoulder, then, without a cue, charge forward at a gallop. After a few strides they spun and retreated as formally as in a drill.” Each day, he watched as “his old cavalry horses, flecked white where their coats had grown back over their scars, enacted this enigmatic ritual and went to war together once more in the cool green parkland of the Home Counties.” ■

### The Volkswagen emissions scandal

## Bad smell

**Faster, Higher, Farther: The Volkswagen Scandal.** By Jack Ewing. *W.W. Norton*; 352 pages; \$27.95. *Bantam Press*; £20

WHEN an American policeman pulled over a Volkswagen (vw) Jetta in 2013, he suspected that the array of pipes sticking out of the back of the car and the grey box and portable generator in the vehicle were a sign of something fishy. He was right. The West Virginia University researchers inside the car had nothing to hide. But the tests they were conducting on the exhaust fumes, meant to prove the cleanliness of modern diesel engines, uncovered one of the biggest and boldest frauds in corporate history. The decision by vw, a pillar of Germany’s car industry, to fit “defeat devices” and cheat emissions tests in up to 11m cars has so far cost the company \$21bn in fines and compensation in North America alone.

Why did the company deliberately set

out to engineer cars that spewed out up to 35 times more poisonous nitrogen oxides on the road than stated in official tests? Jack Ewing, a journalist for the *New York Times*, offers a timely guide to the scandal, setting out in detail why vw’s corporate culture led to the deception.

He delves into vw’s origins, when Adolf Hitler ordered the construction of a “people’s car”, or Volkswagen in German. vw set up shop in the German countryside. Wolfsburg bred a “headquarters mentality” that insulated the firm from outside influence. Unprecedented union power, handed over in the 1960s as the price the federal government paid for floating the firm on the stockmarket, and the sway of the state of Lower Saxony, which retained a 20% voting stake in the company, gave outside shareholders little say.

This allowed autocratic bosses to have their way. Ferdinand Piëch became chief executive in 1993 at a time when the company was struggling. To win back sales, Mr Ewing argues, he created the conditions that allowed the fraud to “fester”. To keep workers onside, the company had to carry on growing. Managers were kept quiet through fear. The ruthless Mr Piëch replaced almost the entire management board by his second year in the job.

His successor as CEO, Martin Winterkorn, a man cut from the same cloth, wanted the firm to become the world’s biggest carmaker. An assault on the American market, where vw was weak and emissions regulations much tighter than in Europe, was vital to overtaking Toyota and General Motors. To meet that demanding target, though, vw had to cheat.

Mr Ewing explains why vw cheated, but pinpointing who was responsible has been much harder. The company insists the deception was cooked up by middle managers and that senior bosses, despite a reputation for microscopic attention to detail, knew nothing of the fraud until it was too late. If there is clear evidence implicating bigger fish it has yet to emerge.

The scandal still haunts vw, despite a settlement with American law enforcers and compensation for American car-buyers. European customers are pursuing class-action lawsuits for compensation, though vw insists it did nothing wrong in Europe, where the rules are laxer. Mr Piëch left the company before the scandal erupted and Mr Winterkorn has since resigned. Several employees have been arrested or charged with criminal offences in America. German prosecutors are investigating nearly 40 employees and have begun a probe into Matthias Müller, the latest CEO and another long-serving insider, for failing to warn shareholders in a timely manner about the scandal. The company has denied those allegations. In any event, Mr Ewing’s tale will need a new edition with extra chapters. ■

### American poetry

## More Marianne Moore

**New Collected Poems.** By Marianne Moore. Edited by Heather Cass White. *Farrar, Straus and Giroux*; 480 pages; \$30. *Faber & Faber*; £30

MARIANNE MOORE, who died in 1972, was one of the defining voices of American Modernism, but she always made life difficult for her admirers. There have been several versions of her collected or complete poems, but none has quite done her justice. Until now. Why? Because she was always fiddling with her own work, rewriting it, or leaving poems out altogether. As she aged, she tended to make light of her early work, or resketch it completely. Occasionally, these meddlings—these wasplike buzzings about—could be injudicious. Moore was not the best custodian of her own work. At last, a complete collection—variants and all—of her writings, from first to last, has been chronologically ordered.

Moore was born in Missouri in 1887, but by 1918 had settled in New York with her mother. And there she stayed. She would never marry. Instead, she became the editor of the *Dial*, an influential literary review of the 1920s, and her tastes and her strong opinions helped to shape the reading habits of generations of poetry lovers. But it is as a poet that she stands alone.

There is no one quite like her, no one to whom she could be compared, such is her rootedness in her own hugely eccentric and wilful Moore-ishness. Her poems are finically, even excessively observant, and scrupulously formally structured, with, on occasion, the most improbably outrageous ►►





of end-rhymes. She had a passion for animals, birds, flowers and insects. Her painstaking descriptions of the odd characteristics of such creatures (she had a great fondness for compound adjectives) cause her poems to read at times like high-literary glosses on David Attenborough's "Planet Earth" decades before its time.

Sometimes it is difficult to tell exactly what she is writing about because her poems are always tacking sideways, reaching out for ever more oddball comparisons—on one occasion she likened Handel to a frigate pelican. Her manner of writing can be positively Jamesian in its degree of verbal attentiveness. She peppered her poems with epigrams. She loved odd words like "picardel"—an Elizabethan ruff. And the concluding line of "Half Deity" reads: "His talk was as strange as my grandmother's muff." She would also add in, for good measure, a freight of quotations from unusual sources: a magazine, say, or a member of the clergy.

As she aged, her poems became more moralistic, and Moore herself became a literary celebrity, seen about town in her cape and her tricorne hat. She rather enjoyed it, and even played up to it. In 1955 the Ford Motor Company asked her to suggest names for a new model. She opted for Utopian Turtletop or Mongoose Civique. Ford used Edsel instead. In 1968 she threw the first pitch of the season at Yankee Stadium. Baseball had engaged her before, as a poet rather than a participant. "Baseball and Writing" was published in the *New Yorker* in December 1961. The poem begins like this: "Fanaticism? No. Writing is exciting/and baseball is like writing./You can never tell with either/how it will go/or what you will do..." Moore please. ■

## Fiction

### Indian chorale

**The Ministry of Utmost Happiness.** By Arundhati Roy. Knopf; 464 pages; \$28.95. Hamish Hamilton; £18.99

THE attacks on the World Trade Centre in 2001; the Gujarat riots of 2002 that left some 2,000 Muslims dead; the fall of the Babri Masjid in Ayodhya in 1992; the imposition of emergency rule by Indira Gandhi in 1975; the partition of India. All these political earthquakes merit mention in just the first 50 pages of Arundhati Roy's new novel, "The Ministry of Utmost Happiness". Sometimes they propel the action forward. More often, as with the attacks on the twin towers, they are simply there, for no particular reason.

Then there is social justice: gender and

identity are at the centre of this book—or at least in the first half. It starts with the story of Anjum, born with both male and female genitals, who becomes a member of South Asia's community of *hijras*, the translation of which is shifting from "eunuch" to "transgender". She is caught up in the Gujarat riots, which sets off a chain of events that lead to her leaving her community and her adopted daughter to set up home in a graveyard. Soon after, she all but disappears from the narrative.

In her place comes Tilotama, a wild-haired Kerala Christian who has studied architecture in New Delhi and is transparently modelled on Ms Roy herself. Tilotama is the object of affection of three of her classmates: Naga, who becomes a high-powered journalist, Biplab, an intelligence officer, and Musa, a Kashmiri militant. She becomes involved in the Kashmir struggle with Musa, then marries Naga and eventually rents a flat from Biplab.

It is as if Ms Roy could not decide which book to write, so she wrote them both, and then some. Not satisfied with the horrors of Gujarat and Kashmir, Ms Roy introduces further conflict. Connecting these two disparate threads is a baby, left at one of the anti-corruption rallies in New Delhi that convulsed Indian politics in 2011. The Maoists, who seek the violent overthrow of the state, play a walk-on role, too. Every significant political event or movement in modern Indian history seems to find a place in this sprawling novel.

Ms Roy has spent the two decades since her debut novel, "The God of Small Things", which won the Booker prize in 1997, espousing all manner of causes. She has argued for independence for Kashmir and against building dams, reported from the Maoist jungles of central India, and written anti-globalisation screeds in which economic growth of any sort must be stopped. "Ministry" is two decades of polemic distilled into one book, with a superstructure of fiction to hold it all together. It does not work.

The best fiction strips away the unnecessary, leaving it to the reader to find meaning between the lines. Ms Roy does the opposite. Even in the occasional sections of brilliance, she feels the need to underline every nugget with a "moral of the story", hectoring the reader into submission. Nor does it help that the writing itself is often clunky, overwrought or awkward. The elaborate imagery she conjures up seems to be there to show that this is a serious work of fiction, but it does not cohere into a whole. "How to tell a shattered story?" writes Tilotama, towards the end of the novel. "By slowly becoming everybody. No. By slowly becoming everything." Alas, "everything" is a recipe for an overlong, unfocused doorstopper, one that would have benefited from a firmer editorial hand. ■

## Cinema

### The look of victory

CANNES

**Lynne Ramsay should be better known**

WOMEN directors are thinly represented at the Cannes film festival, though with three in competition out of 19 entries, this was a good year. Only one woman has won the top prize, the Palme d'Or—Jane Campion for "The Piano" in 1993 (and she shared that year's award). "Seventy years of Cannes, 76 Palmes d'Or, only one of which has gone to a woman. No comment," Isabelle Huppert, a French actress, declared coolly at the festival.

This year's prize could well have been the second, and maybe should have been. The Palme d'Or winner, "The Square", a satire on the art world by Ruben Östlund, received mixed reviews. Sofia Coppola took the festival's prize for best director for her entry, "The Beguiled", becoming only the second woman to win that award.

But it was another woman, Lynne Ramsay, from Glasgow, who gave the festival perhaps its most memorable film. Ms Ramsay was editing her entry, "You Were Never Really Here", until just before its premiere on the last night of competition (still lacking the closing credits). Starring Joaquin Phoenix as a psychologically damaged war veteran and former FBI agent turned private mercenary, it is an absorbing meditation on a tortured soul that poses as a violent action thriller. The film, for which Amazon Studios acquired the American rights in a deal made at Cannes last year, earned Ms Ramsay the prize for best ▶▶

▶ screenplay (shared with Yorgos Lanthimos and Efthymis Filippou for their entry, “The Killing of a Sacred Deer”) and Mr Phoenix the prize for best actor.

“You Were Never Really Here” follows Mr Phoenix’s character, “Joe”, as he grapples with personal demons while caring for his elderly mother and taking on a dangerous job to rescue a politician’s daughter from a child-sex ring in New York. The film is punctuated by violence and brutality, much of it committed by the film’s protagonist, but Ms Ramsay’s camera lingers most on Mr Phoenix in moments of existential despair and self-loathing.

Joe’s eyes turn glassy and distant as he flashes back to memories where he seems helpless as women fall prey to evil men: his mother violently abused while he remains hidden in a cupboard as a child; a group of young women whom he finds dead in the back of a lorry while working on a trafficking case for the FBI. Joe barely overcomes his suicidal impulses, willing himself to save the young girl from a powerful politician, the nub of the plot that propels the film forward. Edited down to less than 90 minutes, with a haunting, atmospheric score by Jonny Greenwood of Radiohead, the result is a taut work of violent introspection.

Ms Ramsay’s previous film, “We Need to Talk About Kevin” (2011), based on Lionel Shriver’s prize-winning novel, was another searing work that was also a critically acclaimed entry at Cannes. She may have left Cannes again this year without the Palme d’Or, but “You Were Never Really Here” should fix Ms Ramsay’s place as not only one of the finest women directors, but also one of cinema’s most interesting excavators of the darker recesses of humanity. ■

### Modern opera

## Midsummer dreaming

### An imaginative opera director and video artist is reinventing storytelling

“IF THERE’S no blood, there’s no entertainment,” shouts Netia Jones, as one of her Shakespearean characters catapults himself high into the air, and lands with a sickening thump on the rehearsal room floor. “Gosh—are you all right?” she asks anxiously. This young British opera director is known for being a martinet, demanding millisecond precision in co-ordination between sight and sound. But as the creator and leading exponent of a new theatrical art-form, she demands nothing less of herself.

Daughter of an organist father and an artist mother, Ms Jones was smitten by a

production of Benjamin Britten’s “Peter Grimes” when she was ten; an internship at English National Opera reinforced that obsession. “I was always fascinated by the idea of a visual world and a musical world coming together to make something else,” she says.

Working on theatre projects after studying modern languages at Oxford, she was invited to design a London production of Engelbert Humperdinck’s “Hansel and Gretel”. For this she began experimenting with a new technique, in the process stumbling on its dramatic potential when it occurred to her that the famished protagonists in her production could be made to seem to eat the scenery. In a subsequent production she discovered more comic potential when, during a tennis match between two characters, the ball perfectly aimed along its wayward trajectory thanks to Ms Jones’s technique.

That technique is based on light which she projects, as in a film, onto different parts of the stage. She intensifies the drama by synchronising her projected images move-by-move, note-by-note, with the movements of the live performers on stage, and with the music from the orchestra. Her star piece is a production of the opera that Oliver Knussen based on “Where the Wild Things Are” and “Higglety Pigglety Pop!”, two whimsical tales by Maurice Sendak, a well-known American children’s writer. Here Ms Jones exploits the juxtaposition of the real and the projected in dozens of witty ways: a live character kicks a projected door which then obediently slams shut, another character appears to draw a giant (projected) lion and then puts her head in its mouth. This is not so much surrealism as the heightened reality of the child’s-eye view of the world.

All this wizardry comes out of Ms Jones’s laptop, over which she presides like a concert pianist. The comparison is apposite. She constantly talks of “playing” her productions: combining video and film software, the keys on her computer control all the different facets of the movement, colour and behaviour of the light that is projected onstage. And just as a pianist depends on muscle-memory to juggle thousands of notes in a concerto, so Ms Jones depends on that same faculty to synchronise her imagery fluently and flexibly with the singers on stage. It can take a year for her fingers to learn to “play” a production. “Technology changes, but ideas don’t,” she says.

It is typical of this restlessly prolific director that in the next fortnight she will be unveiling two new shows almost simultaneously. In the Norwegian city of Bergen she will present Handel’s “Messiah” with the text in the original “blackletter” typography of the King James Bible projected onto an empty stage. A few days later in the Snape Maltings hall near Aldeburgh, on

England’s east coast, she will premiere her production of Benjamin Britten’s take on Shakespeare’s “A Midsummer Night’s Dream”.

Magic is so integral to the play that Ms Jones regards her own pyrotechnics as secondary. Those that there are will largely be concentrated in the hands of Oberon, whom she regards as almost psychopathically controlling. In her view, his theft of Tytania’s beloved Little Indian Boy is a moral outrage: “I see no charm in a ‘happy’ ending where a man can manipulate a woman to such a degree that he steals her adopted son after drugging her—especially as she was so close to the boy, whose mother had died.” Unlike Britten’s libretto, where Oberon keeps the boy for himself, in this reading Tytania gets him back.

Ms Jones’s projected imagery for this staging will reflect back on Snape itself and its surroundings. The hall was originally built for malting barley, as the first stage in brewing beer, and it is one of the first Victorian industrial buildings to have been transformed into a cultural space; it is still surrounded by relics of the old machinery. Photos of the original workers are so redolent of the rough sons of the soil in Shakespeare’s play that they inspired ideas for the staging. With images filmed in and around Snape, this production will turn on the visual contrast between the rusty and rustic on one hand, and the magical cleanliness of the projected world on the other. The fairies will merge with their arboreal background. Dotted through the reed-beds of Snape are little oases of woodland which have remained untouched for centuries. In a life filled with new technology as well as old, Ms Jones has captured these in the dreamy style of the first Victorian nature-photographers. ■

**A rare moment of calm**

## Economic data

% change on year ago

	Gross domestic product			Industrial production	Consumer prices		Unemployment rate, %	Current-account balance		Budget balance % of GDP	Interest rates, %	Currency units, per \$	
	latest	qtr* 2017 <sup>i</sup>	2017 <sup>i</sup>		latest	latest		2017 <sup>i</sup>	latest 12 months, \$bn			% of GDP 2017 <sup>i</sup>	2017 <sup>i</sup>
United States	+2.0 Q1	+1.2	+2.2	+2.2 Apr	+2.2 Apr	+2.3	4.4 Apr	-481.2 Q4	-2.7	-3.5	2.23	-	-
China	+6.9 Q1	+5.3	+6.6	+6.5 Apr	+1.2 Apr	+2.3	4.0 Q1 <sup>s</sup>	+170.1 Q1	+1.7	-4.0	3.65 <sup>s</sup>	6.82	6.59
Japan	+1.6 Q1	+2.2	+1.3	+5.7 Apr	+0.4 Apr	+0.7	2.8 Apr	+187.3 Mar	+3.5	-5.3	0.04	111	111
Britain	+2.0 Q1	+0.7	+1.6	+1.4 Mar	+2.7 Apr	+2.7	4.6 Feb <sup>††</sup>	-115.7 Q4	-3.3	-3.6	1.04	0.77	0.69
Canada	+2.3 Q1	+3.7	+2.1	+5.4 Mar	+1.6 Apr	+1.9	6.5 Apr	-48.4 Q1	-2.9	-2.7	1.42	1.35	1.31
Euro area	+1.7 Q1	+2.0	+1.7	+1.9 Mar	+1.4 May	+1.6	9.3 Apr	+403.9 Mar	+3.1	-1.4	0.31	0.89	0.90
Austria	+2.3 Q1	+5.7	+1.6	+3.3 Mar	+2.1 Apr	+1.8	5.5 Apr	+6.6 Q4	+2.4	-1.2	0.58	0.89	0.90
Belgium	+1.6 Q1	+2.6	+1.4	+2.6 Mar	+1.9 May	+2.1	6.8 Apr	-2.0 Dec	+1.0	-2.3	0.63	0.89	0.90
France	+1.0 Q1	+1.8	+1.3	+2.0 Mar	+0.8 May	+1.3	9.5 Apr	-27.4 Mar	-1.1	-3.1	0.73	0.89	0.90
Germany	+1.7 Q1	+2.4	+1.6	+1.8 Mar	+1.5 May	+1.8	3.9 Apr <sup>†</sup>	+287.5 Mar	+8.1	+0.5	0.31	0.89	0.90
Greece	-0.3 Q1	-0.5	+1.2	+8.7 Mar	+1.6 Apr	+1.0	23.2 Feb	-1.2 Mar	-0.9	-1.0	6.08	0.89	0.90
Italy	+0.8 Q1	+1.0	+0.8	+2.8 Mar	+1.4 May	+1.4	11.1 Apr	+46.9 Mar	+2.4	-2.3	2.19	0.89	0.90
Netherlands	+3.4 Q1	+1.8	+2.2	+4.0 Mar	+1.6 Apr	+1.2	6.0 Apr	+64.8 Q4	+8.7	+0.7	0.51	0.89	0.90
Spain	+3.0 Q1	+3.3	+2.6	+8.9 Mar	+1.9 May	+2.1	17.8 Apr	+26.2 Mar	+1.6	-3.3	1.52	0.89	0.90
Czech Republic	+2.0 Q4	+5.3	+3.0	+10.9 Mar	+2.0 Apr	+2.3	3.3 Apr <sup>†</sup>	+2.3 Q4	+0.9	-0.5	0.71	23.4	24.3
Denmark	+3.1 Q1	+2.4	+1.4	+10.7 Mar	+1.1 Apr	+1.4	4.3 Mar	+26.5 Mar	+7.1	-0.6	0.59	6.62	6.68
Norway	+2.6 Q1	+0.9	+1.7	+3.3 Mar	+2.2 Apr	+2.4	4.5 Mar <sup>††</sup>	+18.1 Q4	+5.0	+2.9	1.52	8.42	8.36
Poland	+4.4 Q1	+4.5	+3.2	-0.6 Apr	+1.9 May	+2.0	7.7 Apr <sup>s</sup>	-0.1 Mar	-1.0	-2.8	3.24	3.72	3.94
Russia	+0.5 Q1	na	+1.4	+2.4 Apr	+4.1 Apr	+4.3	5.3 Apr <sup>s</sup>	+34.9 Q1	+2.8	-2.2	8.13	56.8	66.1
Sweden	+2.2 Q1	+1.7	+2.6	+3.8 Mar	+1.9 Apr	+1.7	7.2 Apr <sup>s</sup>	+23.7 Q4	+4.8	+0.3	0.50	8.68	8.35
Switzerland	+0.6 Q4	+0.3	+1.3	-1.3 Q1	+0.4 Apr	+0.5	3.3 Apr	+70.6 Q4	+9.9	+0.2	-0.15	0.97	0.99
Turkey	+3.5 Q4	na	+2.8	+2.8 Mar	+11.9 Apr	+10.0	12.6 Feb <sup>s</sup>	-33.0 Mar	-4.4	-2.1	10.49	3.54	2.95
Australia	+2.4 Q4	+4.4	+2.7	+1.0 Q4	+2.1 Q1	+2.2	5.7 Apr	-33.1 Q4	-1.3	-1.8	2.39	1.34	1.38
Hong Kong	+4.3 Q1	+2.9	+2.8	-0.9 Q4	+2.1 Apr	+1.6	3.2 Apr <sup>††</sup>	+14.9 Q4	+6.5	+1.5	1.30	7.79	7.77
India	+6.1 Q1	+5.8	+7.1	+2.7 Mar	+3.0 Apr	+4.6	5.0 2015	-11.9 Q4	-1.1	-3.2	6.66	64.5	67.3
Indonesia	+5.0 Q1	na	+5.2	+5.5 Mar	+4.2 Apr	+4.2	5.3 Q1 <sup>s</sup>	-14.6 Q1	-1.9	-2.2	6.93	13,320	13,660
Malaysia	+5.6 Q1	na	+4.3	+4.5 Mar	+4.4 Apr	+4.0	3.4 Mar <sup>s</sup>	+6.6 Q1	+3.0	-3.0	3.88	4.28	4.13
Pakistan	+5.7 2017**	na	+5.5	+10.5 Mar	+4.8 Apr	+4.6	5.9 2015	-7.2 Q1	-2.6	-4.8	8.98 <sup>†††</sup>	105	105
Philippines	+6.4 Q1	+4.5	+6.5	+11.1 Mar	+3.4 Apr	+3.3	6.6 Q1 <sup>s</sup>	+0.6 Dec	+0.4	-2.8	4.97	49.8	46.8
Singapore	+2.7 Q1	-1.3	+2.3	+6.7 Apr	+0.4 Apr	+1.3	2.3 Q1	+59.0 Q1	+19.8	-1.0	2.08	1.38	1.38
South Korea	+2.8 Q1	+3.6	+2.6	+1.7 Apr	+2.0 May	+1.8	4.2 Apr <sup>s</sup>	+92.9 Mar	+6.3	-0.5	2.22	1,120	1,192
Taiwan	+2.6 Q1	+3.8	+2.3	-0.6 Apr	+0.1 Apr	+0.5	3.8 Apr	+69.1 Q1	+12.3	-0.8	1.04	30.1	32.6
Thailand	+3.3 Q1	+5.2	+3.8	-1.7 Apr	+0.4 Apr	+0.8	1.3 Apr <sup>s</sup>	+42.3 Q1	+11.0	-2.3	2.45	34.1	35.7
Argentina	-2.1 Q4	+1.9	+2.7	-2.5 Oct	+27.5 Apr <sup>†</sup>	+26.0	7.6 Q4 <sup>s</sup>	-15.0 Q4	-2.6	-5.7	na	16.1	14.0
Brazil	-2.5 Q4	-3.4	+0.7	+1.1 Mar	+4.1 Apr	+4.3	13.6 Apr <sup>s</sup>	-19.8 Apr	-1.4	-7.7	10.23	3.24	3.60
Chile	+0.1 Q1	+0.7	+1.7	-4.2 Apr	+2.7 Apr	+3.0	6.7 Apr <sup>s††</sup>	-5.0 Q1	-1.4	-2.1	4.07	672	689
Colombia	+1.1 Q1	-0.9	+2.0	+4.8 Mar	+4.7 Apr	+4.2	8.9 Apr <sup>s</sup>	-12.5 Q4	-3.8	-3.2	6.22	2,923	3,090
Mexico	+2.8 Q1	+2.7	+1.7	+3.4 Mar	+5.8 Apr	+5.2	3.6 Apr	-22.0 Q1	-2.5	-2.4	7.34	18.7	18.4
Venezuela	-8.8 Q4~	-6.2	-6.4	na	na	+562	7.3 Apr <sup>s</sup>	-17.8 Q3~	-1.5	-19.6	10.43	10.1	9.98
Egypt	+3.8 Q4	na	+3.5	+13.7 Mar	+31.5 Apr	+22.5	12.0 Q1 <sup>s</sup>	-20.1 Q4	-5.8	-9.3	na	18.1	8.87
Israel	+4.0 Q1	+1.4	+3.6	-1.5 Mar	+0.7 Apr	+1.0	4.4 Apr	+12.4 Q4	+4.2	-2.5	2.06	3.54	3.85
Saudi Arabia	+1.7 2016	na	+0.4	na	-0.6 Apr	+2.2	5.6 2015	-24.9 Q4	-2.6	-9.4	3.68	3.75	3.75
South Africa	+0.7 Q4	-0.3	+1.1	-2.4 Mar	+5.3 Apr	+5.8	26.5 Q4 <sup>s</sup>	-9.5 Q4	-3.4	-3.1	8.59	13.2	15.7

Source: Haver Analytics. \*% change on previous quarter, annual rate. <sup>†</sup>The Economist poll or Economist Intelligence Unit estimate/forecast. <sup>‡</sup>Not seasonally adjusted. <sup>§</sup>New series. ~2014 \*\*Year ending June. <sup>††</sup>Latest 3 months. <sup>†††</sup>3-month moving average. <sup>§§§</sup>5-year yield. <sup>††††</sup>Dollar-denominated bonds.



## Markets

	Index May 31st	% change on	
		one week	Dec 30th 2016 in local in \$ currency terms
United States (DJIA)	21,008.7	nil	+6.3 +6.3
China (SSEA)	3,264.5	+1.7	+0.5 +2.4
Japan (Nikkei 225)	19,650.6	-0.5	+2.8 +8.4
Britain (FTSE 100)	7,520.0	+0.1	+5.3 +10.0
Canada (S&P/TSX)	15,349.9	-0.5	+0.4 -0.3
Euro area (FTSE Euro 100)	1,212.0	-0.8	+9.0 +16.2
Euro area (EURO STOXX 50)	3,554.6	-0.9	+8.0 +15.2
Austria (ATX)	3,123.5	-2.5	+19.3 +27.2
Belgium (Bel 20)	3,888.3	-0.4	+7.8 +14.9
France (CAC 40)	5,283.6	-1.1	+8.7 +15.9
Germany (DAX)*	12,615.1	-0.2	+9.9 +17.1
Greece (Athex Comp)	775.2	+1.2	+20.4 +28.4
Italy (FTSE/MIB)	20,731.7	-3.0	+7.8 +14.9
Netherlands (AEX)	524.1	-0.7	+8.5 +15.6
Spain (Madrid SE)	1,092.7	-0.3	+15.8 +23.5
Czech Republic (PX)	1,002.4	-0.8	+8.8 +18.9
Denmark (OMXC20)	898.9	+0.8	+12.6 +19.9
Hungary (BUX)	34,551.9	+0.9	+8.0 +15.3
Norway (OSEAX)	781.6	-2.1	+2.2 +4.5
Poland (WIG)	60,092.1	-1.2	+16.1 +30.2
Russia (RTS, \$ terms)	1,053.3	-3.2	-8.6 -8.6
Sweden (OMXS30)	1,639.1	nil	+8.0 +13.1
Switzerland (SMI)	9,016.6	-0.2	+9.7 +15.2
Turkey (BIST)	97,541.6	-0.8	+24.8 +24.2
Australia (All Ord.)	5,761.3	-0.9	+0.7 +3.7
Hong Kong (Hang Seng)	25,660.7	+0.9	+16.6 +16.0
India (BSE)	31,145.8	+2.8	+17.0 +23.0
Indonesia (JSX)	5,738.2	+0.6	+8.3 +9.6
Malaysia (KLSE)	1,765.9	-0.3	+7.6 +12.7
Pakistan (KSE)	50,591.6	-4.3	+5.8 +5.4
Singapore (STI)	3,210.8	-0.6	+11.5 +16.4
South Korea (KOSPI)	2,347.4	+1.3	+15.8 +25.0
Taiwan (TWI)	10,040.7	nil	+8.5 +16.3
Thailand (SET)	1,561.7	-0.3	+1.2 +6.4
Argentina (MERV)	22,348.6	+3.1	+32.1 +29.6
Brazil (BVSP)	62,711.5	-0.9	+4.1 +4.5
Chile (IGPA)	24,354.5	-0.4	+17.5 +17.2
Colombia (IGBC)	10,678.2	-0.7	+5.7 +8.5
Mexico (IPC)	48,788.4	-1.4	+6.9 +17.8
Venezuela (IBC)	75,283.8	+3.6	+137 na
Egypt (EGX 30)	13,339.6	+3.5	+8.1 +8.2
Israel (TA-100)	1,295.8	-0.2	+1.5 +10.3
Saudi Arabia (Tadawul)	6,871.2	-0.4	-5.1 -5.0
South Africa (JSE AS)	53,562.6	-1.4	+5.7 +9.7

## Central banks

This week Mario Draghi, president of the European Central Bank, said that he was "firmly convinced" of the need to stick with quantitative easing, including the continued purchasing of government bonds. In the euro area, an average of 12% of government bonds were held by central banks last year. The OECD, a club mostly of rich countries, cites a study which estimates that yields on European government bonds have fallen by 13 basis points as a result of these purchase programmes. The Japanese central bank holds just under 40% of government bonds; it expects to continue to make purchases equivalent to around 15% of GDP a year, until inflation is safely above the price-stability target of 2%.

Holdings of domestic government bonds  
% of total, September 2016

Source: OECD

\*June 2016

## Other markets

	Index May 31st	% change on	
		one week	Dec 30th 2016 in local in \$ currency terms
United States (S&P 500)	2,411.8	+0.3	+7.7 +7.7
United States (NAScomp)	6,198.5	+0.6	+15.1 +15.1
China (SSEB, \$ terms)	321.0	+1.5	-6.1 -6.1
Japan (Topix)	1,568.4	-0.4	+3.3 +8.9
Europe (FTSEurofirst 300)	1,532.1	-0.6	+7.3 +14.4
World, dev'd (MSCI)	1,911.7	+0.2	+9.2 +9.2
Emerging markets (MSCI)	1,005.3	nil	+16.6 +16.6
World, all (MSCI)	463.8	+0.2	+9.9 +9.9
World bonds (Citigroup)	924.9	+0.8	+4.6 +4.6
EMBI+ (JPMorgan)	823.7	+0.2	+6.7 +6.7
Hedge funds (HFRX)	1,230.5 <sup>§</sup>	-0.1	+2.2 +2.2
Volatility, US (VIX)	10.4	+10.0	+14.0 (levels)
CDSs, Eur (iTRAXX) <sup>†</sup>	62.4	+0.6	-13.5 -7.8
CDSs, N Am (CDX) <sup>†</sup>	61.6	-0.4	-9.1 -9.1
Carbon trading (EU ETS) €	5.0	nil	-24.3 -19.3

Sources: IHS Markit; Thomson Reuters. \*Total return index.

<sup>†</sup>Credit-default-swap spreads, basis points. <sup>§</sup>May 30th.

Indicators for more countries and additional series, go to: [Economist.com/indicators](http://Economist.com/indicators)

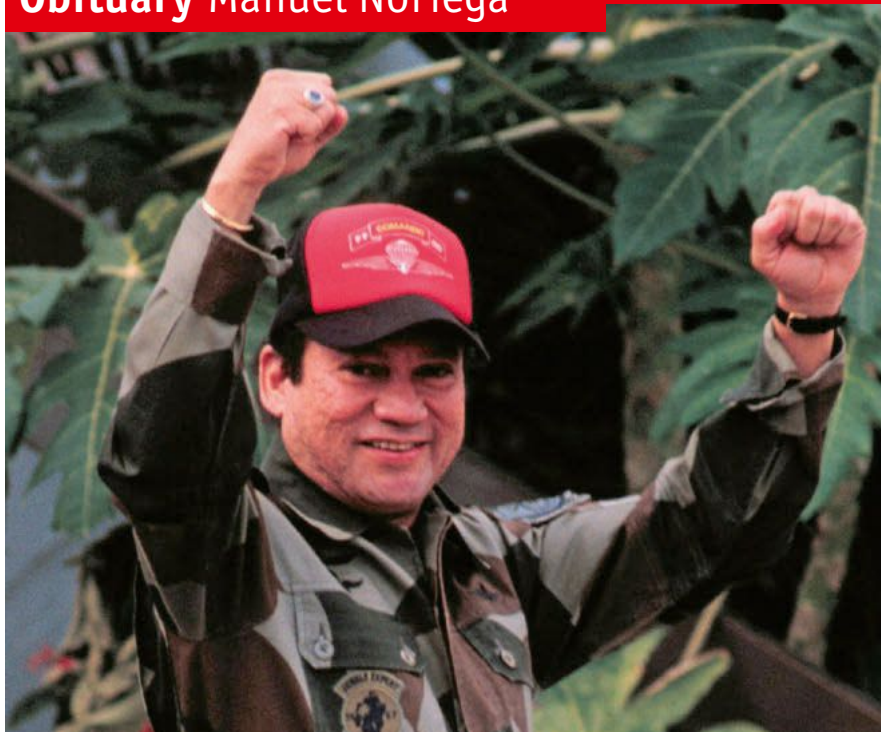
## The Economist commodity-price index

2005=100

	May 23rd		% change on	
	May 30th*	one month	one year	
<b>Dollar Index</b>				
All Items	143.2	142.2	-0.4	+3.6
Food	154.3	153.3	+0.8	-6.8
Industrials				
All	131.7	130.6	-1.7	+19.7
Nfa <sup>†</sup>	135.9	134.3	-2.9	+13.9
Metals	129.9	129.0	-1.1	+22.4
<b>Sterling Index</b>				
All items	200.6	201.0	+0.1	+17.2
<b>Euro Index</b>				
All items	158.5	158.1	-2.8	+3.1
<b>Gold</b>				
\$ per oz	1,260.3	1,262.5	+0.6	+4.0
<b>West Texas Intermediate</b>				
\$ per barrel	51.5	49.7	+4.2	+1.6

Sources: Bloomberg; CME Group; Cotlook; Darmann &amp; Curt; FT; ICCO; ICO; ISO; Live Rice Index; LME; NZ Wool Services; Thompson Lloyd &amp; Ewart; Thomson Reuters; Urner Barry; WSJ. \*Provisional

<sup>†</sup>Non-food agriculturals.



## From friend to foe

**Manuel Antonio Noriega, strongman of Panama, died on May 29th, aged 83**

**T**HE invasion of Panama by the United States in December 1989 involved more than 27,000 troops, a parachute assault, and tanks. It was the biggest American military operation since Vietnam. Manuel Noriega, Panama's leader, sought refuge in the Vatican nunciature in Panama City. There the *yanquis* bombarded him with non-stop heavy-metal music. Bludgeoned and deafened by Van Halen and The Clash, he turned himself in on January 3rd.

This was Operation Just Cause. The proximate cause, as President George H.W. Bush explained it, was General Noriega's "reckless threats" against Americans. Some 35,000 American soldiers and civilians lived in the Canal Zone, a decade or so after it had been controversially handed back to Panamanian control. The United States still needed a strategic grip on the country. Increasingly, it also had to keep a grip on the small, grinning, fatigues-clad, acne-scarred man ("Cara de Piña", "Pineapple Face"), who had run it absolutely for six years, and de facto for eight.

The reasons for nabbing him were not far to seek. He had rigged presidential elections in 1984 and in October 1989, when he sent his "Dignity Battalions" to beat bloody the candidates who had won. In 1985 he had ordered the murder ("What do you do with a rabid dog?") of another op-

ponent who was found, headless, in a us Postal Service mailbag on the Costa Rican border. After each attempted coup against him, the leaders were killed by firing squad. He and his associates were implicated in many more killings, including the death of his predecessor, Omar Torrijos, in a plane crash in 1981; after which "El Man" as he called himself, gathered all power into his clenched, raised fists.

As bad, though, in the eyes of the Bush administration was his lively role in the drugs trade. As the cold war faded, Mr Bush's focus had turned to the *narcos* of Central and South America; and there, front and centre, stood General Noriega. With his help, the Medellín cartel was using Panama to ship Colombian cocaine to the United States. His illicit takings from the business, as estimated when he was indicted for trafficking and embezzlement in federal court in Miami in 1988 and 1992, were at least \$772m, with perhaps \$200m-300m for himself. He laundered it through Panamanian and French banks; the French too brought charges against him. The associates who also "feasted at Tony's table", as Radio Panama put it when he died, no doubt did as well, "though they will say they did not know him."

Some of the money was passed through properties in Paris. At home, he

showed few signs of that high life. He and his family lived in a modest two-storey house in a nice part of town: already not bad for a slum boy, abandoned young by his parents. With his mixed-race background and dark skin, he pitched his appeal to the poor and "humble"; in his high-school yearbook, he was already tipped to be a workers' leader. In perhaps his most famous speech, after a cut-off in American aid in 1988 had battered Panama's economy, he urged the crowds, swinging a long machete, "Not One Step Back!" "¡Ni Un Paso Atrás!"—a phrase that quickly went up on billboards all over Panama City.

### A CIA seduction

In the eyes of the United States, General Noriega had to go. The deed was done, and he was tried, convicted and locked up first in Florida, then France, then Panama. But when his lawyers claimed that his indictment "smells all the way to Washington", they were not wrong.

For as long as it suited the Americans, the general was their asset. The CIA recruited him as a fresh-eyed cadet in a Peruvian military academy, and trained him in counter-insurgency and jungle ops at the School of the Americas in Panama, run by Americans. There he was taught mostly to fight communists, at which he proved—he thought—not avid enough for his trainers. Double-dealing was more his style. Later he happily sold Panamanian passports at \$5,000 each to the Cuban government, while passing Cuban secrets to the CIA.

From 1967 to 1988, a year before his ejection, he was on the agency's payroll—and paid handsomely. During Ronald Reagan's presidency, he was an invaluable conduit of cash and weapons to the Nicaraguan contras. As head of Panama's secret police and head of all its defence forces from 1983, he could capably lend a hand, as he offered, with sabotage and assassinations.

For almost all this time he was also assisting the hemisphere's traffic in cocaine. He was not stopped. When he rigged the elections of 1984, the United States said nothing. He was too useful. It took a report from the narcotics subcommittee of the Senate in 1988, pointing out that willfully turning a blind eye was not in America's national interest, to change the wind.

The man himself showed some contrition in prison, asking Panamanians for forgiveness (he found Jesus in 1990, thanks to two pastors from Texas). Towards the United States, though, he showed only defiance. He spent 17 years there as a prisoner-of-war, with two rooms, a TV and a telephone. Those privileges did not soften the still-raw humiliation of being deposed, as *jefe* of his country, by people he had helped for years. Whatever his brutalities, and they were many, Operation Just Cause was, in truth, Operation Save Face. ■