

# The Economist

The future of Bannonism

Indian business: flaws of the founders

Finance's new king-makers

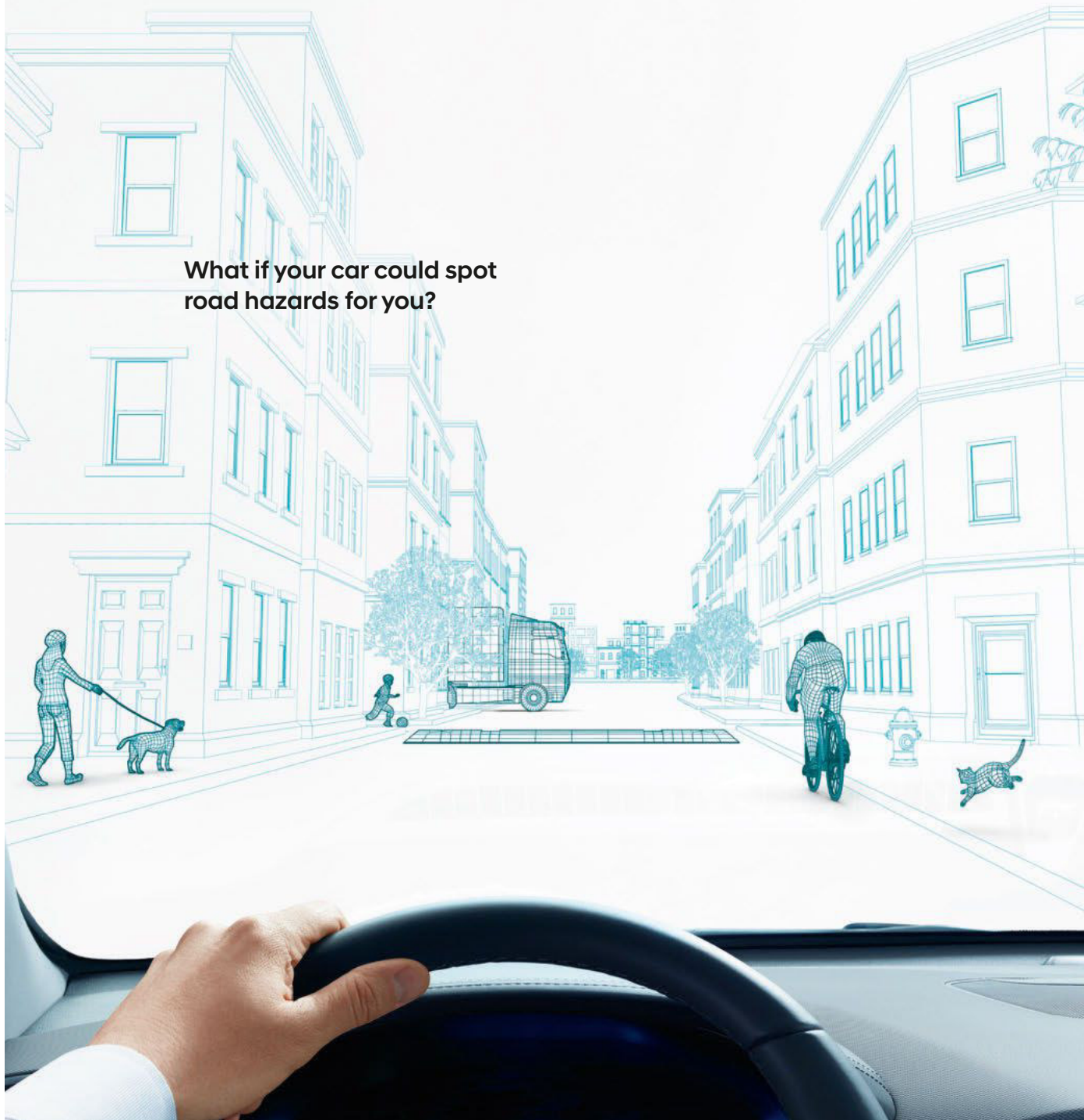
How to grow leather

AUGUST 26TH–SEPTEMBER 1ST 2017

# The puzzle of political Islam



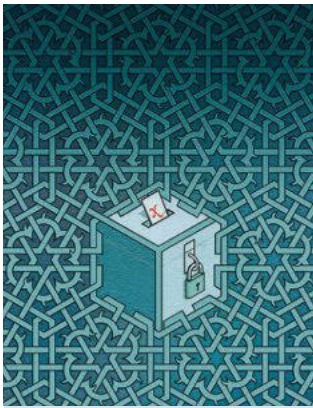
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**On the cover**  
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## Politics



The remaining suspects of a jihadist cell that attacked **Barcelona** appeared in court. The attackers used a van to plough into people out for a stroll in the city's Las Ramblas boulevard; hours later, another vehicle hit pedestrians in the nearby town of Cambrils. Fifteen people were murdered in the attacks and more than 120 wounded. Six assailants were killed by police; it is thought the terrorists had been planning a much bigger attack involving bombs, perhaps against the Sagrada Família basilica in Barcelona.

A man fatally stabbed two women in Turku, a city in **Finland**, and injured eight other people. Finnish authorities arrested a suspect, a Moroccan asylum-seeker, and are treating the incident as Finland's first terrorist attack.

Kirill Serebrennikov, a **Russian** theatre director, was placed under house arrest, accused of embezzling government funds. The premiere of his ballet based on the life of Rudolf Nureyev was cancelled at the Bolshoi earlier this summer, probably because it highlighted the dancer's homosexuality.

A Turkish-German writer, Dogan Akhanli, was arrested in Spain on an international warrant issued by **Turkey** and then conditionally released. Turkey wants him extradited, part of a growing effort to harass opponents of the regime outside the country.

Earlier, **Germany** responded angrily after Recep Tayyip Erdogan, the Turkish president,

advised Turkish-Germans not to vote for mainstream parties.

**Reversal of fortunes**

America was reported to have decided to withhold aid and military funding to **Egypt** because of concerns over the state of human rights in the country. Such a move would contradict the earlier admiration that Donald Trump had expressed for President Abdel-Fattah al-Sisi.

Stephen O'Brien, the UN's chief for humanitarian affairs, said he detects the "early warnings of genocide" in the **Central African Republic**. Violence between predominantly Christian and mostly Muslim militias has escalated in recent months, as have attacks on UN peacekeepers.

**Qatar** restored full diplomatic ties with **Iran**, which were cut last year. Four Arab nations, including Saudi Arabia and the United Arab Emirates, have isolated the tiny gas-rich country, in part, over its relationship with the Islamic Republic.



**Iraqi** troops, backed by American air strikes, made progress in their battle to recapture Tal Afar from Islamic State. The jihadists have held the city since 2014, making it their hub close to the Syrian border.

**Absolute power corrupts** **Venezuela's** new constituent assembly took over the powers of the legislature, which is dominated by the opposition to the authoritarian regime. That gives the regime control of all branches of government. Luisa Ortega Díaz, the former attorney-general who has become a critic of the government, fled to Colombia with her husband.

**Chile's** constitutional court approved a law that partially lifts the country's ban on abortion. The law decriminalises abortion in three cases: when the mother's life is at risk; when the pregnancy is the result of rape; and when the fetus has a fatal defect.

A judge in America cleared the way for the extradition of Inocente Orlando Montano, a colonel in **El Salvador's** army during the country's 12-year civil war, to Spain. He faces charges that he helped plan a massacre of six Jesuit priests (five of them Spaniards) in 1989. But El Salvador's supreme court cancelled arrest warrants for 13 former soldiers who have also been charged in Spain.

**Sixteen years later...**

Donald Trump threw his support behind a plan by his defence secretary, James Mattis, to increase American force levels in **Afghanistan**. Mr Trump did not say how many additional troops would be sent to fight the Taliban, but he claimed that the emphasis would switch from nation-building to fighting terrorists. He also took a shot at Pakistan for harbouring extremist groups.

China said America should "correct its mistake" after the Trump administration announced new sanctions on Chinese (and Russian) businesses that assist **North Korea's** nuclear-weapons programme. Beijing balks at sanctions that are not imposed under the auspices of the UN.

The death toll from two weeks of **flooding** across Bangladesh, India and Nepal climbed above 800. The Red Cross described the deluge as the worst it had seen in decades.

**India's** supreme court struck down a law that granted Muslim men—but not women—a quickie divorce, simply by repeating the Arabic word for divorce three times. The court ruled that the practice was unconstitutional, and un-Islamic. Most Muslim countries do not allow it.



Tens of thousands marched in **Hong Kong** to protest against the prison sentences given to three leaders of the pro-democracy movement that staged a three-month sit-in on the city's streets in 2014. Two of the three men had initially received community orders and one a suspended jail term, but Hong Kong's authorities argued the sentences were too lenient given the disruption caused by the sit-in.

Cambridge University Press said it would allow full access in **China** to articles published in its journals, reversing a decision originally made at the request of Chinese officials to censor content that discusses sensitive topics. CUP's acquiescence in deleting its own articles had prompted howls of outrage from academics.

**Bannon abandoned**

**Steve Bannon** returned to *Breitbart News* after his defection as Mr Trump's senior strategist. Mr Bannon used his perch at Breitbart to cultivate the alt-right's support for Mr Trump, but, as with others who have been ousted from the president's inner circle, he had fallen out of favour with Mr Trump's closest advisers, his daughter Ivanka and her husband, Jared Kushner.

The **American navy** sacked the commander of the Seventh Fleet and ordered a pause in operations for its fleet worldwide following the second fatal crash involving one of its ships and a commercial vessel in the past two months. The *USS John S. McCain*, a destroyer, collided with a much heavier oil tanker near Singapore. Ten sailors are presumed to have been killed. ▶▶



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## Business

After toying with the idea for months, **BHP Billiton** decided to seek a buyer for its shale-oil business in America. The Anglo-Australian mining company bought assets in America's shale fields during the boom in 2011, but that left it vulnerable to the slide in oil prices that started three years ago. A campaign by Elliott, an activist hedge fund, urged **BHP** to sell the business. It is also replacing two directors.

Another company that is getting out of oil in order to refocus on its core business found a buyer for its assets. After more than half a century in the energy industry, **A.P. Moller-Maersk**, the world's biggest shipping line, is selling its oil holdings to **Total** of France for \$7.5bn.

**A rare defeat for the sage**  
Elliott chalked up another victory this week when **Warren Buffett** failed to buy Energy Future Holdings, which owns a majority stake in **Oncor**, the biggest electricity distributor in Texas. Elliott, which is **EFH**'s biggest creditor, opposed a sale to Mr Buffett's Berkshire Hathaway. **EFH** is selling itself instead to **Sempra Energy** in a transaction valued at \$18.8bn.

A court in Russia ruled in favour of **Rosneft**, a state-controlled oil giant, in its dispute with **Sistema**, a publicly traded conglomerate, over an oil firm that **Sistema** had once owned and **Rosneft** subsequently bought from the state. **Rosneft** was awarded 136bn roubles (\$2.3bn) in damages for its claim that **Sistema** had inappropriately restructured the firm. **Sistema** said the case had been "one-sided".

Vishal Sikka resigned as chief executive of **Infosys** following a spat with Narayana Murthy, one of the founders of the Indian IT-services company. Mr Murthy has criticised the leadership at **Infosys** ever since stepping down as chairman in 2014, when Mr Sikka was

appointed as the first CEO who was not one of the company's seven founders. The board laid the blame on Mr Murthy for the resignation, saying his sniping had been a "continuous assault" on Mr Sikka.

**Herbalife** announced a \$600m share buy-back, after disclosing that talks to take the food-nutrition firm private had fallen through. News that it could have been sold sent its share price soaring, a blow to William Ackman, an activist investor who thinks **Herbalife**'s business model is a pyramid scheme (which **Herbalife** denies) and has spent \$1bn betting that its share price will collapse.

### It's electrifying

In a surprise move, the Brazilian government said it would privatise **Eletrobras**, Brazil's biggest power utility, in what could be the country's most lucrative privatisation since the 1990s. The government did not say how much of its controlling stake will be sold, but investors were happy: the benchmark Ibovespa stock-market index reached a seven-year high.

The **euro** bounced back against the dollar and hit an eight-year high against the

pound. The currency had dipped after the release of the minutes from the latest meeting at the European Central Bank, which highlighted its concern that the euro's appreciation could complicate the euro zone's recovery.

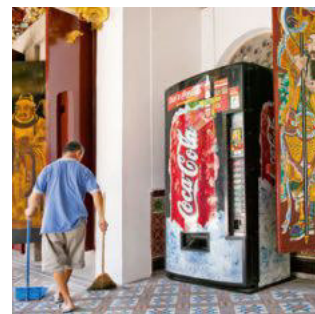
### Digital delivery

Striving to fend off competition from Amazon, **Walmart's** website sales rose by 60% in the three months ending July 31st compared with the same quarter last year. Since the appointment of Marc Lore, an internet entrepreneur, as head of e-commerce, Walmart has gone on its own shopping spree, snapping up online retailers. This week Mr Lore announced that Walmart had teamed up with **Google** to offer voice-activated shopping through **Google Assistant**.

The European Commission launched an antitrust probe into **Bayer's** proposal to merge with **Monsanto**. The \$66bn offer, which **Bayer** first submitted in May last year, is one of the biggest deals in a wave of consolidation that has swept the agribusiness industry. Last month the companies presented a plan to European officials to allay concerns that the merger would restrict competition, but

the commission says it still has "serious doubts". It has until January to decide.

The share price of **WPP** fell sharply after it forecast a dramatic slowdown in sales. The world's biggest advertising company said that amid cut-throat competition, consumer-products firms, the mainstay of its business, were curtailing their spending on marketing.



Coca-Cola and PepsiCo were two of seven companies that pledged to reduce the sugar content of their soft drinks to 12% or less in **Singapore**. It is thought to be the first time an Asian government has secured a voluntary agreement of this sort with the industry. Singapore has one of the highest proportions of diabetics in the world.

Other economic data and news can be found on pages 72-73





# Islam and democracy

In a world of bad choices for the Middle East, crude repression will make everything worse



LESS than a decade ago Islamist parties were an irresistible force in the Middle East. As dictators quaked in the Arab uprisings of 2011, these groups, particularly the Muslim Brotherhood and its offshoots, gained influence and seized control. The mosque and the ballot box seemed to have replaced the palace, the barracks and the secret police as a source of power.

But in the wreckage of the Arab world today, many act as if the idea that Islamists can play a useful democratic role is broken, too. They are being repressed anew by reactionary regimes, challenged by violent jihadists and looked upon with suspicion by voters whom they failed. Many are in jail or exile (see Briefing). Their main bankroller, Qatar, is being subjected to diplomatic and economic ostracism by its Arab neighbours, with the backing of President Donald Trump. The United Arab Emirates, Saudi Arabia and Egypt are urging Western governments to brand the Muslim Brotherhood as terrorists.

When jihadists kill—as they did again in Spain last week—it is indeed tempting to treat those who seek power in the name of Islam as a menace. Yet the blanket repression of all Islamists is the worst possible response. In the end, it will lead only to more resentment, more turmoil and more terrorism.

## Ninety-nine faces

Islamist groups come in many forms, from Ennahda, the Tunisians who call themselves “Muslim democrats”, to Hamas, the Palestinians who dispatched suicide-bombers to Israel. Those who would suppress them all make three errors: they claim Islamists are all the same; they say they are fundamentally undemocratic; and they think the solution lies with strongmen.

Start with the conflation. Critics charge that political Islamists differ little from jihadists like al-Qaeda and Islamic State, since both sorts of groups seek to re-create an Islamic caliphate under sharia and disagree only over timing and means; worse, political Islam is often a gateway to violent jihad.

The Brotherhood is itself partly to blame for the blurring of distinctions. Its leaders have a habit of preaching non-violence in English while, as over Palestine and Syria, talking up resistance and even jihad in Arabic. Likewise, some of the violence against the Egyptian government appears to be the work of Brotherhood radicals. Prominent global jihadists include ex-Brothers, among them Ayman al-Zawahiri, al-Qaeda’s leader.

But to lump all these groups together is simplistic. Violent jihadists draw on many sources to justify their gory deeds, not least the puritanical Salafism of Saudi Arabia, which competes with the Brothers. The jihadists loathe the more moderate Islamists for focusing on piety, social services and elections. They think man-made laws are an affront to divine ones. To treat all Islamists as jihadists is a bit like saying social democrats are just like Italy’s Red Brigades because they all read Karl Marx.

What of democracy? The worry is that even non-violent Islamists treat elections as a tactic: one man, one vote, one time. Recep Tayyip Erdogan, Turkey’s president, was once a model

Islamist, easy on religiosity and big on liberal reforms. These days, as he purges real and imagined foes, he is almost as awful as the Arab dictators he once denounced (he keeps winning elections, though). In Egypt the short-lived Islamist president, Muhammad Morsi, seemed to govern for the Brotherhood alone. He installed Brothers throughout the bureaucracy and declared himself to be above the (dubious) judiciary. He alienated other parties, provoking mass protests.

Critics assume that Mr Erdogan and Mr Morsi are flawed because they are Islamist. But there is another explanation: that they have mimicked the power-grabbing tactics of Turkish and Egyptian strongmen to pre-empt efforts by the “security state” to seize back power—for Mr Morsi, unsuccessfully.

A more hopeful example is Tunisia, where the Arab spring started. It has avoided both the chaos of civil war in Libya, and the chokehold of the secret policemen in Egypt and Algeria. Ennahda has had the good sense to share power with more secular groups, and even to yield to them. It knows that a fragile democratic transition requires broad consensus. In Morocco the king has ceded some power to the parliament and allowed an Islamist prime minister to lead a broad coalition.

The third error is to think that states can deal with the shortcomings of political Islam by relying on absolute monarchs and presidents-for-life. Their record is dire. From the Shah’s iron rule in Iran that led to revolution in 1979, through Saddam Hussein’s terror in Iraq, to the coup that reversed the electoral wins of Islamists in Algeria in 1992 and the crushing of protests by Bashar al-Assad in Syria in 2011, repression produces at best a brittle stability and at worst civil war. Unlike former autocrats in countries such as South Korea and Taiwan, most of the Middle Eastern ones have failed to create durable prosperity.

## Neither Sisi nor ISIS

Four years after the overthrow of Mr Morsi, it is hard to claim that he would have been worse than Abdel-Fattah al-Sisi, the general who ousted him. Mr Sisi, now president, carried out the worst massacre in modern Egyptian history, killing hundreds of Mr Morsi’s supporters in Cairo in 2013. The country is more repressive than it was under Hosni Mubarak. Yet a jihadist insurgency rages in Sinai. And Mr Sisi has little idea of how to create jobs for Egypt’s surging population of youngsters.

Oppression and misrule set the scene for the Arab world’s crisis; they will not soon be eradicated. However, autocracy is a dead end. Amid the bad choices, the only way out is the gradual opening of Arab economies and polities. That means letting ideologies compete, as long as they abjure violence and respect democratic norms. Competition must include Islamists, because Islam is so central to Middle Eastern society.

Often illiberal on everything from the place of God in politics to the role of women, political Islamists are hardly the Christian Democrats of the Arab world. Yet they can be pragmatic and they cannot be ignored. Rather than trying to crush them all, which would only unite and radicalise them, the aim should be to work with moderates, demand that the obnoxious reform, and fight the most dangerous. In this way Islamists might serve as a roadblock to jihadism, not a path to it. ■

## Courts in Hong Kong

## Truth, justice and the Chinese way

The rule of law is Hong Kong's most precious asset. China is endangering it



**“YOU can lock up our bodies, but not our minds!”**

So says a message posted on the Twitter account of Joshua Wong, a pro-democracy activist in Hong Kong (pictured), shortly after he and two associates were sent to jail on August 17th for

their roles in the “Umbrella Movement” protests that swept through the territory in 2014. The jail sentences, ranging from six to eight months, outraged their supporters. Tens of thousands took to the streets in protest (see page 25). Many people in Hong Kong regard the three mild-mannered, bespectacled men as political prisoners. The silence of the West, particularly that of Britain, the former colonial power, is depressing.

The people of Hong Kong are right to be alarmed. The territory is not a democracy. But it is more open than mainland China, and its reputation rests partly on having a judiciary that is rigorous and impartial. That is why so many foreigners choose to live and invest there. Any erosion of the rule of law threatens Hong Kong's prosperity, as well as the reputation of China, which promised to respect its liberties when it took back the territory from Britain in 1997.

### Two territories, one system

Under President Xi Jinping, China has sought more overtly to stifle dissent in Hong Kong. Mr Xi was spooked by the umbrella protests, in which thousands of young people blocked busy streets for weeks to press for greater democracy. China has sent in agents to spirit away people it does not like. It has tried to disbar pro-democracy legislators. And it has blatantly put pressure on Hong Kong's judges.

The three defendants today, all in their 20s, led the protests of 2014. Two of them were convicted last year of clambering

into a government compound during the unrest, for which they received community-service sentences. The third was given a suspended jail term for inciting others to follow them. But that was not enough for Hong Kong's government. It lodged an appeal, saying the men should be jailed.

Whether the judges bowed to external pressure is impossible to tell. But there is little doubt that Hong Kong's government pushed for tougher sentences under pressure from its overlords in Beijing. Absurdly, the Communist Party views the three men as dangerous separatists. Their jail terms mean they will not be allowed to stand in elections for five years.

The very suspicion that the judges might have buckled feeds the public's loss of confidence in the rule of law, and makes Hong Kong more prone to the kind of instability it experienced in 2014. In November China's rubber-stamp parliament took a sledgehammer to Hong Kong's legal independence when it sought to sway a court case about whether two pro-democracy legislators should be disbarred for failing to take their oaths of loyalty to Communist China properly. Subsequently they, and then four others, including Nathan Law, one of the activists now jailed, were stripped of their seats.

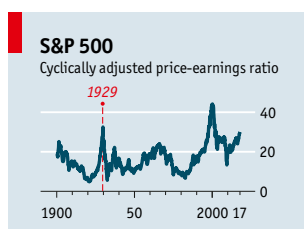
China also wants Hong Kong to enact legislation against sedition and subversion. In 2003 the territory's government shelved plans for such a bill after mass protests. If Hong Kong agrees to revive that idea, renewed upheaval is all the more likely, as residents will rightly fear that the new law could be used to lock away people for political crimes, and thus turn free-spirited Hong Kong into just another Chinese city.

The Communist Party may shrug, as China is prospering despite its thuggery. Yet there is a cost. For a country that seeks to cast itself as the champion of a global rules-based system, its respect for the treaty guaranteeing Hong Kong's freedoms is an important measure of its credibility. Right now, it is failing the test. The world should raise its voice. ■

## Central banks

## Fear of finance

Financial stability is a growing concern of central banks. Only some should be worried



**C**ENTRAL bankers have gathered at their annual shindig in Jackson Hole, Wyoming, for the past ten years with only one thing on their minds: the health of the global economy. This year's gathering is different. The bankers' preoccupations are

changing, from recovery to financial stability.

Oddly, rising concern about the risks of financial excess is good news. It reflects the arrival of the first synchronised global economic upswing since 2010. GDP growth in the quarter ending in June was the most rapid since then, according to

JPMorgan Chase, thanks to stronger-than-expected activity in China, Japan and Europe (Britain was a notable exception). Any relief, however, is mixed with anxiety that the excesses which led to the crisis of 2007-08 are again pervasive.

Policymakers have helped support the economy over the past decade. But by keeping interest rates low, they have also spurred investors to take extra risks in search of larger returns. The American stockmarket is on a cyclically adjusted price-earnings ratio of 30—a level surpassed only in 1929 and the late 1990s. Investors are rushing to buy government debt from risky countries. Argentina has defaulted on its debts six times in the past century, but still easily found buyers for a 100-year bond in June. Earlier this month buyers snapped up Iraq's first ►►

▶ independent bond issue for more than a decade.

The tension between growth and stability is most obvious in China. The IMF this month simultaneously raised its growth forecasts and warned that the country was gorging itself on debt, which jumped from 150% of GDP in 2007 to 280% in 2016. Since the start of this year, the People's Bank of China has restricted the supply of short-term liquidity to banks. Regulators have also ordered them to account for loans hidden off their balance-sheets. So far, so good: funding costs have risen and overall credit growth has slowed even as nominal growth has rebounded. But the economy has recently started to lose momentum. Will China continue efforts to constrain credit even when growth dips below official targets? The fear is that it will revert to type and let credit surge again.

Concerns about financial fragility are of a very different kind in Europe, where a recovery is gaining strength. Since December, when the European Central Bank lowered its target for asset purchases, to €60bn (\$70bn) a month, there has been speculation that the ECB's programme of quantitative easing (QE, the creation of money to buy assets) must wind down soon. But the bank is nervous about a repeat of the "taper tantrum" of 2013, when markets were spooked by signals from the Fed that it would be stopping QE. A hurried withdrawal of QE might cause a sudden rise in bond yields as bubbly assets are repriced. That could hurt countries, such as Italy, with big public-debt burdens.

The Federal Reserve sits somewhere between China and Europe. The American economy has been expanding for years; only twice in its history has it grown for more consecutive quarters. Its financial system looks robust. But here, too, queasiness about share prices and the lengths to which investors will go to buy bonds with decent yields has crept into the Fed's deliberations. As the crisis of 2007-08 fades from memory, the Fed is worrying about the efforts of the Trump administration to loosen the shackles that bind the banks. Stanley Fischer, its vice-chairman, has opposed proposals from the Treasury that "stress tests" of big banks should be softer.

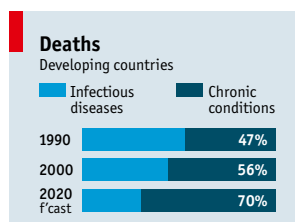
### Alarm bells

It is right that central banks should be vigilant about threats to financial stability. But the Fed should not yet put concerns about risk-taking above the immediate demands of the economy. American banks are well-capitalised; and there is a decent case for simplifying some post-crisis regulations, particularly those that bind America's smaller lenders. As for the euro zone, its recovery is still recent and continues to need support; the ECB should not be withdrawing stimulus abruptly in any case. For China the real test lies ahead, perhaps as early as next year. Tensions between growth and stability will become more acute as time goes on. But as the central bankers descend on Wyoming, it is too soon for them to stop worrying about the health of the world economy. ■

## Health care

# The right treatment

### How developing countries should improve primary health care



**I**N POOR countries people are living longer and healthier lives than ever. Since 2000 child mortality has fallen by almost half. The rate of new HIV/AIDS infections has dropped by 40%. About 7m deaths from malaria have been prevented.

Yet there is much more to be done. By one measure, the World Health Organisation reckons about 400m people still have no access to primary care—the basic form of medicine that should be at the forefront of any well-run health system. The real figure is probably much higher. And even for those fortunate enough to see a general practitioner, or more usually a semi-trained medic or quack, treatment is often dire.

The poor state of primary care will matter even more as the burden of disease in poor countries comes to resemble that in rich ones, shifting from infectious diseases to chronic conditions (see page 49). By 2020 non-communicable diseases will account for about 70% of deaths in developing countries. But the majority of people with high blood pressure, diabetes or depression do not get effective treatment—and may not even know they have a problem. They deserve better.

Primary health care is not flashy, but it works. It is the central nervous system of a country's medical services—monitoring the general health of communities, treating chronic conditions and providing day-to-day relief. It can ensure that an infectious disease does not become an epidemic. Before the Ebola out-

break of 2014, nearly half of Liberians could not afford primary care and the deadly virus spread quickly. In parts of west Africa with better primary care, it was more easily contained.

Neglect of primary care is often the unintended result of good intentions. International aid-givers have concentrated much of their effort on cutting the rates of individual infectious diseases, partly because success at treating them is easier to measure. Governments in many developing countries, meanwhile, have ploughed scarce money into visible—and expensive—hospitals in big cities. Between 2002 and 2013 the number of larger hospitals in China nearly doubled, whereas the tally of primary-care providers shrank by 6%. China now has more hospital beds per person than America.

Such lopsidedness is wasteful. Primary care can deal with the vast majority of medical consultations. Expanding primary care tends to bring marked improvements. Brazil's "Family Health Programme", which costs barely \$50 a person and covers roughly half the population, has cut infant mortality and needless hospitalisation. Rwanda, Sri Lanka and Thailand have had similar success. Costa Rica spends far less than the global average on health, but has the highest life expectancy in the Americas after Canada and Chile, thanks to its impressive primary care.

There are plenty of good examples to follow. The first step should be to train those already providing care, who are often private practitioners, ranging from drug dispensers to dubious healers. Some medical bodies would like to see care-providers without formal medical qualifications banned, but the evi- ▶▶

dence is that even short training courses can greatly improve their diagnoses. In South Africa a scheme called the Practical Approach to Care Kit (PACCK) uses checklists to train health workers without medical degrees to diagnose 40 common symptoms and treat 20 chronic conditions.

A second step is to make better use of technology. In Delhi's 158 *mohalla* (community) clinics, the first of which opened in 2015, a testing-kit costing \$640 can run 33 common medical tests. Rwanda is trying out a telemedicine scheme to make it easier for patients in rural areas to speak to a doctor. DHIS 2, a free, open-source system for collecting and sharing health data, is used in 47 countries.

A third important change is to design better incentives. Even when clinicians know how to deal with patients proper-

ly, they may not do so. Sometimes pressure from patients leads them to overprescribe antibiotics. The problem is made worse when doctors profit from the drugs they prescribe or the tests they order. Better to follow Rwanda, where health workers are rewarded for following clinical guidelines, not for the prescriptions they issue.

### Reading the vital signs

In much of the rich world, ageing populations and new technology are leading policymakers to rethink their health services. Many have belatedly realised that, for chronic conditions, there are better and cheaper alternatives to hospitals. Poorer countries have a chance to anticipate these changes. They should seize it. ■

## Indian business

# Toppling the tycoons

## Undue reverence for company founders harms both Indian firms and the wider economy



THE chairman of Microsoft, John Thompson, occasionally reminds one of its directors, a fellow by the name of Bill Gates, that his vote in board meetings is no more or less important than that of other members. Contrast that with Infosys, an

Indian technology firm, whose own retired founder succeeded in getting its boss to quit on August 18th, after a months-long whispering campaign (see page 52). The board was dismayed, but the outcome was all too predictable, given India's penchant for treating corporate founders as latter-day maharajahs.

Indian companies come in all shapes and sizes, from clan-nish outfits whose tycoon bosses routinely stiff minority investors, to giants like Infosys whose corporate governance (usually) matches Western norms. What unites them is that they accord undue deference to "promoters", as India dubs a firm's founding shareholders. The exalted status bestowed on promoters is a pervasive feature of the Indian corporate landscape. Of the 500 largest listed Indian firms, according to IiAS, an advisory firm, 344 are controlled in practice not by boards answerable to all shareholders, but directly by promoters.

Founders can exert unhealthy influence over Western firms, too, but they typically do so using their shareholdings. The sway exercised by Indian founders has its roots in a unique mix of moral suasion, regulatory advantage and the trickiness of doing business in India. In many industries, the promoter has relationships with people who matter. Only he knows which palms need to be greased to keep a power plant open, or which union boss has to be co-opted to avoid strikes. This knowledge makes the promoter central to the running of the firm, even if it belongs mostly to other shareholders.

Sometimes that leads to dominant promoters bilking the firms they run. They give family members juicy contracts, pay themselves excessively and get the firm to provide private yachts, London flats and much else besides. United Spirits, a booze firm promoted by Vijay Mallya but owned mainly by outsiders, used to pay for 13 properties for him and his family (he is now in Britain, trying to avoid extradition to India).

The promoter's perch is bad for the companies themselves, and not just their shareholders. It is harder to recruit good managers when power lies elsewhere. Balance-sheets get stretched as investment is funded more by debt than equity—because debt is cheaper and promoters can thereby avoid being diluted to the point of losing certain privileges.

Promoter power is also bad for the economy. Inefficient firms that should be taken over by a rival stumble on, as promoters seek to preserve their perks. The promoter culture is partly to blame for the nearly one-fifth of all loans made by Indian banks thought unlikely to be repaid. When promoter-led firms cannot service their debts, dominant owner-bosses tend to skip repayments. They understand that banks cannot easily foreclose on them and later hope to sell the firm on, because any new owner would lack a promoter's hold over the business. This has harmed the Indian banks and, in turn, the finances of the government that owns many of them.

### Demotion guide

Promoters will not willingly give up their power. But others can help limit it. The original owners of companies will soon account for less than half of the shareholdings of India's largest listed firms, down from 59% around a decade ago, according to IiAS. Much of the rest has been picked up by domestic institutional investors such as insurance companies and mutual funds (see Schumpeter). These investors have a duty to stand up to promoters, no matter how rich or politically connected they may be. Institutions should act as owners continuously, not just during a crisis. They should recognise the pre-eminence of boards of directors that represent all shareholders. And they should demand higher returns from promoter-dominated firms, in recognition of the higher risks.

The tide has begun to turn against promoters. Newish rules force them to secure a majority of minority shareholders' approvals in some instances. Authorities are leaning on banks to restructure defaulting firms' debt, or push them into insolvency. Some tycoons have had to sell prized assets to keep afloat, a once unthinkable affront. Founding shareholders can be a resource for a company, but only if they know their place—in the boardroom, perhaps, but not on a pedestal. ■

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VFAN is looking for dynamic professionals with strategic vision, exceptional track records and entrepreneurial mind-sets to support its international growth.

**Head of Programmes**  
The Head of Programmes will design and manage VFAN's portfolio of country and thematic programmes. They will operationalise VFAN's 5-year strategy and build partnerships with a diverse array of actors, including public and private sector organisations.


**Head of Fundraising & Partnerships**  
The Head of Fundraising & Partnerships will develop and execute a fundraising strategy to support VFAN's growth. They will build partnerships with institutional and corporate donors as well as philanthropists, charitable trusts and foundations. They will also look to identify innovative fundraising approaches for VFAN, such as development impact bonds.

**Finance & Business Manager**  
The Finance & Business Manager will be responsible for all financial and administrative aspects of VFAN's work. They will manage VFAN's assets and financial systems, and will play a crucial role in the day-to-day running of the organisation.

VFAN offers a competitive remuneration and benefits package that includes flexible working, generous pension scheme contributions and annual leave allowance. The positions are based in London and involve regular global travel.

**The deadline for applications is 5pm on Friday 15 September 2017.**

For further information, please visit [www.visionforanation.net/jobs](http://www.visionforanation.net/jobs).



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The Country Director (CD) has the overall responsibility for strategy development and delivering quality results for the Burundi, DRC and South Sudan portfolio in line with TMEA's Strategy and Project Cycle Management (PCM) Guidelines. In addition, the CD is responsible for managing and maintaining strategic relationships with government, the private sector, civil society and the donor community in the three countries.

The ideal candidate will be a graduate with 10 years' experience (5 of which should have been gained in Africa) in managing economic development co-operation programmes and projects, preferably related to trade and regional integration, trade facilitation, private sector development and investment climate reform, transport sector development, and/or institutional reform. S/he should have a deep understanding of the political context of the three countries, strong programme cycle management skills, proven ability in preparing project documents, and effective inter-personal skills to build lasting partnerships and manage each of the country teams successfully.

**DIRECTOR, SUSTAINABLE & INCLUSIVE TRADE**

A critical component of our approach includes actively mainstreaming sustainable and inclusive approaches in gender, poverty, safeguards, environment and climate change into our programming.

The Director, Sustainable & Inclusive Trade (SIT) is responsible for establishing robust linkages between TMEA's programming and the SIT social development outcomes.

The ideal candidate will have a Master's degree in Gender, Development, Social Sciences or related field, with 10 years' advisory or management experience working on SIT development concepts and related issues. S/he will have demonstrable ability to engage and empower individuals to understand, appreciate and make the case for SIT concerns and priorities. In addition, s/he will be an excellent leader with the inter-personal skills to build lasting and successful partnerships.

**APPLICATION DETAILS**

The detailed job profiles for these posts can be accessed on our website [www.trademarkea.com](http://www.trademarkea.com)

The positions are available on contract to 30 June 2019 with the possibility of renewal. Please apply online through <http://www.trademarkea.com/work-with-us/> by **Friday, 1 September 2017, 5.00pm East African time** and ensure that you attach your cover letter and detailed CV, including details of your qualifications, experience, and present position. Your application should also include a working e-mail address, daytime telephone contacts, and names and contact details of three referees. Interviews will be conducted in September 2017 in Nairobi, Kenya.

**Please note that we will only consider applications received on-line through the link provided above. Applications received after the deadline will not be accepted. We reserve the right to accept or reject any application. Only short-listed candidates will be contacted.**

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# Executive Focus



## MEMBER OF THE BOARD AND DIRECTOR OF RESOLUTION PLANNING AND DECISIONS

### The Single Resolution Board, Brussels COM/2017/20023

The Single Resolution Board is the central resolution authority within the Banking Union. Its mission is to ensure an orderly resolution of failing banks with minimum impact on the real economy and the financial systems of the participating Member States and beyond. The SRB focuses on resolution planning and enhancing bank resolvability.

The SRB is seeking suitable candidates for the position of Member of the Board and Director of Resolution Planning and Decisions.

As a Member of the Board you will contribute actively to the Board's work and participate in its plenary and executive sessions. You will be a member of the senior management team, to shape strategy and methodology for the resolution activities of the Board in cooperation with the national resolution authorities. As a Director of resolution planning and decision, you will lead and manage a directorate of 50+ staff.

You are a successful manager with at least 20 years' experience and proven success in leading large multidisciplinary teams and motivating staff to perform to a high level. You have in-depth knowledge of the banking and financial sector. You are highly experienced in one or more of the following domains: supervision, restructuring or resolution of financial institutions, regulation of financial markets.

The European Union pursues an equal opportunities policy and promotes gender equality in management functions.

Please consult the Official Journal of the European Union C 278 A of 22/08/2017 for the detailed vacancy notice and the eligibility and selection criteria.

Registration for applicants:  
<https://srb.europa.eu/>

The closing date for registration is  
**22 September 2017,**  
12 noon Brussels time.



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- Professor / Associate Professor in Economics
- Associate Professor / Senior Lecturer / Lecturer in Agribusiness
- Associate Professor in Accounting
- Senior Lecturer / Lecturer in Human Resource Management
- Senior Lecturer / Lecturer in Accounting
- Senior Lecturer / Lecturer in Economics
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## Senior Research Adviser (Ref: 2017-220-EXT) European Central Bank

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### Qualifications, experience, and skills

- PhD in economics, finance or related field from a leading university
- Outstanding publication record in policy-related research
- At least seven years of work experience in policy-oriented research
- Demonstrated ability to lead diverse research teams
- Strong interpersonal skills and ability to mentor research staff

### Application

Applications to be submitted online via  
[www.ecb.europa.eu/careers/vacancies/html/index.en.html](http://www.ecb.europa.eu/careers/vacancies/html/index.en.html) by 11 Sep 2017.  
Female candidates are particularly encouraged to apply.



## Assistant Secretary-General, Office of Central Support Services, Department of Management

### Do you have strong management and leadership skills in a complex and international environment?

The United Nations is looking for a senior executive for the Assistant Secretary-General position to provide strategic leadership and direction on administration and management.

Candidates should have a strong strategic capability, combined with executive level experience in managing and implementing management reforms, delivering of central support services, and managing change in a complex, large-scale operation at the regional, national or international level.

All applications should include a curriculum vitae and be sent by email to [ousg-dm@un.org](mailto:ousg-dm@un.org) or by fax to +1-212-963-8424 by 7 September 2017.

**Applications from women are strongly encouraged.**

For more information about this position, go to:  
[www.un.org/sg/vacancies](http://www.un.org/sg/vacancies)

### Rising costs

“A can of worms” (August 12th) looked at different ways of measuring inflation in Britain and rightly pointed out that no one figure can account for it. But that should not stop us aiming to produce indices that are as representative as possible of the actual rise in prices felt by households.

The National Statistician has defined two broad classes of price index, one suitable for macroeconomic purposes and the other reflective of households’ experience of inflation. Both the consumer-price index and the new CPIH (which takes account of the costs for people who own their homes) are economic indicators of inflation, based on national accounting principles and suitable for technical uses. The retail-price index belonged to the second category, of households’ experience, but the Office for National Statistics believes that legislation limits its scope to develop this index.

Consequently, we lack an approved index that fully reflects actual inflation for households. It is this gap which the ONS, guided by the National Statistician and assisted by members of the Royal Statistical Society, is planning to fill with a new measure: the “Household Costs Index”. This will be complementary to the CPIH but more relevant to the changing prices experienced by households.

TONY COX  
Chair  
RPI CPI User Group  
*Ipswich, Suffolk*

### A future world order?

Your piece on the relationship between China and Russia (“Unlikely partners”, July 29th) accurately depicted fast-growing economic and political Sino-Russian links offset by traditional suspicions. But I am afraid that the conclusion you imply—that the West should not worry too much—is complacent. China is catching up fast with America in the competition for global primacy and is pulling out all the stops to attract Russia into its orbit.

Whatever its current problems, Russia remains one of the world’s two leading nuclear powers, a permanent member of the UN Security Council, a fundamental source of hydrocarbons and other vital raw materials, an indispensable player in the Middle East, central Europe and Central Asia, and a leader in the arms trade and cyber-technology.

Meanwhile the West, through its policies of demonisation and pointless sanctions, does all it can to push Russia into China’s arms. An inauspicious, if imprecise, historical parallel might be the Western cold shoulder, which in 1939 pushed Stalin into his pact with Hitler with all that followed. I wonder if we are making the geopolitical blunder of a generation.

SIR TONY BRENTON  
*Cambridge, Cambridgeshire*

### Fighting over food

I enjoyed your article on the link between low crop yields and outbreaks of inter-communal violence (“A bitter harvest”, July 29th). But there is a distinction to be made in these cases between fighting among armies and violence against civilians. Recent studies have found that civilians are more likely to be killed when food supplies run dangerously low, during drought for example. In contrast, wars between armies have rarely persisted when food was scarce.

Napoleon and other military commanders knew very well that an army marches on its stomach. General Sherman’s march to the sea during the American civil war was designed to starve the Confederate army into surrender. The British strategy of withholding food from rebels was crucial to its victories in Kenya and Malaya in the 1950s. Even today, armies and rebels in developing countries must frequently live off the land, fighting only where food is relatively abundant.

Since the second world war, the number of combat casualties has been decreasing. Research on the relationship

between climate change and war is ambivalent on whether this trend will continue.

ORE KOREN  
*Minneapolis*

### Material evidence

We all enjoy speculations of hypersonic flight and time machines (“Hot stuff”, August 12th). However, there was an error in your explanation of the *Columbia* space-shuttle tragedy. Its disintegration during atmospheric re-entry had nothing to do with the failure of any of the ceramic tiles lining the body of the spacecraft. The leading edges of the wings were covered with panels of reinforced carbon-carbon; a piece of insulating foam broke from the fuel tank, striking one of the panels and punching a hole.

Once a week it is my pleasure to stand in front of the *Discovery* shuttle at the Smithsonian air and space museum and tell the story of those flights, as well as provide corrections to common erroneous assumptions. Perhaps the real story behind your article may be the carbon-carbon composite that you referred to as a solution to the challenge of hypersonic flight. Obviously it is so brittle that a simple piece of insulation can cause catastrophic damage.

JOSEPH THOMAS  
*Arlington, Virginia*

### Raising your game

Analysing Donald Trump’s golf game as a reflection of his character is a fascinating reflection on how many players are tempted to take a few short cuts (“Not one to avoid a conflict”, July 20th). A combination of muffed shots, miscounts and only tallying good shots can portray a grander game than the real version.

In North Korea, Kim Jong Il, the country’s dictator from 1994 to 2011, is said to have played one round where he finished 38-under-par with 11 holes in one. Guinness World Records has not accepted this as there needs to be independent, reliable proof (apparently bodyguards don’t count).

Golf is one of the few accurate “lie detectors” and it can be fun, although there is truth in the quote often attributed to Mark Twain that “Golf is a good walk spoiled”.

DENNIS FITZGERALD  
*Melbourne*

### A cultural revolution

Schumpeter listed the bits of commerce that Hong Kong feels it is losing to China (August 5th). Another area is pop culture, where the territory’s influence is also declining. In the 1990s and early 2000s, Hong Kong’s music and TV shows were everywhere in mainland China; not so today.

DAVID LUO  
*Guangzhou, China*

### Giants of literature



Tudor Rickards observed that book titles are tending to get longer (Letters, July 20th). But that is not a new phenomenon, as any reader of “Travels into Several Remote Nations of the World. In Four Parts. By Lemuel Gulliver, First a Surgeon, and then a Captain of Several Ships” by Jonathan Swift, or “The Personal History, Adventures, Experience and Observation of David Copperfield the Younger of Blunderstone Rookery (Which He Never Meant to Publish on Any Account)” by Charles Dickens would attest.

NAREG SEFERIAN  
*Yerevan, Armenia* ■

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E-mail: [letters@economist.com](mailto:letters@economist.com)  
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# IN PERFECT HEALTH

## How the health-care industry is thriving in Malaysia

In the 21st century, advances in knowledge, technology and living standards across the world are producing marked demographic shifts. As populations age and lifestyle diseases become more prevalent, demand for health care rises, making this one of today's foremost growth industries.



**"Malaysia is a good choice ... because of the skills and competency of its people," says Dr Juergen Schloesser, a senior vice-president at B. Braun.**

Among Asian countries, Malaysia leads the way in health care, and was named "Medical Travel Destination of the Year" by the *International Medical Travel Journal* in 2016. Taking part in a robust two-tiered system that combines government-run universal health care with a thriving private health-care industry, Malaysia's award-winning institutions hold numerous quality accreditations and attract visitors from countries around the world, including Japan, Saudi Arabia, the United Arab Emirates and Britain.

These qualities have made Malaysia a health-care hub that draws businesses from across the globe to invest in meeting high levels of demand. The result is a vibrant ecosystem of mutually supporting service providers, manufacturers and research institutes that foster success.

Local players such as ABio Orthopaedics stand alongside companies like German giant B. Braun Medical Industries, whose Penang site manufactures medical devices, infusion

solutions and surgical instruments. The facility incorporates full research and development capabilities, and has been recognised as a global centre of excellence for intravenous access products. "Malaysia is a good choice for manufacturing because of the skills and competency of its people," says Dr Juergen Schloesser, a senior vice-president at B. Braun.

Boston Scientific, another worldwide leader in medical devices, is set to establish its latest global manufacturing facility in Malaysia. The new plant, also in Penang, will be operational in the fourth quarter of 2017, producing structural heart components, medical optical fibres and endoscopy biopsy devices. "Malaysia is an ideal geographic location with an infrastructure that is conducive for business, particularly in the growing medical device sector," says Ed Mackey, an executive vice-president at Boston Scientific.



**"Malaysia is an ideal geographic location with an infrastructure that is conducive for business, particularly in the growing medical device sector," says Ed Mackey, an executive vice-president at Boston Scientific.**

**The world's new and emerging leaders in health care are already making Malaysia their hub from which to embrace the abundant business opportunities in Asia today. To find out more about how you can join them, contact MIDA, the Malaysian Investment Development Authority: [www.mida.gov.my](http://www.mida.gov.my)**

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## Muslim democrats, inshallah

CAIRO, ISTANBUL AND TUNIS

### Can political Islam come to terms with liberal democracy?

“**D**EAD, dying or detained.” That is how a member of the Muslim Brotherhood in Egypt describes the state of his comrades in what was once the world’s pre-eminent Islamist movement. After the Arab spring of 2011 the Brotherhood won Egypt’s first free elections; by early 2012 it ruled the country. But the army, led by Abdel-Fattah al-Sisi and backed by mass protests, soon booted it from power. Four years ago this month Mr Sisi, now the president, crushed the movement in Rabaa al-Adawiya square (pictured). Today those not dead or in jail have fled or hidden.

Yet the Brotherhood, a transnational movement that has spawned many other Islamist parties in the region, still inspires fear in Arab autocrats. For proof, look no further than the standoff over Qatar. Egypt, Saudi Arabia, the United Arab Emirates and Bahrain have cut off diplomatic and transport links with the tiny gas-rich sheikhdom, demanding that it end its support for the Brotherhood; shut down Al Jazeera, a Brotherhood-friendly broadcaster; and kick out troops from Turkey, which is led by a Brotherhood-inspired party, Justice and Development (AK). They insist that the Brotherhood is a terrorist organisation which threatens to up-end the established order.

That the Brotherhood has inspired vio-

lence and that its members have carried out attacks is not in doubt; whether it is essentially violent is harder to say. Hassan al-Banna, who founded the movement in Ismailia, in north-east Egypt, in 1928, called for gradual reform, but he accommodated militant members. Sayyid Qutb, a leading figure in the Brotherhood in the 1950s and 1960s, favoured taking up arms against impious rulers. Modern Islamism—broadly defined as the pursuit of a state governed by Islamic principles—grew out of this debate in various directions. Its current incarnations and hybridisations include groups as diverse as Ennahda, a peaceful Tunisian political party, and Islamic State (IS), a violent jihadist group that calls the Brothers apostates. Today’s Egyptian Brotherhood is split between those who embrace confrontational tactics, including some who countenance violence, and those who favour a more conciliatory approach.

The Saudis and the other countries leaning on Qatar claim that the whole Islamist spectrum is beyond the pale. (Though some have made tactical common cause with Islamists in Palestine, Yemen and Syria.) Others—including Western governments that have resisted calls to brand the Brotherhood a terrorist organisation—think there are distinctions worth making. This is not easily done. When

elects, ostensibly moderate and democratic Islamists have too often proved to be neither, lending credence to the argument that their commitment to democracy goes little further than “one man, one vote, one time.” But some Islamists are participating in politics, and even leading governments, moderately and effectively.

Islamists are hardly alone in attempting to inject religion into public life. In India the ruling BJP espouses a specifically Hindu nationalism. Israel has a range of parties seeking to create a more overtly Jewish state. Europe has many Christian Democrats who take both parts of the name seriously. In America the Republican Party’s platform holds that if “God-given, natural, inalienable rights” conflict with “government, court, or human-granted rights”, the former must always prevail. “They are saying something on which all Islamists could agree,” says Nathan Brown of George Washington University.

### In the beginning

Islam is unique, though, in at least one regard. Whereas Moses was a leader without a state and Jesus was a dissident executed by one, the Prophet Muhammad was a political leader who founded a polity, and Muslim scripture reflects that. “In the Koran, there are clear, direct textual injunctions ranging from the implementation of the *hudud* punishments [for offences such as theft] to specific rules on inheritance,” writes Shadi Hamid of the Brookings Institution, a think-tank, in “Islamic Exceptionalism”. Hence the Brotherhood’s proud claim that “the Koran is our constitution”.

But although the Koran may have specific things to say about inheritance and ►►

▶ other matters, it is more fuzzy on how to organise government. In one *sura* Muhammad is instructed to consult members of the community; in another he is given absolute power over them. Disagreements started immediately upon the prophet's death. His closest followers could not decide if the role of caliph—the presumed successor to Muhammad as leader—should be elective or hereditary, a dispute that eventually led to the schism between, respectively, Sunnis and Shias.

The caliphate itself is not mandated by the Koran. But “traditional Muslim thought regarded [it] as an inherent part of Islam, unintentionally politicising the faith for centuries,” writes Mustafa Akyol, the author of “Islam without Extremes”. Hereditary caliphates in which religious and secular power were united in one figure were the model for Islamic polities for more than a millennium.

It was the break-up of the Ottoman empire and the abolition of the caliphate by republican Turkey that ultimately led to the modern-day Islamist movement. Muslims humiliated by colonialism and the failures of socialism and nationalism, under which home-grown autocrats tried to co-opt Islam for their own benefit, longed for an alternative that made sense in a world of nation-states and elections. The Brotherhood presented them with one.

Democracy was not one of Muhammad's prescriptions, so Banna rejected it as a foreign import, along with political parties and even the modern Arab state. But he also saw progress towards the Islamic state happening in stages, each requiring different tactics. So Islamists might play down their divine objective early on, and even participate in elections, if it improved their position in the long term. Some of his followers came to accept democracy as part of all stages of the process; but critics held that most Islamists were at heart anti-democratic and continue so to be.

That is one lens through which to view AK and its imposing leader, Recep Tayyip

Erdogan. When Mr Erdogan founded AK in 2001 he appeared to represent a new kind of Islamism, what some called “Islamism-lite”, that focused on freedom and free markets. After winning legislative elections for the first time in 2002, the party pushed through democratic reforms, subdued Turkey's army and strengthened the state's recognition of human rights. It was held up as a hopeful template for other Islamist parties.

Gradually, though, Mr Erdogan concentrated power in his hands. He co-opted the state-run media and ousted critics in the government, army and judiciary. More liberal members of AK, such as Abdullah Gul, a former president, were pushed aside. An unsuccessful coup in July 2016 led to an all-out purge. Tens of thousands of enemies, real and imagined, were arrested, including journalists. Civil-society groups were shut down, civil servants sacked, access to parts of the internet blocked. In April a referendum on the constitution (which critics claim was rigged) gave the president even more power.

Turkey is exhibit B for those making the case against seemingly moderate Islamists. Egypt is exhibit A. Muhammad Morsi, the Brotherhood figure who became president, proved divisive and insular from the start. By the end of his first year he had decreed that he was not bound by judicial restraints. He pushed through a constitution that was opposed by secular politicians and flooded the government with Islamists. By the time of the coup against him much of the public was on the army's side.

Some now argue that these outcomes—illiberal success in Turkey, illiberal failure in Egypt—were foreseeable, even inevitable. But it is worth looking at the contexts. Before AK came on the scene in Turkey, four previous Islamist parties had been closed as a result either of a coup or a court order. After AK came to power it continued to be threatened. Secularists in the army—part of the country's “deep state”—tried to block the party's presidential candidate in 2007.

A year later, Turkey's chief prosecutor accused AK of being anti-secular and came close to having it banned. There was a host of other politically motivated attacks—and then there was the coup attempt.

In Egypt the Brotherhood faced similar opposition from a deep state of soldiers, judges and bureaucrats. The police refused to patrol the streets, leading to a spike in crime. Employees of the gas and power companies created artificial blackouts and fuel shortages. Judges appointed by Mr Morsi's predecessor declared the results of an election invalid.

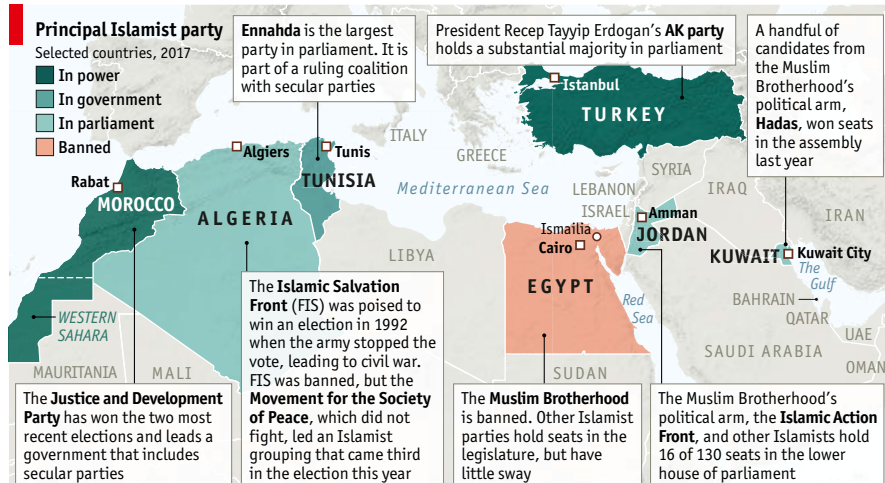
**Minorities retort**

These challenges do not excuse the authoritarianism displayed by Mr Morsi and Mr Erdogan. But perhaps they explain it better than notions of an illiberal essence in their ideology. “Islamist parties tend to adapt to their political environment,” says Marc Lynch of George Washington University. The fear that secularists would try to undermine their governments convinced elected Islamists that they needed to grab as much power as possible; the lack of deep-seated democratic traditions made things worse. The problem with AK, says Mr Akyol, is not that it has been too Islamist: “It is just proving to be too Turkish.”

Elsewhere, Islamist parties have continued to take part in elections. The Brotherhood's chapters in Jordan and Kuwait, after suffering years of repression, did relatively well in parliamentary elections last year. A Brotherhood spin-off, the Party of Justice and Democracy (PJD), has won Morocco's two most recent parliamentary elections and leads the current government. Outside the Brotherhood's orbit, Islamist parties are politically active in Indonesia, Malaysia and Pakistan. The idea that all such parties are playing Banna's long game cannot be disproved. But it is at least plausible that, in environments that do not encourage authoritarianism, it is not a necessary development. In nearly all the places where Islamists are politically active, there are checks on how much power they can amass. Monarchs are the real authority in Morocco, Jordan and Kuwait.

That said, Islamists do not have to win national elections to have an illiberal impact. In Indonesia, a secular democracy, no avowedly religious party has ever received more than 8% of the vote in national parliamentary elections even though the country is majority Muslim. But locally elected Islamists have passed over 400 local ordinances based on Islamic law since the country's regions were granted more autonomy in 1999. In Aceh province alcohol is prohibited, women's dress is restricted and adultery and homosexuality are punished with whippings.

Perhaps the most troubling sign of the Islamist minority's power came in April, when a popular Christian incumbent, Ba- ▶



### The word of God

Muslims who say sharia should be the official law  
2013, % of total



Source: Pew Research Centre

▶suki Tjahaja Purnama, better known as Ahok, lost the governor's race in Jakarta. Islamist supporters of his opponent, Anies Baswedan, told Muslim voters that it was *haram* (forbidden under Islam) to vote for a Christian. When Ahok tried to argue against this claim, citing the Koran, a doctored video made it seem as if he was disparaging the holy book. He was charged with blasphemy, lost the election and has now been sentenced to jail.

Indonesia thus shows how the workings of democracy can magnify the power of an illiberal minority. A survey conducted in 2015 by the Centre for the Study of Islam and Society, a think-tank in Jakarta, found that the proliferation of sharia-based ordinances was largely the result of local politicians acceding to the demands of conservative Muslim groups in exchange for votes. Once God's law is enacted, it proves hard for man to rescind. In Aceh a substantial portion of the public has misgivings about sharia. But none of the major candidates in the elections last spring challenged the recent sharia strictures for fear of being ostracised.

Support for Islamist legislation, regardless of which parties provide it, is widespread in Islamic countries (see chart). In Egypt polls show that majorities back legal codes based on sharia, punishments from the Koran and giving clerics the power to draft legislation. But this is not a strong feature of AK rule in Turkey. The party has built more mosques and opened religious schools, restricted alcohol sales and lifted bans on the hijab. But it has not banned alcohol or imposed restrictions on dress. In fact the party has often seemed more interested in using Islam in the service of politics, rather than the other way around.

It is unsettling for liberals to know that, even in the minority, Islamists can ratchet up restrictions. But that is, in the end, the sort of risk democracies of all stamps live with—and which, if the democracies are strong, can be fought. Hence the belief of some analysts that elections, not liberal-

ism, matter most: illiberal democracy, they say, is a precursor to liberal democracy. In previously authoritarian countries democracy must be given time to take root and be strengthened through practice. The secularists trying to force the Brotherhood from power in Egypt in 2013 heard such arguments often. Anything Mr Morsi did, the plea went, could be undone by more secular governments in the future.

### The new model

Taking that seriously means believing that Islamists will continue to hold elections when in power. Here the poster child is Tunisia. Many members of Ennahda dream of creating an Islamic state in the country, replete with sharia. But on the whole, the movement founded and still led by Rachid Ghannouchi has displayed moderation and a rare willingness to compromise.

Ennahda suffered under the decades-long secular dictatorship of Zine el-Abidine Ben Ali, who banned the movement. After Mr Ben Ali was overthrown in 2011, a party created by the movement won a plurality of seats in Tunisia's first free elections. But it faltered in government, alienating Tunisians, many of whom were sceptical of the Islamists. It did not help that ultraconservative Muslims assassinated two left-wing politicians in 2013.

Opposition to Ennahda rule culminated in street protests that threatened to undo the country's fragile democratic gains. But instead of digging in, as the Brotherhood did in Egypt, Ennahda chose to yield ground (especially after the coup in Egypt). In negotiations over a new constitution it accepted liberal recommendations, such as guaranteed freedom of religion. After parliament passed the charter—its members chanting "*mabrouk aleina*" (congratulations to us all)—En-

nahda handed power to a technocratic government in January 2014. Ennahda lost the next election to Nidaa Tounes, a secularist party created specifically to defeat the Islamists. Mr Ghannouchi promptly struck up an alliance (and friendship) with Beji Caid Essebsi, the new party's founder. Since then Nidaa Tounes has split; but Ennahda has not pressed its advantage as the biggest party in parliament. "In this transitional situation, what we need is broad consensus," says Mr Ghannouchi. A Brotherhood member in Egypt puts it another way: "They learned from our mistakes."

Mr Ghannouchi now says Ennahda is not an Islamist party, but a party of "Muslim Democrats", akin to European Christian Democratic parties. The movement has split its political party from its religious arm, which is now solely responsible for *dawah* (proselytising and preaching). Its politicians cannot give speeches in mosques; clerics cannot lead the party. Ennahda still draws on Islam for inspiration, says Mr Ghannouchi, but "the presence of religion [in society] is not something that is decided or set by the state." It should be a "bottom-up phenomenon" and, with an elected parliament, "to the extent that religion is represented in society, then it is also represented in the state."

Secularists and liberals have long hoped that mainstream Islamists would follow such a path. In essence what they are hoping for is that Islamists, long a movement of protest, become less Islamist when confronted with the reality of power. That raises other questions. "If Islamist parties, once elected, have to give up their Islamism...then this runs counter to the essence of democracy—the notion that governments should be responsive to, or at least accommodate, public preferences," writes Mr Hamid.

More conservative members of Ennahda are unhappy with the direction that the movement has taken. Others doubt Ennahda's *bona fides*, claiming that fear of repression and revolt is the motivating factor behind its moderation—in other words, that its actions are tactical. "We get it from all sides," says Mr Ghannouchi.

As with Islamism's downfall in Egypt, its happier progress in Tunisia is, in large part, a matter of context. Unlike Egypt and Turkey, Tunisia does not have a strong and politicised army. And whereas the state's repression in Egypt before the revolution seemed to harden the Brotherhood, in Tunisia it led Ennahda members, who shared prison cells with other opposition leaders, to adopt a more liberal worldview. The unique challenges faced in each country undoubtedly shaped their development. So Mr Ghannouchi says he has no desire to export the Ennahda model, seeing it as derived from the Tunisian context. "But if others find that they can benefit from our experience, that would make us happy." ■



Moderate Mr Ghannouchi (left)




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**Politics in Thailand**

# Tongue Thai-ed

BANGKOK

**Civic life is suffering under the junta's tight grip**

“I’ll never win, no matter how reasonable I am,” go the words of “Dictator Girl”, a song by a Thai pop band called Tattoo Colour. Their music video depicts a hapless man following the 44 rules of a tyrannical woman in a not-so-subtle allusion to life under Thailand’s military junta. “Even if I know, I’ll say I don’t. I don’t have any opinions,” the cringing crooners add.

While the song may inspire laughter, Section 44 of the country’s interim constitution, which has been in effect since July 2014, does not. It gives the junta and Prayuth Chan-ocha, a former general who serves as Thailand’s prime minister, power to stop and suppress “any act which undermines public peace and order or national security, the monarchy, national economics or administration of state affairs”. Having been one of South-East Asia’s freest countries two decades ago, Thailand is now among the region’s most repressive.

Since its introduction, Section 44 has been invoked more than 150 times. A constitution adopted a little over a year ago allows the junta to keep using the legislation until a new government is formed after a general election due to take place next year. Other statutes ban gatherings of more than five people, prevent critics of the regime from travelling and allow civilians to be tried in military courts for sedition. Computer-crime regulations curb online activity. And more than 100 people have been arrested under lèse-majesté laws since the junta took power. More than

half of them are now either awaiting trial in prison, or serving jail terms for peccadilloes such as “liking” things on Facebook deemed by the junta to be offensive to the royal family. (At the time of the coup in May 2014, just six were behind bars for lèse-majesté.)

The persecuted include activists, journalists, academics and even formerly powerful politicians. On August 25th the prime minister who was ousted by the junta in 2014, Yingluck Shinawatra, is expected to receive the verdict of a court that has been trying her for incompetence in a rice-subsidy scheme which cost the government around \$16bn (she is pictured after one of this month’s hearings). A possible ten-year prison sentence hangs over her.

**Spreading fear**

Many Thais object to punishing Ms Yingluck. The freezing of her bank accounts in recent months inspired an outcry. Yet her allies may hesitate to create a big fuss if she is found guilty. After a few hundred supporters gathered to present Ms Yingluck with roses before a court appearance in July, many of them, including Wattana Muangsuk, a former minister of commerce, were threatened with arrest. The junta says 4,000 police officers will be deployed at the court to ensure order when the verdict is announced.

How such events are portrayed in newspapers and on the airwaves is closely controlled in Thailand. In the coup’s after-

math, 14 satellite-television stations and around 3,000 local radio stations were shut down temporarily, as was access to international satellite-television transmissions. Broadcasting was allowed to resume on the condition that political issues were glossed over. A proposed media bill would make reporting without a proper licence punishable by three years in jail. The government is drafting guidelines on journalistic fairness and accuracy. Tellingly, big media groups are refusing to co-operate with this project.

Intrepid reporters suffer harassment. Pravit Rojanaphruk was twice detained arbitrarily at military bases for his articles—he tells of dark cells and six-hour interrogations. Mr Pravit now faces sedition charges because of his social-media posts criticising the government. Such heavy-handed tactics can backfire. Mr Pravit reckons he got 6,000 new followers on Twitter after officers locked him up the first time. “Things are worse now than after the coup in 2006. I didn’t have any trouble with the military then,” he says. Citing a proverb, he adds: “But now they slaughter the chicken to teach the monkey an example.”

One professor says avoiding trouble requires self-censorship and what he calls “a good sense of navigation”. Some still decide to take risks. Earlier this month a group of students and academics from Chiang Mai University were summoned to a police station after they held up signs at a conference stating “An academic forum is not a military camp”. But many are scared by the government’s threats. After spinning classes in a chic area of Bangkok, young professionals shuffle in their cleats when asked about the ruling regime.

A few protests continue over issues that are less political in nature. In rural areas, activists vent rage at the lax application of environmental laws. Earlier this year a plan to build a coal-fired power station ►►

▶ near Krabi, a tourist hub far south of Bangkok surrounded by azure waters, was in effect abandoned by the prime minister after protesters brought their grievances all the way to the capital. (At least ten were arrested nonetheless.) Seven women in Loei province bordering Laos face possible fines or prison for gathering to protest against the proposed expansion of an open-pit copper and gold mine. Tara Buakamsri of the Thai chapter of Greenpeace, an NGO, says the political situation makes work difficult for organisations such as his that engage in public campaigning. Even organising events related to air pollution can prove controversial.

The suppression of civic life bodes ill for Thailand's democratic prospects. Even if the thrice-delayed general election is held, politicians will be fearful of expressing themselves openly and challenging the junta's policies. "Political parties are supposed to respond to the people, there has to be a process of interaction," says Chaturon Chaisang, a minister for education under Ms Yingluck. With his accounts frozen, passport revoked and facing trumped-up charges in both civil and military courts, Mr Chaturon still remains optimistic in one way. The longer the junta is in power, he says, the more popular they are making the opposition. ■

from 72% to 57% during the 12 months to November 2016. In the same period, 6,785 Afghan soldiers and policemen were killed and 11,777 wounded, out of a total of 370,000 personnel in both forces. Between 2015 and 2016, 19 Americans were killed in action. Mr Obama had hoped to pull out even the remaining 8,400 American military trainers and advisers before he left office. But eventually he decided to leave the decision to his successor.

Not only will that number rise by about half, but restrictions on what they can do will be lifted. Mr Obama had confined advisers to bases far from the action. Now they will be embedded with front-line combat units where their presence can help inexperienced officers become competent leaders and develop the skills needed to win—among them the ability to call in air support and direct it accurately.

That will be useful, as American commanders will now have much more freedom to deploy air power than they had under Mr Obama. Mr Trump declared: "Micromanagement from Washington, DC, does not win battles. They are won in the field drawing upon the judgment and expertise of wartime commanders and front-line soldiers acting in real time, with real authority and with a clear mission to defeat the enemy."

A third improvement compared with Mr Obama's policy is that Mr Trump has heeded the advice of Mr Mattis not to set limits on the duration of America's mission in Afghanistan. That matters. As long as the Taliban knew that all they had to do was wait for American and NATO soldiers to pack their bags, they had no incentive even to consider political negotiations with Afghanistan's government. With an open-ended commitment by America, the Taliban's calculations could change.

It will still remain difficult for America to reach a point where it can claim success in Afghanistan. Mr Trump's insistence that he is not in the business of nation-building is all very well. But without progress by the dysfunctional Afghan government towards delivering security and basic services, the Taliban will retain support in the Pushtun south and east of the country.

Nor is there much prospect of enlisting the help of Afghanistan's neighbours. Mr Trump is right to take a tough line on Pakistan's provision of sanctuary to the Taliban. But cutting back military aid to Pakistan in the past has had little effect on its behaviour. For all China's interest in exploiting Afghanistan's mineral wealth, it is reluctant to get involved. A recent development is especially worrying: Iran and Russia, always on the lookout for opportunities to undermine Western interests, are accused of funding, arming and sheltering the Taliban. Mr Trump may not care for "strategic patience", but when it comes to Afghanistan he will need plenty of it. ■

### America's Afghanistan strategy

## Sixteen years and counting

### Against his instincts, Donald Trump has bowed to the advice of his generals

IT WAS an admission of a kind that Donald Trump rarely makes. In a televised address to the nation on August 21st, America's president admitted that he had changed his mind about the war in Afghanistan. He said his instinct, after 16 years of not winning, had been to pull out. But after a thorough policy review, he had decided to keep going.

That review, undertaken by the defence secretary, James Mattis, and the national security adviser, H.R. McMaster, was completed by June. But Mr Trump, resistant to its conclusions and egged on by Steve Bannon, a critic of military intervention abroad who was then his chief political strategist, tried hard to find an alternative.

One scheme, promoted by Mr Bannon and devised by Erik Prince, the founder of Blackwater, a controversial security firm, involved replacing American troops with mercenaries. But on August 18th Mr Trump finally acquiesced to the plan set out by his national security team to send 3,500-5,000 additional troops to Afghanistan. The prospect of Afghanistan again becoming a haven for the world's most dangerous terrorists overcame his aversion to fighting a seemingly unwinnable war. It may not have been a coincidence that Mr Bannon was removed from his job in the White House on the same day.

At first sight, the Afghan strategy announced by Mr Trump appears very similar to that of his predecessor, Barack Obama. But it has some important—and welcome—differences, which Mr Trump was keen to emphasise, while leaving it to Mr Mattis to decide the exact number of troops to send. General McMaster and former General Mattis know Afghanistan



Someday this war's going to end

well. They and other American commanders were quietly appalled by Mr Obama's approach to Afghanistan, in which troop numbers were cut to serve a domestic political timetable without regard to conditions on the ground.

Since the beginning of 2015, when NATO ended its combat mission and handed full responsibility for Afghanistan's security to its ill-prepared forces, the Taliban insurgency has strengthened. According to a report earlier this year by SIGAR (the Special Inspector General for Afghanistan Reconstruction, a post created by Congress), the proportion of the country under untested government control had fallen

## The China-India border

## Fisticuffs at dawn

DELHI

## A border fracas between India and China reflects deeper tensions

WHEN the Indian subcontinent bumped into Eurasia 40m years ago, the collision produced the mighty Himalayas. The world's two most populous nations, India and China, are still colliding across that majestic range. In June, a few dozen soldiers from each side tussled in a shoving and shouting match on a remote plateau just inside borders claimed by a tiny neighbour, Bhutan. Another brawl broke out in mid-August far to the west along the shores of Pangong Tso, a desert lake that stretches between Ladakh in India and Tibet in China (see maps). The latest encounter involved sticks and stones. A few people were hurt.

It may seem more ridiculous than alarming that two ancient nations, which happen to be nuclear-armed and have a combined population of 2.7bn, should engage in garden-fence fisticuffs. The last time anyone was killed along the 3,500km frontier was in 1975. Few analysts expect the current argy-bargy to turn into full-scale war. Once winter sets in, all but a few stretches of the high-altitude border become impassable anyway.

Yet such scraps reflect bigger, more ominous troubles. Separated by giant mountains, China and India have tended to stand back to back and ignore each other. As both countries grow in confidence and reach, they increasingly find themselves brushing against each other in the wider region. But they lack a rulebook or adequate mechanism to determine how best

to behave. "They have to test each other to see what they can get away with," says Shashank Joshi, of the Royal United Services Institute, a think-tank in London.

India is sensitive about what it sees as China's encroachment on surrounding smaller states that it regards as within its natural sphere of interest. China's closeness to Pakistan, a rival of India's, is a particular irritant. Since the 1960s China has supplied Pakistan with arms, nuclear know-how and aid. In the past decade China has also used aid and trade assiduously to woo India's friendlier neighbours, from Bangladesh to Nepal and Sri Lanka.

China has so far failed to gain much traction in Bhutan. The Buddhist kingdom has always been uneasy about China's annexation of Tibet, historically a close cultural cousin. India accounts for 80% of Bhutan's trade and is the sole destination for its main export, hydroelectric power. The kingdom's 800,000 subjects enjoy the lion's share of India's \$1bn annual foreign-

aid budget—nearly 60% of it this year and next. India's army builds and maintains Bhutan's roads, and also has a heavy "training" presence there. A treaty between the two countries says that neither government will permit its territory to be used for activities that harm the other. In deference to India, Bhutan has shied away from establishing direct diplomatic relations with China. Yet it cannot afford to provoke China, with which it has territorial disputes. Over the past 30 years the two countries have held 24 rounds of talks to try to define the border, with little progress.

All this explains why the current stand-off could escalate further, even if a war on the scale that China and India fought in 1962 is highly unlikely. In mid June a Chinese road-building crew was spotted pushing southward onto the Dolam plateau, a flat area within the slightly larger region known as Doklam, a territory where the three countries meet and which is disputed by Bhutan and China. Indian troops ▶▶

## Graveyards in Pakistan

## Hold your hearses

LAHORE

## A fancy graveyard may make death as unequal as life

DOWN a dusty side road in the province of Punjab stands Shehr-e-Khamoshan, a new graveyard with freezers imported from Germany and a network of 22 video cameras that will allow relatives of the deceased to live-stream footage of funerals at the \$1.5m facility. Attend a ceremony in person and there is little risk of heatstroke: dozens of fans hang from the ceiling of an arched prayer zone that is almost entirely open to the air.

The state-owned "model graveyard", with its wide footpaths and neatly trimmed lawns, will serve the 11m-strong population of Lahore, the capital of Pakistan's richest and most populous province. Three more are under construction in the region. Across Pakistan burial grounds have struggled to cope with an urban population that has risen from 28% of the total in 1981 to 41% now (unsurprisingly land is scarce in cities). Burials have been banned in the overflowing public graveyards of the largest city, Karachi. There have been reports of policemen hiding in coffins to catch gravediggers who are overcharging for burial plots.

Lahore's new "silent city", as it is known, aims to lighten the burden on grieving families. The project's director has urged other provinces to replicate his good work. But even with its swanky golf-carts for the elderly and mechanical diggers it may be less effective than it claims. When the government of Punjab bought the land, it planned to build a

cemetery about 20 times the size. The facility that opened last month has space for only 8,000 graves.

Some people fret that the new cemetery will further squeeze out space for corpses by giving relatives of the dead long-term rights to their loved ones' plots. Historically Muslim burial grounds have managed to keep on welcoming new souls by recycling grave sites. Gravediggers in Miani Sahib, an old cemetery in the centre of Lahore which has room for around 300,000 graves, routinely bury people in plots that go unvisited. Today, as more Pakistanis invest in headstones and concrete shrines to protect remains, gravediggers in desperation sometimes seek out old-style earthen mounds, and a few place remains on top of bodies that were laid out just a few months earlier.

Besides failing to address the lack of space for the dead, the new facility could spark a trend for VIP burial that makes death as unequal as life, says Zaigham Khan, a columnist for *The News*, a newspaper. The government claims that anyone who cannot afford the \$200 fee will be granted a free space. But standing in an ancient burial ground that abuts Shehr-e-Khamoshan, a village elder offers a different view. He reckons the plush cemetery is part of an attempt to lure government workers to a new housing project nearby, which Lahori officials hope will help to deal with the overcrowding of live bodies in the fast-expanding city.



▶ stepped across their own border to block them: this is the point where Chinese territory comes closest to India's densely populated northern river plains.

India's government has suggested that both sides revert to their previous positions but China's leaders insist that India first withdraw from territory it refers to as "Chinese". Bhutan issued a brief statement in June asking China to refrain from taking unilateral action. It has since kept quiet.

That the second clash, the lakeside incident on another disputed border further west, escalated into a brawl reflects how far tension has been heightened. China and India have long since agreed to disagree about bilateral territorial questions, most of which involve clashing interpretations of old maps over parcels of land that are less strategic than Dolam.

Hawks on both sides are counselling that now is the moment to show who is boss. Abhijnan Rej, a researcher at the Observer Research Foundation, a think-tank in Delhi, reckons it is time for India to "contain" China, comparing the rivalry to that between America and the Soviet Union during the Cold War. Such talk does not appear to rattle China, which has an economy five times the size of India's. Others in India are exasperated at what they see as a lazy preference on the part of successive governments in Delhi to shelve rather than resolve the disagreements with China over small patches of land. Yet India's pushback in the recent brawls may suggest a change. Both sides should be worried. ■

## Energy in Australia

# The heat is on

SYDNEY

**Possible curbs on gas exports are mainly to do with politics**

**D**IGGING stuff out of the ground and shipping it overseas has long been a mainstay of Australia's economy. So it is rare for governments to place curbs on such wealth. Australia banned iron-ore exports for 22 years until 1960 to protect its steel industry. It still limits where it will send uranium, but only to comply with nuclear non-proliferation rules. Last month, however, Malcolm Turnbull's conservative government said that it may restrict exports on another commodity that Australia holds in abundance underground: gas.

Mr Turnbull likes to present himself as a champion of free markets. But in energy policy, he is backtracking. He has justified introducing what he calls the "Australian domestic gas-security mechanism" in response to soaring electricity prices. This could result in export controls being imposed early next year. There is no clear evidence that limiting sales abroad will help bring down the cost of energy at home. But Mr Turnbull wants to look as if he is trying, because voters are getting angry.

Demand for gas in Australia has been growing as a result of the closure of coal-

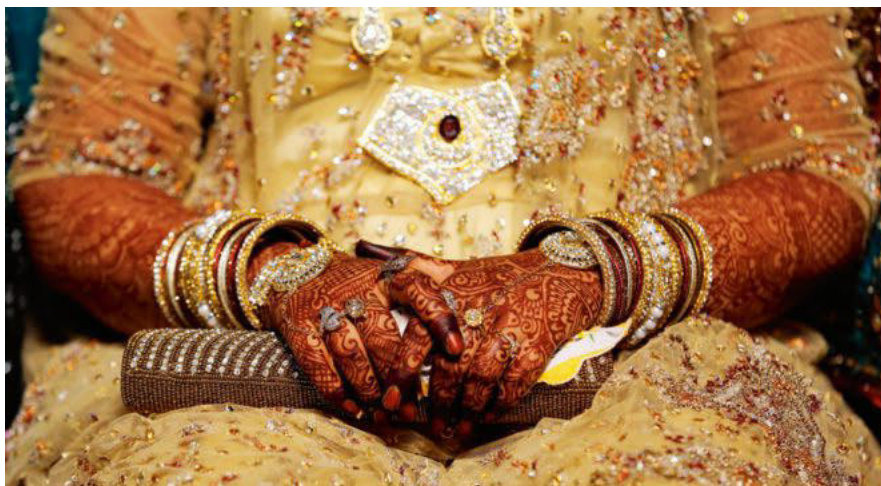
fired power stations. But domestic supplies are waning. A slump in oil prices has in turn hit global gas prices and deterred investors from exploring for fresh deposits. Moreover, New South Wales and Victoria, the most populous states, have banned or restricted gas exploration in response to environmental campaigns to protect farmlands and underground water. So has the Northern Territory where Origin Energy, an Australian company, is exploring for shale gas in the remote Beetaloo Basin.

Strains on supplies have also been considerably increased by a boom in the export of liquefied natural gas (LNG) from Queensland over the past three years, much of it derived from coal-seams. Australia exported about two-thirds of the gas it produced last year, and even more in the first quarter this year: the country's main markets are in Japan, China and South Korea. Why sell the gas abroad if global prices are low and demand at home is so great? Companies are required to do so by contracts they signed several years ago, when international prices were much higher.

Export controls will only be imposed if the government decides they are needed after it finishes studying gas-supply forecasts in September. Even if they are introduced, Australia will remain a big exporter of LNG. Western Australia has a large LNG industry. But the state reserves about 15% of its gas for home consumption, so it will be exempt. The export controls will apply only to newer consortia operating on the east coast, where most Australians live. Australia still hopes it can overtake Qatar as the biggest LNG exporter by 2019 (though Qatar's plans to expand its own exports may frustrate that ambition).

Mr Turnbull is pulled in every direction over energy policy. Conservatives in his Liberal party are unfazed by gas shortages—they would far prefer that Australia dig more coal. Others want a higher share of gas and renewables in Australia's energy mix to help meet carbon-emission targets. States have differing views, too. South Australia has the country's highest share of renewables at almost 50%, and relies on gas for most of the rest of its electricity supply. After suffering a series of blackouts, that state recently announced a deal with Tesla, an American company, to install the world's biggest lithium battery.

Graeme Bethune of EnergyQuest, a consultancy, worries that restricting exports could result in even more of a muddle. Uncertainties over when and to what degree restrictions might be applied may cause concern among investors, he says. But the country's energy regulator is already forecasting that there could be insufficient gas to meet electricity demand late next year and early in 2019. Mr Turnbull says any restrictions would only be a "temporary measure". But the threat of them will long persist. ■



## Muslim marriage in India

India's supreme court ruled on August 22nd to outlaw "triple talaq", a tradition whereby Muslim men could annul a marriage simply by saying "I divorce you" three times (an Indian Muslim bride is pictured). Most Muslim-majority countries long ago abandoned the practice for being sexist or questionable under religious law. But politicians in Hindu-majority India had kept it going to win conservative Muslim votes. Hindu nationalists hailed the ruling as a blow to the "appeasement" of minorities. Muslim liberals and women's groups that have long opposed the practice also welcomed the decision. Yet the ruling was narrow: three judges to two. Constitutional experts said their legal reasoning fell short of upholding personal rights over religious laws. The judgment did not ban other forms of Muslim divorce that favour men, only the instant kind.






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**Dissent in Hong Kong**

## A crisis of faith

HONG KONG

**Prison sentences for three young pro-democracy campaigners trigger outrage**

**C**ONDEMNATION of the ruling on August 17th by Hong Kong's Court of Appeal, which sentenced three pro-democracy activists to jail terms of between six and eight months, was swift and widespread. "Resisting totalitarianism is no crime", read one of the banners carried by tens of thousands of people who joined a protest march against the court's decision.

The three are among the best known of the territory's pro-democracy activists. Their sentences caused one of the biggest protests in Hong Kong since the "Umbrella Movement" in 2014 that they had helped to lead. The unrest had been the subject of their trial: their offences were to storm into a government compound during it, and in one case to incite others to do so.

The Hong Kong government is satisfied with the outcome. It had requested that the trio, Alex Chow, Nathan Law and Joshua Wong (Mr Wong is pictured), be given stiffer sentences after a lower court last year ordered two of them to perform community service and gave one of them a suspended three-week jail term. The government in Beijing is doubtless happy, too. The three men represent a new force in Hong Kong's politics that China loathes: a feisty youth-led one, that supports civil disobedience in pursuit of its demands for more democracy and greater autonomy from China.

The jail terms mean that the three will be barred from standing for political office for five years—one reason, perhaps, why

the government may have been so keen for them to be locked up. The reason it gave publicly is that it wanted the sentences to act as a greater deterrent. The Umbrella Movement was the first large civil-disobedience campaign since Hong Kong was handed back to China in 1997; it blocked several major roads for weeks.

The unrest in 2014 left many pro-democracy campaigners feeling jaded. The government, backed by the Communist Party in Beijing, made no concessions. Since then, signs of growing encroachment by China's government in Hong Kong's affairs have failed to revive the fervour that, at least initially, gave the umbrella protests their impetus before they eventually fizzled out. The pro-democracy camp has become ever more divided between those who simply want full democracy and people described as "localists"—some of whom want outright independence.

**Prisoners with principles**

Many of the trio's supporters regard the new sentences as vindictive, aimed at punishing the three men for their views, not just their actions. They call them "political prisoners", and accuse the court of having bowed to the government's will. There is no proof of that, but the accusation itself is a sign of worrying change in Hong Kong. China's attempts to lean on Hong Kong's judiciary have been undermining confidence. In 2014 China said Hong Kong's

judges should be "patriotic" (a term understood by Chinese officials to mean loyal to the party). Last year China's rubber-stamp parliament issued a ruling aimed at affecting the outcome of a court case under way in Hong Kong about whether two pro-democracy legislators had taken their oaths properly. The pair were stripped of their seats. In July four others were too, including Mr Law, one of those who have just been sent to jail.

The "political prisoner" label may well stick. It was used in an open letter written by 23 international political figures demanding the trio's release. Among the signatories was Malcolm Rifkind, who was Britain's foreign secretary in the build-up to Hong Kong's handover. Unusually, however, the liberal-leaning Hong Kong Bar Association issued a joint statement with the more pro-establishment Law Society in defence of the appeal court's ruling. Martin Lee, a lawyer and veteran campaigner for democracy, says he can see no evidence of political bias in the court's judgment, even though he disagrees with it.

But as Mr Lee says, perceptions matter. Carrie Lam took office in July as Hong Kong's leader pledging to heal political wounds. The jailings will make that more difficult. The courts are processing dozens more cases involving protesters. The hope of reconciliation between the government and its critics was small even before the tougher sentences were imposed.

One battleground will be by-elections that must eventually be held for the seats left vacant by the six legislators who were expelled. Localists are likely to join the fray, says Ivan Choy of the Chinese University of Hong Kong. Sympathy for them may prompt rival democrats not to stand against them. The court ruling may have been intended to silence rebellious young people. Instead, it could goad them. ■

## Censorship

## Publish and be damned

BEIJING

The government is tightening controls on academic publishing

WESTERN institutions working in China and the Chinese government have profoundly different attitudes. Usually, the two rub along, more or less. But sometimes the gap yawns too wide. This is what happened in the case of Cambridge University Press (CUP) versus the censors.

CUP is the world's oldest publishing house. It prints *China Quarterly*, a respected academic journal. On August 18th the press said that it was removing from its Chinese website over 300 articles, including ones about the Cultural Revolution and the Tiananmen Square protests of 1989. It did not consult the journal's board beforehand but took the action at the behest of its importer in China, a local distributor which foreign publishers must have. Tim Pringle, the quarterly's editor, said the articles had anyway been made inaccessible in China by the state's online censorship tools, and that CUP was acting to protect the rest of the journal's output.

A law passed in February requires foreign providers of digital scholarly databases to censor their contents in China. But CUP has not been arraigned under this or any other law. An article in *Global Times*, a nationalist newspaper in Beijing, implied the issue was not just a legal one. "China is powerful now," it said, "and able to protect its interests."

CUP's decision to kowtow set off a storm of academic protest. An online petition launched by an American academic at

Peking University gathered hundreds of signatures. A former member of *China Quarterly*'s board, Andrew Nathan of Columbia University, said the journal should find another publisher. Under fire from all sides, CUP reversed its position. It said it would repost the offending articles, in effect daring China's authorities to censor its whole output.

This is not the only recent case. Censors have demanded the removal of about 100 articles in the *Journal of Asian Studies*, also published by CUP. The Communist Party used to allow scholars a modest latitude in their fields of research, permitting, for example, access to foreign academic publica-

tions that would be banned from general circulation. But in March the customs authorities tightened rules on importing books. Chinese academics complain that risk-averse librarians will not now order even innocuous scholarly works for fear of offending the customs service. Between 2013 and 2016, an average of 15 weekly issues of *The Economist* were distributed in China each year without censorship (which usually involves the ripping out of articles by a state-owned distributor). So far this year, just one issue has passed the censors unscathed.

The big question is whether this is a blip or a permanent change. Every five years, the party holds a big congress. Censors always go into overdrive before these events—the next one is due by the end of the year. On the other hand, the crackdown on universities for teaching Western values and on human-rights lawyers began long before the threats against CUP. Xi Jinping, China's president, seems less willing than his predecessors to let Chinese and Western values quietly coexist. ■

## Music

## Their sound has gone out

BEIJING

Handel falls victim to a crackdown on performances of religious music

THE words of the chorus die away: "Quan Zhongguo de ernu yongyuan-xiang taiping" (China's children will always wish for peace). The members of the orchestra pack up their instruments—cello and *dizi* (Chinese flute), *yangqin* (dulcimer) and double bass, *suona* (reed horn) and *xiaobo* (cymbals). Beijing's International Festival Chorus (IFC), a 60-strong group of Chinese and expatriate amateurs, finishes its final performance, a recording of a cantata by Xian Xinghai, who studied in Paris in the 1920s and was one of the first Chinese composers to be influenced by European classical music. The chorus has now disbanded. Xi Jinping, the president, has scored one more small, Pyrrhic victory over Western cultural influence.

Western choral music never had a mass following in China. But in Yunnan province in the south-west, choirs from an ethnic group called the Miao (also known as the Hmong) still sing Handel's oratorio "Messiah", which was taught to them generations ago by missionaries. In the years before the Olympic games in Beijing in 2008, the IFC used to sell out a large concert hall next to the Forbidden City with performances of the same work. The government noted this in its efforts to persuade Olympic officials that China was becoming cosmopolitan.

But, like "Messiah", much Western

choral music is of Christian origin. In 2008, with the Olympics over, the government in effect banned public performances of religious music. As is the way of things in China, there was no law or overt prohibition. But choirs found it harder to sell tickets or get licences for venues. With fewer performances, audiences dwindled, too. In Beijing the IFC soldiered on, giving "private" performances each Christmas. But its "Messiah" of December 2016 was its last.

The Communist Party used to be more tolerant. Jiang Zemin, then the party's leader, is supposed to have played a recording of Mozart's "Requiem" on hearing of the death of Deng Xiaoping in 1997. Mao Zedong gave Xian Xinghai, the composer, a pen to show his approval. But Mr Xi has a narrower view of what is acceptable. Last year he said the party must "resolutely guard against overseas infiltration via religious means". Local authorities appear to have taken this as a signal to step up the assault on Bach and Verdi.

Defenders of Mr Xi argue that China can choose whatever it wants from the outside. And if it rejects religious music, that does not mean ignoring other Western forms. But religious works are the foundation of the Western choral tradition. By walling itself off, China will inflict a high cost on its music lovers.





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 **BOEING**

# Banyan | The art of propaganda

In China's war on graft, television is a double-edged sword



**A** PRIME-TIME window opened this year onto sleaze, sex, graft and murder in Chinese politics. The imaginary universe of “In the Name of the People”, a 52-part television series, is bleak. A police chief orders the assassination of his enemies. One official stashes wads of ill-gotten cash in his fridge. A mayor, tipped off that he is in trouble, escapes to America using a fake passport, only to fall prey there to an ethnic-Chinese mafia. As sleuths follow the trail, it leads them to a senior leader in Beijing.

For viewers, the series has been like a taste of forbidden fruit. It was the first to focus on corruption in the Communist Party in a decade. And sometimes such fruit comes in bunches: two other shows about corruption are due to be broadcast this autumn.

Going by past form, viewers will lap up the programmes. Instead of the diet that usually dominates China's airwaves—imperial costume dramas and patriotic pabulum about the second world war—these shows offer a peek at contemporary politics: rapacious officials, factional scheming and abuses of power. On television, “In the Name of the People” set ratings records. Online, it has continued to do so. As of late August each episode had been watched, on average, 174m times.

Unquestionably, these shows are meant as propaganda. In 2015 the party's anti-graft agency noted a gap in President Xi Jinping's efforts to clean up the government and army (and crush his rivals). How could the public appreciate this heroic struggle without works of art, especially televisual ones, depicting it? Officials wanted what they called “anti-corruption shows” in which clean, upstanding officials always prevail over bad ones.

Yet creating good propaganda is fraught with danger. Chinese viewers are canny and have plenty of other options for entertainment, legal and illegal, if government-sanctioned television bores them. So the only way to get their attention, and to make the whole enterprise believable, is to throw in plenty of realistic grit. That can muddle the message. Audiences are drawn to the bad stuff. Online, many just skip the bits that are meant to be morally edifying. Some viewers conclude that the Communist Party is irredeemably corrupt, not that it is bravely fighting graft.

Anti-corruption propaganda has gone through various cycles. It was not until the 1990s that Communist officials allowed the publication of novels focusing on the venality of officials. The

reason they did so was plain: corruption was becoming so rampant that it could not be ignored. The party hoped such works would show that good forces in the party were determined to curb corruption. Television producers started turning these books into shows, which became immensely popular. The spread of egregious corruption was partly the product of a sea-change in China. The drive to build a capitalist economy gave officials unprecedented opportunities to line their pockets. Market economics affected propaganda, too, as television stations wanted commercial success. In the early 2000s, to boost ratings, they let their dramas about corruption become edgier.

Thinking that these were doing more harm than good, the party imposed a prime-time ban on them in 2004. This was a death knell for the genre: producers knew they would not be able to recoup their investments. Television shows, mostly historical dramas, continued to touch on corruption-related topics from time to time. But for a decade no shows set in present-day China were dedicated to the theme.

Since coming to power in 2012, however, Mr Xi's onslaught has resulted in the jailing of several of the most senior figures ever to be convicted of graft under Communist rule. Official accounts of their wrongdoing have been staggering: rooms piled high with banknotes, luxury villas galore and family members, as well as mistresses, living the life of Riley. So in 2015 the propagandists decided to lift the ban again. They had a fine line to walk. They had to avoid the extremes of the anti-corruption shows of the early 2000s. But with so much information already public, they could hardly pretend that just a handful of officials were bent.

The propagandists are thus on an erratic path. They are fast developing slick techniques for making their works more convincing. “In the Name of the People” breaks new ground. The series portrays a chain of corruption reaching right up to a fictitious deputy leader of the country (only costume dramas are allowed to implicate the emperor). Yet the party already seems to be regretting its success. It is blocking comments online about “In the Name of the People”, and making sure it is not promoted on the front pages of websites that host it. Tellingly, censors have delayed release of one of the other anti-corruption shows.

## The art of the impossible

Sitting in his modest home in the eastern city of Nanjing, the scriptwriter of the series, Zhou Meisen, explains how he managed to get his story approved: it was entirely based on real events, reported in state media. “Corrupt officials do things that are far beyond the imaginative powers of writers,” he chuckles. Sometimes writers also manage to do things that are beyond the imagination of censors. Mr Zhou is one such author—he flashes anger at the notion that he might be a party stooge. Even though censors carefully vetted his script, many fans of his work say his crooked protagonists are far more convincing than the good ones.

Can the art of anti-corruption propaganda ever be perfected? A comparison is telling. Propaganda of a more conventional kind, with nationalist themes, has started hitting the mark. Take “Wolf Warrior 2”, a blockbuster in which a Chinese commando kills American mercenaries in Africa. It has generated such patriotic fervour that audiences have broken into the national anthem. Over the top, yes. But the film is grounded in what many Chinese people believe to be true: that their country is catching up with America. The problem with propaganda about the party's clean-up of corruption is that, ultimately, few really believe it. ■




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**Steve Bannon**

## Gone but not forgotten

WASHINGTON, DC

**Donald Trump has shed his populist chief strategist—but will not abandon his ideas**

**T**WO days after he ceased to be President Donald Trump's chief strategist, Steve Bannon explained why he had welcomed *The Economist* to his house on Capitol Hill for a chat. "You're the enemy," he said, adding disdainfully: "You support a radical idea, free trade. I mean it, that's a radical idea." As he returns to his former job, running *Breitbart News*, a bomb-throwing right-wing website, Mr Bannon wants to make clear that he still loves a scrap. "In the White House I had influence," he says several times during a long discussion. "At Breitbart, I had power."

Among the particular opponents he has in his sights, said Mr Bannon, seated in a dining-room decorated with Christian iconography and political mementos, are congressional Republicans ("Mitch McConnell, I'm going to light him up"), China ("Let's go screw up One Belt One Road") and "the elites in Silicon Valley and Wall Street—they're a bunch of globalists who have forgotten their fellow Americans." Despite his departure—voluntarily, he insists, though his resignation is reported to have been demanded of him—Mr Bannon says he will never attack his former boss. Yet *Breitbart* will caution Mr Trump to stick to the populist nationalist course Mr Bannon charted. "We will never turn on him. But we are never going to let

him take a decision that hurts him." The website offered an early taste of this in its disparaging coverage of Mr Trump's "flip-flop" decision to send more American troops to Afghanistan, which was announced on August 21st and Mr Bannon strongly opposes (see page 22).

It is a measure of the awe Mr Bannon inspires in America's media that such fighting talk has largely been taken at face value. Yet he is plainly diminished. In the early months of Mr Trump's presidency, he had equal footing with the chief of staff, Reince Priebus, who was ousted last month, and launched some of the administration's most audacious endeavours, including one to deny visas to many foreign Muslims. Yet his populist agenda (dominated by a trifecta of ambitions, to reduce immigration, recreate jobs in manufacturing, especially through trade policy, and withdraw American troops from foreign wars) has since faltered.

Mr Trump, as his announcement on Afghanistan illustrates, has turned to other advisers. They include his businessman son-in-law, Jared Kushner, and his national-security adviser, H.R. McMaster, with whom Mr Bannon battled. As Mr Bannon returns to America's 244th-most-popular website, these mainstream figures are in the ascendant. Yet his hold over the media

is understandable. Because Mr Bannon's influence on America has been immense.

Though not well-known when he was hired to run Mr Trump's campaign last August, he had already shaped the celebrity-tycoon's politics. As an attention-seeking *New Yorker* and host of "The Apprentice", a reality-television show, Mr Trump had national name recognition and some liberal views, including on gun control and immigration. Particularly for the Republican he sometimes claimed to be, he also had a large following among non-whites. According to a bestselling book on the Trump-Bannon partnership by Joshua Green, a journalist, *Breitbart* and its boss were instrumental in convincing Mr Trump to relaunch himself as a right-wing populist nationalist, contemptuous of the politically correct establishment.

As Mr Trump's campaign chief (his third in two months, the campaign having been roiled by scandals) Mr Bannon urged him to redouble that effort. "The American people understood his foibles and understood his character flaws and they didn't care," he says. "The country was thirsting for change and [Barack] Obama didn't give them enough. I said, we are going for a nationalist message, we are going to go barbarian, and we will win."

Nothing delights Mr Trump like vindication, so it was natural that he would reward Mr Bannon with a plum job in his administration. His main task was to ensure the president kept his campaign pledges, which Mr Bannon scrawled on whiteboards in his West Wing office. Persuading Mr Trump, against the advice of other courtiers, to jettison the Trans-Pacific Partnership agreement and the Paris climate accord were two of his successes. ▶▶

▶ For Mr Bannon, who went from a working-class Virginian family to careers in Wall Street and Hollywood, those agreements epitomised the folly of globalisation, which he considers disastrous for American workers and avoidable. He hardened this critique after returning to America from a spell in Hong Kong; China, whose gaming of WTO rules Mr Bannon considers tantamount to an “economic war” against America, remains at the heart of it. A zealous Catholic who believes in the inevitability of civilisational conflict, he considers China’s growth to be an additional, overarching threat to America, which it must therefore dial back. “I want the world to look back in 100 years and say, their mercantilist, Confucian system lost. The Judeo-Christian liberal West won.”

Mr Trump shares Mr Bannon’s disdain for trade deals, his zero-sum view of the world and his contempt for rivals. He has few fixed positions otherwise. The president has derided and championed immigration, which Mr Bannon considers an adjunct of globalisation; he has supported and scorned military intervention, which Mr Bannon thinks a ruinous elite dalliance. This contrast, between the ideological Mr Bannon and the malleable president, gave rise to a caricature of Mr Bannon as a malevolent Svengali. Yet Mr Trump’s devotion to him was always contingent on Mr Bannon’s ability to deliver wins.

### A wayward pupil

The president has, if not fixed intellectual differences with Mr Bannon, different predilections, including his slavish regard for the military and business elites now stocking his cabinet, whom his former adviser derides. (“What did the elites do?” asks Mr Bannon. “These are the guys who gave us happy talk on Iraq, who let China into the WTO and said it would sign up to the rules-based order.”) When some of Mr Bannon’s early schemes failed—including the shabbily planned travel ban, now snarled up in the courts—Mr Trump turned increasingly to his more conventional advisers, including Mr Kushner and Mr McMaster. On trade and security in particular, they have edged him towards the mainstream. Whereas Mr Bannon urged the president to withdraw from NAFTA and Afghanistan, for example, he has launched a modest-looking review of the former and will send more troops to the latter. Increasingly isolated, Mr Bannon’s departure from the White House was predicted.

Yet he will have a lasting influence on the administration, for three reasons. First, it retains several kindred populists, who will pursue the agenda he laid out, including Stephen Miller, a policy adviser, and, on immigration, Jeff Sessions, the attorney-general. Another, sometimes, is the president. Despite some signs of moderation, Mr Trump still hates trade agree-

ments, as he reminded his followers in a speech in Phoenix, Arizona, on August 22nd. He said he would “probably” withdraw from NAFTA “at some point”.

Mr Bannon’s influence will also endure in Mr Trump’s conviction, which he encouraged, that the president is answerable only to his supporters. This was darkly illustrated by Mr Trump’s equivocating response to the recent white supremacist violence in Charlottesville, which Trump voters appear untroubled by and Mr Bannon defends in the same cynically partisan fashion as he shrugs off concerns over the racist undertones of some of Breitbart’s coverage. “I think he handled Charlottesville well,” he insists. “The Democrats are irrelevant on this.” Both men, similarly, are wont to blame the rancour their divisive politics causes on the media—a tactic Mr Trump also deployed in Phoenix, where he accused “crooked” journalists of “giving a platform” to the white supremacists he was so reluctant to condemn.

The third way Mr Bannon will remain relevant is, as he says, through his foghorn role at Breitbart. Admittedly, the website might not be able to keep Trump supporters at the same pitch of fury it managed when corraling conservatives against Mr Obama. It is easier to oppose an embattled president than to defend one. But with Republican congressmen emerging as Mr Trump’s most important opponents, and mid-term elections due next year, Breitbart will in particular try to intimidate Mr Trump’s Republican critics—and thereby remind the president who his friends are. “I am an ideologue, that’s why I am out,” says Mr Bannon. “I can rally the base, have his back. The harder he pushes, the more we will be there for him.” ■

### Collisions at sea

## Accident-prone

### Is America’s navy in the Western Pacific doing too much with too little?

**T**O MISQUOTE Oscar Wilde, for one of your ships to be involved in a collision may be regarded as a misfortune, but for three to meet the same fate in four months looks like carelessness—or worse. On August 23rd Vice-Admiral Joseph Aucoin, the commander of the Yokosuka-based Seventh Fleet, from which two of the three vessels involved in the accidents came, was formally relieved of duty. Two days earlier the chief of naval operations, Admiral John Richardson, had taken the highly unusual step of ordering the whole navy to take an “operational pause” for a couple of days so his sailors might reacquaint them-



In peril on the sea

selves with the basics of good seamanship.

The collision on August 21st between the guided-missile destroyer *USS John S. McCain* (pictured) and a heavier oil tanker near Singapore was the final straw for Admiral Richardson. Ten sailors are missing in the latest accident (bodies have been found in flooded areas of the vessel) and five were injured.

It comes after seven sailors drowned when water rushed into their sleeping quarters on the *USS Fitzgerald*, another guided-missile destroyer, which struck a Philippine-registered container ship 64 miles south-west of Yokosuka on June 17th. After a navy report into the accident, which concluded that “the bridge team lost situational awareness”, the *Fitzgerald*’s two most senior officers and a chief petty officer were removed from shipborne duty. An accident involving the *USS Lake Champlain*, a guided-missile cruiser in the Sea of Japan on May 9th, was less serious: the South Korean fishing boat it hit did little damage to the warship, and nobody on either vessel was hurt.

The loss for several months of two “forward-deployed” destroyers armed with the Aegis ballistic-missile defence system from the seas near North Korea could hardly have come at a worse time. Tensions are running high as a result of Kim Jong Un’s aggressive missile-testing programme. In the event of a missile attack on either Japan or the American base at Guam, interceptors fired from patrolling ships would be one of the first lines of defence.

Critics argue that the 277-ship naval fleet is already overstretched, particularly in the Western Pacific, where naval competition with an increasingly capable China ▶▶

requires a high tempo of operations. The *John S. McCain* was on its way to Singapore after a “freedom of navigation” mission during which it had sailed through international waters near a reef where China has created an artificial island. The Chinese media have been cock-a-hoop over pictures of American warships limping into port with apparently self-inflicted damage.

The spate of accidents has raised questions about whether they are in some way linked to a common cause. Inevitably, there has been speculation that hacking of the ships’ computers or navigation systems by the Chinese or North Koreans might be responsible. The navy says it has seen nothing that suggests this might have

happened.

It is far more likely that unrelenting operational demands on forward-deployed vessels and several years of Pentagon spending distorted by budget caps and sequestration have taken their toll. A report by the Government Accountability Office in 2015 found that the navy was working on the basis that its Japan-based cruisers and destroyers would spend 67% of their time deployed and 33% in maintenance. That meant there would be no time left for training. Without training drills to remind sailors of the “basic seamanship” referred to by Admiral Richardson, it would not be surprising if some bad habits and sloppiness have crept in. ■

### Coastal erosion in Louisiana

## Mississippi blues

BATON ROUGE AND ISLE DE JEAN CHARLES

**Republican politicians are much better at responding to environmental disasters than trying to prevent them**

WHEN Roosevelt Falgout was a boy, the brackish water that now laps within a few feet of his three-room cabin at Isle de Jean Charles was miles off. “There were only trees all around, far as you could see,” recalls the 81-year-old former oyster fisherman, at home on the Isle, a sliver of land in the vast marsh that covers much of southern Louisiana. He and his village’s other men and boys, who are members of the French-speaking Biloxi-Chitimacha-Choctaw tribe, used to hunt and trap muskrat and mink in those oak and hackberry forests.

But salty water, seeping northward from the Gulf of Mexico, killed the trees off long ago; just a few blackened stumps remain, protruding from the open water that now surrounds the Isle. With even a modest storm liable to flood the island and the narrow causeway that connects it to higher ground, the village has become almost uninhabitable. Mr Falgout’s 81-year-old wife, Rita, says she lies awake at night worrying that her husband, who has cancer among other ailments, will have a medical emergency during a flood. “It’s become too frightening here,” she says of her ancestral home, sitting amid a clutter of family photographs, Native American beadwork and Catholic saints. The Isle’s 60 residents are due to be resettled further inland, in a \$48m programme approved by the state government last year, and Mrs Falgout says she cannot wait to go.

The briny intrusion that has put paid to the Choctaw village is devastating southern Louisiana. Between 1932 and 2010 the state lost more than 1,800 square miles (470,000 hectares) of land to the sea, repre-

senting about 80% of America’s coastal erosion over the period. Recent losses have been especially severe because of an increase in big storms raging in from the Gulf of Mexico—such as Hurricane Katrina, in 2005, which led to the inundation of New Orleans and 1,836 deaths. Between 2004 and 2008 alone, Louisiana shrank by more than 300 square miles.

This is one of America’s biggest environmental crises. Louisiana contains some of the world’s most extensive wetlands, home to a fifth of North America’s waterfowl. It is an economic and human disaster,

too. The threatened coastal area is home to 2m people and a hub of the oil-and-gas industry. It is also the main export point for liquefied natural gas (LNG), the form in which American shale gas is shipped abroad. Southern Louisiana contains five of America’s 12 busiest ports and billions of dollars of oil-and-gas infrastructure, including 16 petroleum refineries and thousands of miles of pipeline. In Cameron Parish, one of the state’s nine coastal districts, all of which are being eroded by the sea, \$30bn-worth of new or repurposed LNG infrastructure is under construction. According to a new report by RAND Corporation, a think-tank, infrastructure in the state worth up to \$136bn could be threatened by land loss and increased storm damage, a related threat.

Such numbers focus attention. The effort to shore up Louisiana against the hungry sea, which is run by a state body, the Coastal Protection and Restoration Authority of Louisiana (CPRA), but combines many federal, state and local efforts, costs around a billion dollars a year. In one of America’s most Republican states, it is also bipartisan, well-managed and impeccably science-based.

Over the past decade the CPRA has restored 36,000 acres of marshland and dredged up 60 miles of artificial islands, to provide a buffer for the coastline. The agency’s latest five-year action plan, approved in April, includes 124 planned or active projects, designed to restore or protect an additional 800 square miles of land over the next half-century, at a cost of \$50bn. American taxpayers will cover most of that; BP, an oil firm, will provide \$15bn, as compensation for the Deepwater Horizon oil spill in 2010. The plan was approved without a whisper of dissent from the legislature, ▶▶



Hanging on to the Isle

▶ even though parts of it read like a publication of the Intergovernmental Panel on Climate Change, on whose sea-level-rise projections it is indeed based. With its “long-term view, consideration of climate change, and integration of natural systems and community resilience”, the CPRA claims its report “leads the nation in ecosystem-restoration thinking.”

Many scientists would agree. “No other state has a science-based, environmental restoration and protection project of this rigour,” says Justin Ehrenwerth, a former member of Barack Obama’s administration, who now runs the Water Institute of the Gulf, a research outfit in Baton Rouge dedicated to mitigating coastal erosion. Many Republicans also agree. “I can’t choose the best investment without using the best available science,” says Garret Graves, a former head of the CPRA, who now represents Louisiana’s sixth district in the House of Representatives. “I’ve heard people in this building say sea-level rise isn’t happening,” he says, seated in his office on Capitol Hill. “I can tell you it is, because I’ve measured it.” Such bipartisan consensus, rare in America on any issue, is especially striking on one fundamentally linked to global warming, which many Republicans profess not to believe in. This makes Louisiana’s coastal trials, even beyond their environmental and economic significance, an important indicator of how American policymakers will respond to the worsening effects of climate change.

### Flowing out, flowing in

To understand what is causing the inundation, consider how the land was made. Most of southern Louisiana, as well as parts of seven other states, including Arkansas, Mississippi and Missouri, form the Mississippi deltaic plain, a fertile region created over the past 8,000 years by the Mississippi bursting its banks, slowing, and then depositing sediments over the surrounding area. The vastness of the plain—Louisiana’s coastline alone is 400 miles long—reflects the Mississippi’s huge reach and sediment load; the river, which drains 41% of the contiguous United States, is estimated to transport around 400m tonnes of sediment a year. It also reflects how dynamic the Mississippi is. As it meandered through its delta, the river, for most of those millennia, constantly changed its course through siltation and erosion. Every 1,000 years or so, it abandoned its main channel for one of its distributaries. A time series of the Mississippi’s course looks like a sinuous Celtic knot, with a swathe of interwoven curves, flowing to the sea.

Widespread flooding is not compatible with modern living, however. The first levees of the Mississippi were thrown up around New Orleans in the 18th century. After flooding in 1927 displaced over



600,000 people, Congress ordered almost every untamed reach of the river to be straitjacketed by earthworks. Over 1,500 miles of levees were constructed, confining the Mississippi from its source in Minnesota almost to its mouth. This has had some beneficial effects. It has made the river’s course more predictable for shipping and accelerated its flow, mitigating the effects of siltation. But it has starved the delta region of the sediment deposits to which it owes its existence.

This alone would be sufficient to cause massive erosion. But two other man-made factors have meanwhile boosted the corrosive power of the sea—the yin to the Mississippi’s yang.

Since natural gas was first observed bubbling from a rice paddy in coastal Louisiana in 1901, thousands of oil wells have been sunk into the wetlands. To reach them, almost as many canals have been dredged from the Gulf by energy companies. These channels have injected seams of saline water deep into the marshes, killing plants which tolerate only fresh or brackish water, such as the marsh and woodland species that once surrounded Isle de Jean Charles. This has in turn reduced the amount of organic matter the marshes produce, which acts as a counterweight to another reductive process, the constant settling and compacting of the organic platform that raises the marshland above the water table.

At Pointe-Aux-Chenes, another Native American village a couple of miles inland from the Isle, this transformation is vividly apparent. The small bayou, or waterway, running beside the village has turned salty and almost laps at the road alongside it. The live oaks that gave the village its name (“chêne” means “oak” in French) are giving way to marsh reeds and other estuarine species. As your correspondent surveyed the waterway, a pair of bottlenose dolphins—apex predators in estuarine conditions—arched gracefully from the water.

Starved of silt, and with less new organic matter to counteract its settling, coastal Louisiana is sinking back into its former watery state. Meanwhile, because of melting polar ice caps and thermal expansion, the sea level is rising. In the past decade the

observed relative sea-level rise in coastal Louisiana—a figure that combines the effects of rising seas and subsiding land—was over a centimetre a year, or around four times the global average. The delta’s system of land creation has thus been thrown into reverse. In 1930, despite much engineering of the Mississippi’s channel, Louisiana was expanding by almost a square mile a year. Since then, an area the size of Delaware has been lost to the Gulf.

Much of the CPRA’s work involves dredging up sediment where it is abundant, including under the sea, and piping it to areas of threatened marshland. Behind an artificial beach in Cameron Parish, Brett Dupuis, a project manager for Weeks Marine, a dredging company, is working on a \$31m project to restore 740 acres (300 hectares) of submerged marsh, which was inundated by the sea during Hurricane Rita in 2005. For three months his dredging platform, two miles offshore, has been sucking up dirt from the sea bed and piping it ashore. The result, where open water used to be, is a bed of grey ooze up to ten feet deep, with a slurpy fountain of gunk where the dredging pipe empties into it. “Good thick stuff,” nods Mr Dupuis approvingly, as laughing gulls and brown pelicans wheel and chatter overhead.

### Welcoming back the water

It is heartening to observe a habitat formed over centuries being recreated in a few weeks. It also illustrates how Canute-like this approach is. Thousands of square miles of Louisiana are in the process of disappearing; they cannot be replaced by diesel-powered engines an acre at a time. Or, as Mel Landry of the National Oceanic and Atmospheric Administration puts it, while inspecting Mr Dupuis’s progress: “We’ve got more work to do than we could ever pay for.”

Even assuming the CPRA gets the \$50bn it is angling for, it predicts another 1,450 square miles of Louisiana will be lost over the next 50 years. That also assumes the agency is permitted to carry out a more ambitious and controversial sort of marsh-regeneration project, by carving floodgates into the Mississippi’s levees and, at times when the river’s sediment load is high, ▶▶



▶ opening them to inundate the silt-starved plain. The most advanced such scheme, known as the Mid-Barataria Sediment Diversion, would create a channel from the Mississippi, south of New Orleans, capable of funnelling 75,000 cubic feet (2.1m litres) of silty water per second into badly eroded Plaquemines Parish. In full flow, the channel would carry water equivalent to the seventh-largest river in America. The scheme would cost \$1bn and is currently being appraised by the US Army Corps of Engineers, which oversees the management of the Mississippi's levees.

To preserve southern Louisiana in something close to its current shape, many such diversions might be required. Experts enthusiastically say they could reconnect the river to the delta; others doubt they would work as intended because, as a result of dams and dredging upstream, about half the Mississippi's sediment no longer reaches its lower course. The boosters are probably right: a big distributary of the Mississippi, the Atchafalaya, which siphons off about a third of the river's water and more of its sediment load in central Louisiana, has had its basin leveed, but not its banks, and it is making land. Yet resistance to the mooted diversions is fierce.

Such schemes were first discussed in the 1990s, when the scale of the land loss began to be recognised by policymakers. They have since been blocked by a couple of well-organised groups, led by the state's powerful oyster farmers, who have crept further inland with the estuarine conditions in which oysters thrive, and do not want to see their stocks wiped out by a gush of muddy water.

The Corps of Engineers, a slow-moving bureaucracy that distrusts green infrastructure and is reluctant to build floodgates in its levees, presents a different challenge. It says it will take five years merely to review the feasibility of the Mid-Barataria scheme. At the current rate of loss—about a football-field of land every hour—Louisiana will change a lot while the agency deliberates. “The Corps is incapable of responding with the necessary urgency to the coastal erosion crisis in Louisiana,” says Congressman Graves. “The main reason for the erosion is levee-building. It amazes me that the Corps has no sense of guilt about their responsibility. They have an obligation to fix what they broke.”

The damaging effect of the levees was predicted. Weighing the benefits of engineering the Mississippi in 1897, a former president of the American Society of Civil Engineers, E.L. Corthell, noted the need to take into account “withholding by the levees...of the annual contributions of sedimentary matters” and, because of this, “subsidence of the Gulf delta lands below the level of the sea and their gradual abandonment.” But while he warned that “the present generation should not be selfish,”

Mr Corthell assumed the economic benefits of protecting the flood zone would “be so remarkable that people of the whole United States can well afford, when the time comes, to build a protective levee against the Gulf waters.”

That illustrates two related weaknesses in much environmental policymaking: an assumption that future politicians will take a longer-term view than current ones, and an excessive willingness to discount the future costs of solving environmental problems caused today. President Donald Trump, though eager to splurge \$20bn on an unnecessary border wall, appears not to have given thought to the seawall Mr Corthell envisaged. In any event, it is doubtful such a scheme would be affordable or otherwise practical, considering the effects of rising sea levels and fiercer storms, both consequences of global warming, which the Republican president either does not believe in or care about.

### In a dither

Some of the hoped-for diversions, at least, will probably be built. The political consensus in Louisiana for such action is apparent at every level of government. “We’re all pulling together on this,” says Ryan Bourriaque, the administrator of Cameron Parish. “It’s a great example of how industry, conservationists and different government agencies can all marry.” Mr Graves, who recently became chairman of a House subcommittee that oversees the Corps of Engineers, will also chivy it relentlessly. Yet anyone looking to Louisiana for hope that America will develop a more rational climate policy is liable to be frustrated. The state's impressive coastal policy illustrates America's ability to adapt to a natural disaster that is already upon it. It does not seem to have nudged

the state, or the Republican Party, any closer to policies that might slow the warming that is contributing to that disaster.

Louisiana's former governor, Bobby Jindal, was a strong supporter of the CPRA. While preparing to run for the Republican presidential ticket in 2016, he nonetheless described climate change as a “Trojan Horse” for a left-wing power grab: “It’s an excuse for some who never liked free-market economies and never liked rapid economic growth.” Mr Graves, remarkably, given how averse he seems to talking nonsense on scientific matters, says he shares that view. He also, despite his reliance on the IPCC's sea-rise projections, says he does not accept the scientific body's consensus that most of the observed recent warming is caused by human activities.

To plan hugely expensive government action on the basis of the latest climate projections, but at the same time to claim the science underpinning them is too weak to justify curbing greenhouse-gas emissions, as most climate scientists recommend, is at best inconsistent. Perhaps it truly reflects Mr Graves's thinking. It also seems possible that he wants to keep onside the energy companies which provide around 40,000 jobs in Louisiana and donate generously to his political campaigns. Those firms are responsible, directly and indirectly—through their canal-dredging and because of the greenhouse-gas emissions they facilitate—for a lot of Louisiana's coastal erosion. Yet Mr Graves, moral scourge of the bureaucratic Corps, is also opposed to several on-going legal campaigns to make the companies pay compensation for the damage they have caused.

It is hard to make sense of this, except perhaps by recourse to Mr Corthell. The present generation should not be selfish. But it always is. ■



The way things were

# Lexington | Beto-testing a new politics

A Texas Democrat tries to find the good in Trump-era disruption



**M**CLENNAN County in Texas witnessed two unusual events on August 21st. The first was a solar eclipse, the second a Democrat running for the Senate—though the county, in sun-baked central Texas, went for Donald Trump by 27 points over Hillary Clinton. Texas may be increasingly diverse (it is 40% Hispanic) but has not elected a Democratic senator in 30 years.

The Democrat was Representative Beto O'Rourke—a rangy, earnest former punk-rock musician, software entrepreneur and congressman for the border town of El Paso. He delivered his message to a crowd at the Texas Ranger Hall of Fame and Museum in Waco. Lots of Democrats see an opportunity in Mr Trump. With each day such partisans are sure that this president will disgust more decent Americans and disappoint the bigots and chumps who still admire him. Angry resistance to such a brute, they feel, must bring victory. Mr O'Rourke, a floppy-haired 44-year-old who reminds fans of Robert Kennedy, sees a different opportunity. His campaign amounts to a bet that when voters chose an outsider-strongman as president, they showed a desire to take risks to end Washington gridlock—and are not too fussed about ideological questions like the size of government.

A conventional Democrat running for the Senate in Texas would lambast the Republican up for re-election in 2018: Ted Cruz, a divisive, God-and-guns, government-bashing conservative and former presidential challenger. Instead, Mr O'Rourke barely mentions Mr Cruz. He merely contrasts his own record of holding monthly town-hall meetings in El Paso (meeting voters instils a “healthy fear” when casting votes in DC, he says) with Mr Cruz's relative inaccessibility.

Both loved and loathed, Mr Cruz enjoys near universal name recognition in Texas and has access to colossal funding. Mr O'Rourke, in his third term representing a border city in a far corner of the state, has forsworn money from political action committees, secretive outfits which can accept unlimited donations. His hope lies in individual donations from around the country. He often mentions the viral online success of a two-day road trip he made in March with a Republican congressman from Texas, Will Hurd, after a snowstorm grounded flights to Washington. The genial pair (Mr Hurd is an ex-CIA agent unafraid to criticise Mr Trump) drew national attention with their livestreamed jour-

ney, as they munched bad food and debated politics.

An O'Rourke campaign stop features many stories of Republican- and Democratic-voting Texans he has met on a long tour of the state in a pickup truck (Waco was Day 24). He frequently concludes that “the only way to get meaningful things done” is to work across party lines. Though he disagrees with Mr Trump over such issues as immigration, the environment and criminal-justice reform, when he sees common ground—for instance, their shared scepticism about open-ended foreign wars—he says so. He stresses apprenticeships, job-training and health policies that both parties can support.

El Paso is home to a large army base and 54,000 ex-servicemen, and the Democrat has made veterans' affairs a focus of his work. In Waco, and the next day in Killeen, near a giant army base at Fort Hood, Mr O'Rourke described a bill he is co-sponsoring with a Republican from Colorado, Mike Coffman, allowing troubled veterans with a less-than-honourable discharge access to mental health services at veterans' hospitals. Mr Coffman pointed out a mistake in the bill he had drafted, Mr O'Rourke related. Because their bill is bipartisan it passed the House veterans' affairs committee unanimously, giving it better odds of becoming law. “Let's have a round of applause for bipartisanship,” he cried.

In veterans' affairs, Mr O'Rourke has stumbled on an interesting speciality. Americans reveal much about their real beliefs whenever they demand (as almost all do) more generous, federally funded health care and benefits for ex-servicemen, one of the few groups to bask in nearly unanimous public approval. If conservatives truly believed that “I'm from the government, and I'm here to help” are the most terrifying words in the English language, to quote the old Reagan joke, they would not want to inflict the cruelty of federal help on the ex-soldiers they revere. In truth, lots of Republicans like safety-nets for the deserving (as Mr Trump understands, when he says he will not cut Social Security and Medicare for the old). What many Americans hate is redistribution to folk they see as feckless.

With his anecdotes about suicide prevention for veterans, or about Republican-voting Christians in rural cafés who worry about public-school funding, Mr O'Rourke is—in effect—exploring ways for Democrats to be the party that helps reasonable Republicans make government effective.

## Weaning a big state off petty partisanship

This is not a bet on centrism. Mr O'Rourke is a pro-immigrant progressive who supports legal abortions, for instance. Instead, he talks of finding common ground with abortion opponents by working on reducing unwanted pregnancies. His is a hunch that the divides between political tribes can be bridged if voters' aspirations are being met. That will be hard. The first question he faced in Waco was about impeaching Mr Trump, drawing cheers from the overwhelmingly Democratic crowd. A campaign stop at an American Legion post in Killeen drew Jerry Stewart, a retired meat-cutter, Vietnam veteran and Republican. Mr Stewart felt no kinship with bushy-bearded old soldiers there who asked about legalising medical marijuana (as Mr O'Rourke advocates). “To me it turned into a drug discussion,” growled Mr Stewart. “I'm strongly against marijuana, I saw in Vietnam how it messed guys up.”

Mr O'Rourke is likely to lose next year. Still, his experiment deserves to be taken seriously. His campaign aims to make politics more like public service than war. If he makes any headway, national leaders should take note. ■



El Salvador

# Traducing the truce

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Bello is away

Officials who implemented a peace agreement between gangs and the government are on trial. The proceedings reverberate far beyond the courtroom

FEW issues bedevil El Salvador more than how to deal with criminal gangs. One group called Mara Salvatrucha and two factions of another, Barrio 18, have carved up much of the country into zones over which they rule and from which they extract profit—mainly by extorting money from businesses and residents. Clashes between them, and with the police, help make El Salvador one of the world’s most violent countries.

A truce between the government and the gangs in March 2012, endorsed by the Catholic church and the Organisation of American States, reduced the killing dramatically (see chart). But it was unpopular, especially among prosperous Salvadorans. Extortion continued. Citizens were revolted by reports of imprisoned gang members enjoying fried-chicken feasts and the services of strippers.

Noting that the government would “not negotiate with criminals”, Salvador Sánchez Cerén, who took office as the country’s president in June 2014, introduced a *mano dura* (iron-fist) policy towards the gangs. He ended the armistice, put the army on the streets and clamped down on prisons. The death toll jumped.

Now 18 people who helped implement the truce have been placed on trial in a special “organised-crime court”, which hears not just cases against criminals and murderers but also those likely to cause “alarm or social commotion”. The evidence about collusion between gangsters and politicians, including the most ardent advocates of *mano dura*, has, if anything, only in-

creased public commotion.

The charges against the defendants, mostly prison officials and policemen, include “illicit association” with gangsters and introducing forbidden items such as mobile phones into prisons.

The most sensational moments of the trial came on August 7th-11th, when “Nalo”, a brawny shaven-headed gangster, took the stand. In 2012-14 he had acted as the envoy of the jailed leaders of Barrio 18’s “revolutionary” faction in talks with the government of then-President Mauricio Funes. Nalo described just how grubby the truce was. The defendants transferred gangsters to lower-security jails and gave them perks like flat-screen televisions in exchange for reducing the number of people gangsters would kill. Under the deal, Nalo said, jailed criminals got a mobile phone, smuggled in a box of fried chicken, for ev-

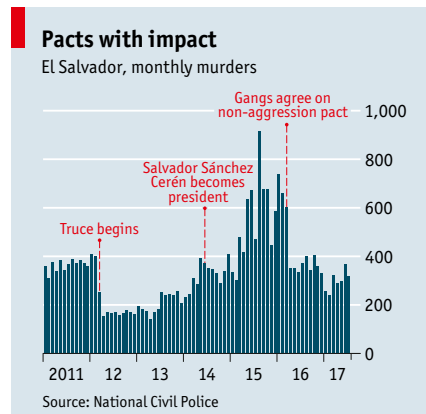
ery gun the gang turned in (a surrender of weapons is pictured above).

Nalo alleged that one defendant, Raúl Mijango, a former guerrilla commander who helped negotiate the truce, encouraged the gangs to increase temporarily the pace of killing when the deal seemed to be breaking down and gangsters were losing privileges. Mr Mijango also haggled on behalf of the three gangs with the owners of a rice mill over an extortion payment, Nalo claimed. Mr Mijango vigorously denies that he endorsed any increase in killing, and says he convinced the gangs to give the mill a discount.

On his penultimate day of testimony Nalo opened fire on politicians, who are not in the dock. During the presidential campaign in 2014 gang members met politicians from both the main parties—Mr Sánchez’s left-wing FMLN and Arena, the right-wing opposition party. Some were fierce critics of the truce. The politicians “asked for votes”, offering cash in return, Nalo claimed. The FMLN paid \$250,000 and Arena gave \$100,000, which the gangs spent on M-16s and AK-47s. Mr Sánchez won by just 6,634 votes.

Nalo’s allegations are unsubstantiated. Mr Funes, who decamped to Nicaragua last year after he learned he was being investigated for corruption, tweeted that the “absurd accusation” is “based above all on what a plea-bargain delinquent says”. Norman Quijano, the defeated Arena candidate, simply said he knew nothing of meetings between his party and gangsters.

But there is other evidence of dodgy ►►



dealings. Last year *El Faro*, a Salvadorean news website, published a video of a meeting in 2014 in which two senior politicians from Arena, which campaigned against the truce, promised gang members a new armistice if Mr Quijano won the election.

An audio recording also captures the interior minister offering the leaders of the three gangs an “agreement with you guys” to help the FMLN win. Arena supporters said that armed gangsters snatched their identity cards to stop them from voting. Such tactics could conceivably have changed the result of a close election.

Many Salvadoreans, accustomed to accounts of malfeasance by their leaders, are more despairing than outraged. What hope they have for accountability comes from Douglas Meléndez, the crusading attorney-general who pushed for the trial. He is seen as El Salvador’s only effective upholder of the rule of law.

He has thrilled the country by pursuing corruption cases against ex-presidents from both parties, including Mr Funes and Antonio Saca, who is in jail awaiting trial. Mr Meléndez has strong backing from the United States, which is paying for programmes to improve security. But few of his cases have moved beyond evidence-gathering. To some critics, his plea-bargain deals with gangsters like Nalo look like the dubious dealmaking that he has put on trial. Many wonder whether the inquisition will move beyond the underlings in court to the politicians that Nalo fingered.

The hearings have turned, in effect, into a trial of the truce itself. Any future deal to end the violence will be harder to negotiate. A proposal to provide money for gangsters who want a way out, which is part of the US-backed security plan, has been stalled in the legislature for seven years. NGOs have stopped helping gang members to get jobs for fear of being jailed for working with “terrorists”.

For now, co-operation between criminals and politicians has given way to all-out conflict. In 2016 Salvadorean security forces killed 591 gang members in “confrontations”; eight police officers and two soldiers died in those clashes. The government has blocked calls between jailed gangsters and confederates on the outside. Overall, the death toll has fallen thanks to these *mano dura* measures, the government boasts. Billboards brag that the number of murders has dropped by more than half. Gangsters, too, have a self-serving explanation. As the bodies of young men killed by police piled up, leaders of the three gangs agreed in March last year that their members should stop killing each other. “We’re not friends,” said a Barrio 18 spokesman in a video, but gangs are united in trying “to stop the violence that’s assaulting our country”. Salvadoreans have as little faith in that truce as they did in the one brokered by politicians. ■

Peru

## News they can use

LIMA

**A president with European roots gives indigenous languages a boost**

THE son of European refugees, Peru’s president, Pedro Pablo Kuczynski, is fluent in Spanish, English, German and French. He does not speak any of the country’s 47 indigenous languages. Yet his government is doing more to encourage the use of those tongues than did those of his predecessors, some of whom have indigenous roots.

In December *TV Perú*, the state-run television network, began broadcasting the first national daily news programme in Quechua. In April this year it started one in Aymara. On August 10th the government launched its “policy for native languages”, part of its preparations for the 200th anniversary of independence in 2021. It would require government agencies to offer services in those languages in areas where they are dominant.

Some 4m of Peru’s 31m people speak one of the country’s native languages as their mother tongue. Three-quarters of those speak Quechua, the idiom of the Inca. Governments, both before and after independence, have marginalised the languages and discriminated against people who speak them. Many live in the least accessible parts of Peru, mountain and jungle districts where poverty rates are often double the national average and Spanish is



All of us are newshounds

barely spoken. The constitution gives native languages official status “where they predominate”, but the state has largely ignored that article. Only in the last administration, led by Ollanta Humala, who has Quechua roots, did the government start to enforce laws mandating bilingual schools.

Mr Kuczynski, who has been president since July 2016, wants to go further as part of his push for social and economic “inclusion”. “The government is getting down to business,” says Clodomiro Landeo, the co-host of the Quechua newscast, “Ñuqanchik”, which means “all of us”.

He and his fellow indigenous-language newsreaders hope to help erase the stigma that still comes with speaking non-European languages. Rita Choquecahua, who co-hosts the Aymara newscast, “Jiwasa-naka” (which means the same thing as *Ñuqanchik*), was discouraged from speaking the language as a girl “because it would keep us back”. The owner of a coffee shop where she was filming a promotional video asked her to leave: the customers found her traditional skirt and hat off-putting.

Marisol Mena, Mr Landeo’s co-host, says people look askance if she speaks Quechua in a shopping centre or a bank queue. “People treat you like you have to be poor. It does not matter if you are a professional,” she says. Her family was among the many that fled violence in the Andean highlands for Lima and other cities in the 1980s and 1990s. The exodus deepened prejudices. Spanish-speaking city-dwellers associated the migrants with the *Shining Path*, a Maoist guerrilla group, even though it wanted to stamp out native languages. Of the 70,000 people killed in the fight between the insurgents and the government, three-quarters did not speak Spanish as their first language.

The difficulties of producing news programmes in native languages expose other problems for people who speak them. Reporters have trouble finding officials they can interview in those languages, even from agencies that work mainly in indigenous areas. Under the government’s new policy, such agencies will hire more native-language speakers.

*TV Perú* is pleasantly surprised at the success of its Quechua and Aymara venture. Over the past year its market share in news has jumped from a negligible 0.5% to nearly 5%, largely because of the native-language broadcasts. Companies are queuing up to advertise on the half-hour newscasts, which air early in the morning. *TV Perú* broadcast a simultaneous translation into Quechua of Mr Kuczynski’s state-of-the-union speech in July, another first.

The network plans to start programming next year in two Amazonian languages, Shipibo-Konibo and Ashaninka. The change has come late but now cannot be stopped, says Mr Landeo. “There is a kind of pride that was not there before.” ■

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Red tape in Nigeria

# Of mandarins and men

ABUJA

Nigeria's regulatory racket means businesses stay small and in the shadows

MANY Nigerians may see building a hotel as an easy way to launder money. For legitimate entrepreneurs, however, running a hotel is far from cheap or simple. In Abuja, the capital, it is rather like erecting a sign that says: "Tax me". In fact, erecting such a sign would result in city and local taxes of about 80,000 naira (\$221) a year.

One Abuja hotelier recorded no fewer than 20 bills for various annual fees, taxes and licences. They range from a 5m-naira charge from the city council for having a car park, to demands from two different agencies for putting a logo on a company car. The hotelier has also been issued with bills for four different types of property tax and a bicycle/cart licence, despite having neither a bicycle nor a cart. Although he is challenging some of the notices in court, it is often safer to pay up and avoid facing the policemen that bureaucrats send to enforce payment on the spot. "It's a racket ... like in the mafia movies," he says.

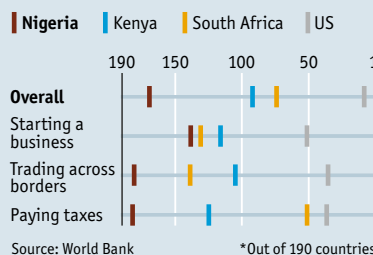
Trying to play by the rules can be a laborious, opaque process. Companies that want to renew product licences with Nigeria's food and drug agency, NAFDAC, have to run the same laboratory tests as they did when they first registered their products, says Affiong Williams, the founder of ReelFruit, a snack company. She was forced to employ an external consultant after a staff member spent one day a week over

the course of two months trying to renew the licences (which has to be done every two years). The company was also fined \$150 by NAFDAC for not collecting product-registration certificates, but only after it spent almost a year trying to do so and being told they were not ready.

It is possible for the well-connected to pay bribes rather than taxes, says the Abuja hotelier. But those who do risk being presented with a backlog of bills if an election puts a new set of officials in charge. Even those who try to pay the taxman have to beware. Until the introduction of a single bank account for the federal government in 2012, taxpayers could not be sure that they were not simply fattening the personal accounts of mandarins.

### Even taxes are taxing

"Ease of doing business", 2017, rank\* by category  
1=best for business



There are a number of reasons for Nigeria's impenetrable thicket of red tape. The first is the low price of oil, which once accounted for as much as 90% of government revenues. When less money is being doled out to state and local administrations, bureaucrats invent new charges.

The main reason, however, is Nigeria's political system. The "patronage economy" encourages legislators to create ever more government agencies which they can use to provide jobs to pals, says Cheta Nwanze of SBM Intelligence, a research firm. Many simply duplicate work that other agencies are already doing. One local newspaper found that the national parliament was in the process of creating 25 new federal agencies. Among them was a National Council for Research and Development, a National Research and Innovation Foundation, a National Research and Innovation Council and Federal Entrepreneurship Centres across the country. As if that were not enough, it is also creating a Chartered Institute for Entrepreneurs. Many will no doubt start issuing licences and permits to any firm in sight.

Ms Williams knows only too well what happens when firms grow large enough to be noticed. As hers expanded, it was told to register its products with the Standards Organisation of Nigeria, using a near-identical process to NAFDAC's. Knowing what to comply with (and how) is almost impossible, she says.

The result of all this regulation is that businesses stay small and, where possible, in the shadows. In 2013 the National Bureau of Statistics found that Nigeria has nearly 37m firms employing fewer than ten people (most of them unregistered sole traders). Just 4,670 employed 50-199 staff. No wonder: senior managers at big compa- ▶▶

panies have to spend around 18% of their time dealing with government demands, while bosses at the smallest firms devote just 7%, according to a survey in 2014 by the International Finance Corporation, the World Bank's private-sector investment arm.

Reformers are trying to snip away at the tangle. Yemi Osinbajo, the vice-president, issued a series of executive orders in May in an effort to move Nigeria up a few notches on the World Bank's ease of doing business index. It currently ranks 169th out of 190, putting it behind countries such as Iraq and Sudan.

Among his many edicts, Mr Osinbajo has ordered immigration officials to process visas for investors more quickly. He has also forced agencies to publish their regulations online and insisted that officials at ports and airports should be fired if caught asking for bribes.

Yet there is a gulf between promises in the corridors of power and what happens in the depths of the bureaucracy. It is, for instance, possible in theory to renew passports online. But in reality officials still drag their heels, taking months to issue them. In 2011 a report commissioned by the then-president, Goodluck Jonathan, recommended cutting the number of federal agencies from 263 to 161. Since then, however, the number has kept growing. ■

### Africa's orphanages

## Please sir, I want a home

MUHANGA

**Closing orphanages in Africa may be less heartless than it seems**

ARLENE BROWN is worried about her children. "I have 52," she says. The former nurse from Pennsylvania founded Urukundo Village, an orphanage, in the Rwandan hillside town of Muhanga in 2006. Half of the children live with her permanently. The rest are at boarding school or university. "I don't want any of my children taken away," says Ms Brown.

But they may be. More than half of Rwanda's orphanages have closed since 2012, when the government decided they were doing more harm than good. There are 14 left, says Hope and Homes for Children (HHC), a British charity that is helping the government. A decade ago there were some 400.

Orphanages have proliferated in Africa in recent decades in response to war, disease and natural disasters. In Uganda the number of children in them jumped from 2,900 in 1992 to 50,000 in 2013. But their number seems to have peaked. In Ghana nearly 100 were closed between 2010 and 2015. The Ethiopian government has shut



Thinkin' about tomorrow

dozens since 2011. Sudan and South Africa have asked HHC for advice. Several African countries have also banned or suspended adoptions by parents from abroad.

A case can be made against such institutions, particularly the bigger ones. More than a third of children in them suffer abuse, says HHC. Their proliferation has been helped by funding from well-meaning American evangelicals. Yet their existence has become self-perpetuating as they attract "orphanage tourists", invited in the hope that they will donate money.

That has created perverse incentives. Orphanages sometimes search for children to fill beds. A survey in Malawi found that 52% were actively recruiting children who would not otherwise have been considered orphans. Most African orphans have at least one parent. In Rwanda a third are in regular contact with relatives, suggesting that many could be cared for by their extended families. Indeed, before the orphanage boom, African children without living parents were usually cared for in this way. But the promise of a better life may encourage poor parents to give children up.

Yet there is also evidence that the arguments against putting children into bigger institutions may not all apply to the small, community-run orphanages common in many parts of Africa. Research by, among others, Kathryn Whetten of Duke University found that in east Africa (as well as Cambodia and India) children in such orphanages do as well as in family settings—sometimes better. Another study found that those in Kenyan orphanages are better off than if cared for by poor relatives.

The aim of closing orphanages may be commendable. But when done poorly, as has happened in some instances in Ethiopia, Tanzania and Kenya, the burden is shifted onto families who cannot cope—and more children end up on the streets. ■

### Grace Mugabe under pressure

## Amazing disgrace

**Zimbabwe's first lady is accused of assault, again**

GRACE MUGABE, the first lady of Zimbabwe and an accomplished shopper, is no stranger to controversy, at home or abroad. The most recent revolves around allegations that she flogged a young woman, Gabriella Engels, whom she found when she stormed into her sons' swanky apartment in Johannesburg. Photos released on social media after the incident showed Ms Engels with gashes on her head that required 14 stitches.

Charges were laid and the South African police asked Mrs Mugabe to come into a station to make a statement. But within days she had been whisked out of the country after being granted diplomatic immunity. Having to skip a country on a diplomatic passport once might be regarded as a misfortune. But to do so twice begins to look like careless disregard for the law. In 2009 Mrs Mugabe left Hong Kong under diplomatic immunity after she was accused of punching a news photographer who had dared to snap her in a high-end shopping district.

Back home, Mrs Mugabe also seems to have little regard for the law. Farmers have accused her of stealing their land. A Dubai-based businessman claimed she ordered police to seize his home in Harare in a row over a \$1.3m diamond ring. In May Human Rights Watch, a group based in New York, said that policemen acting on her behalf had forcibly removed 200 families from a citrus farm and had destroyed their homes. In Zimbabwe's subverted legal system, there is no chance of her facing justice.

The incident reflects badly on South Africa, too. Mrs Mugabe was in the country for medical treatment rather than as part of an official delegation, and thus was not entitled to immunity. Yet this is not the first time that the government of Jacob Zuma has let foreign pals go free.

Two years ago South Africa broke its own and international law when it failed to arrest Omar al-Bashir, Sudan's president, who is wanted by the International Criminal Court (ICC) on genocide charges. The government argued that diplomatic conventions allowing heads of state to attend conferences trumped its responsibility to the ICC; South Africa's courts subsequently disagreed.

Civil-society groups plan to challenge in court the granting of immunity to Mrs Mugabe. At stake, they say, is not just the fate of a woman who has acted with impunity, but the rule of law itself. ■

## Women's rights

## A summer of progress

CAIRO

Some parts of the Arab world are starting to treat women a bit more fairly

THE Koran devotes whole verses to inheritance, and Muslim scholars have spent centuries ruling on what they mean. Beji Caid Essebsi, the Tunisian president, is not happy with their conclusions. Under his country's law, derived from Islamic jurisprudence, a daughter receives half of what a son inherits. Mr Essebsi has asked parliament to equalise it. Not content with one controversy, he also wants to let Muslim women marry non-Muslim men—a forbidden act in every school of Islam.

His announcements drew a furious reaction from many clerics, not just in Tunisia but across the region. The proposals will probably face months, if not years, of debate. Still, even putting them on the agenda was another in a summer of victories for Arab women. On August 16th Lebanon abolished a law that let rapists dodge punishment if they married their victims. Jordan did the same this month, and closed a separate loophole that allowed lighter sentences for “honour killings”. Tunisia scrapped its “marry your rapist” law in July.

Similar laws are still on the books in half a dozen other Arab countries, from Algeria to Kuwait. They often have wide support. A survey released in May by the UN and Promundo, an advocacy group, found that even in relatively liberal Morocco 60% of men—and 48% of women—believe a rape victim should marry her attacker. But Morocco nonetheless did away with its

own law in 2014, after the suicide of a teenager who was forced into such a marriage.

Credit is due largely to the women's rights groups that have sprouted across the Arab world. In Lebanon, they put up posters of women in tattered gowns, with slogans like “a white dress doesn't cover up rape.” In Jordan, they hung wedding dresses from nooses. They have also helped steer more women into politics. Last year Jordan elected 20 women to its 130-member parliament, the highest number ever. (There is a minimum quota of 15.) Lebanon, though, has a paltry four.

Tunisia has long been a regional leader. Habib Bourguiba, the dictator from 1957 to 1987, tried to secularise the state by fiat. He banned the headscarf from public institutions, outlawed polygamy and gave women the right to divorce. Today women are about 27% of the workforce—much lower than in the West, but higher than in most other Arab countries. Many are well educated; they often work in fields such as law and medicine. Nearly one-third of Tunisia's legislature is female, a larger share than in Italy or Australia. The law overturning the rape loophole, which also criminalised sexual harassment in public, passed by a unanimous vote.

But Bourguiba also made some concessions to religion. He approved an inheritance law that comes directly from a Koranic verse: “for the male, the share of two females.” A former religious-affairs minis-

ter said that this language was unequivocal and could be “neither modified nor reinterpreted”. Al-Azhar University in Cairo, the Sunni world's most prestigious centre of learning, said Mr Essebsi's proposed changes would not be “fair and just” to women. Even some female MPs oppose his plan, particularly those from Ennahda, the moderate Islamist party that controls a third of the legislature. “It's a much harder step [than previous reforms],” says Wafa Ben Hassine, a Tunisian activist and former parliamentary aide.

Mr Essebsi has asked MPs to study the issue in a committee. Supporters say they should also debate broader changes to family law, which considers a man the head of the household—he is expected to use his larger share of the inheritance to provide for his kin. But an equal system that works in Tunis, the capital, may be unpopular in rural areas, where a family's wealth is often tied up in farmland that provides lifelong income. “We must allow people to choose the system they want,” says Ms Ben Hassine. “But as we are now, we're forcing this on everybody.” ■

## Israel and anti-Semitism

## Soft when it suits him

JERUSALEM

Binyamin Netanyahu chooses his battles carefully

ISRAEL has long seen itself as the protector of Jews everywhere and a bulwark against anti-Semitism globally. It has brought Nazis such as Adolf Eichmann to justice; it rescued Ethiopian Jews threatened by war and famine in the 1980s and 1990s. Just last week it denounced a notice in a Swiss hotel telling “Jewish guests” to shower before entering the swimming pool. So Israel's government could reasonably have been expected to condemn the protests in Charlottesville, Virginia, which featured neo-Nazis chanting “Jews will not replace us”, and to criticise the mealy-mouthed response by President Donald Trump, who has energised the white-supremacist movement in America.

Instead, the anti-Semitic rallies, which descended into violence, and Mr Trump's tepid early comments were met with silence by the government in Jerusalem. Only after Mr Trump's carefully scripted denunciation of “the KKK, neo-Nazis, white supremacists and other hate groups” did Binyamin Netanyahu, Israel's prime minister, issue a tweet saying, “Outraged by expressions of anti-Semitism, neo-Nazism and racism.” Mr Netanyahu made no reference to where these expressions were made, nor to who was making ▶▶



Protesting marriages made in hell

▶ them. He did not react to Mr Trump's later comments, which pinned blame for the violence on both the neo-Nazis and the people who turned out to oppose them.

Mr Netanyahu has said that Israel has no greater friend than Mr Trump, and is pleased that America is not pressing Israel to make concessions to the Palestinians. But his reluctance to speak out against anti-Semitism in America is about more than that. Mr Netanyahu and his supporters seem to believe that the people opposing the white supremacists are at least as dangerous to Israel as the neo-Nazis. Take Mr Netanyahu's son Yair, who condemned the neo-Nazis on Facebook, but added that the counter-protesters of Antifa and Black Lives Matter "hate my country (and America too in my view) just as much".

Most American Jews are liberal. More than 70% of them voted for Hillary Clinton in 2016, not least because of the anti-Semitic undertones of Mr Trump's campaign. But some prominent Jewish leaders have reached out to the president, whose son-in-law is Jewish and whose daughter converted to Judaism. After Charlottesville, many of them are despairing. Even Rabbi Marvin Hier, who recited a prayer at Mr Trump's inauguration, blasted him last week. Other rabbis said they will not join a conference call with the president ahead of Jewish holy days next month.

Such denunciations stand in stark contrast to Mr Netanyahu's reaction, and are indicative of a rift between the Israeli government and the Jewish diaspora. Mr Netanyahu and his Likud party have won three elections, in part by accusing the left of undermining Israel's security. This, along with the prime minister's co-operation with Orthodox Jewish parties, has alienated those American Jews who identify with the opposition in Israel. To some it looks as if Mr Netanyahu is more likely to



Just alt-friends

see anti-Semitism in those who oppose his policies.

Consider his treatment of Viktor Orban, Hungary's populist prime minister. Mr Orban's government has been accused of running an anti-Semitic poster campaign against George Soros, a Jewish-American financier with Hungarian roots who funds liberal causes, and organisations that are critical of Mr Orban. The Israeli ambassador to Hungary, Yosef Amrani, condemned the posters. A day later the Israeli foreign ministry retracted the criticism, saying that Mr Soros, a Holocaust survivor, "undermines Israel's democratically elected governments by funding organisations that defame the Jewish state." Mr Soros finances various Israeli and Palestinian organisations that support human rights. Some also call for a boycott and sanctions against Israel. Mr Orban, on the other hand, is one of Mr Netanyahu's closest allies in Europe. ■

### Egypt and the Palestinians

## A glimmer in Gaza

CAIRO

### The Islamists ruling the battered enclave are making a few friends

**T**IME was when Egypt balked at involvement in Gaza. In 2005, when Israel withdrew soldiers and settlers, Egypt fretted that it would become responsible for the territory, which it saw as a liability. More recently, the enclave's rule by Hamas, a Palestinian offshoot of Egypt's own Islamist bugbear, the Muslim Brotherhood, made engagement toxic. Egypt has even matched Israel's restrictions on the flow of goods and people across Gaza's frontiers, destroying smuggling tunnels and leaving the enclave under a gruelling siege.

It is strange, then, that Egypt is now riding to Gaza's rescue. It is revamping the border crossing at Rafah and easing the restrictions. Palestinian pilgrims bound for Mecca crossed into Egypt last week, along with a Hamas delegation. Fuel is flowing the other way and more electricity is promised. Stranger still is that Hamas is also working with the United Arab Emirates (UAE), which is vehemently anti-Islamist and, along with Egypt, regards the Brotherhood as a terrorist organisation.

The UAE, it seems, wants to increase its influence in Gaza, at the expense of Qatar, which has been isolated by several Arab countries, in part, over its backing of Islamists. Hamas said in May that it would end its association with the Brotherhood. It has also attended talks in Egypt with the UAE's favourite Palestinian, Muhammad Dahlan. As a former security chief in Palestine,



Mr Dahlan tormented Hamas, calling it "a bunch of murderers and thieves". After Hamas won an election in 2006, he tried to bring down the government in Gaza. Eventually Hamas chased him out in 2007. "In politics, nothing is permanent," explains a representative of the group in Cairo.

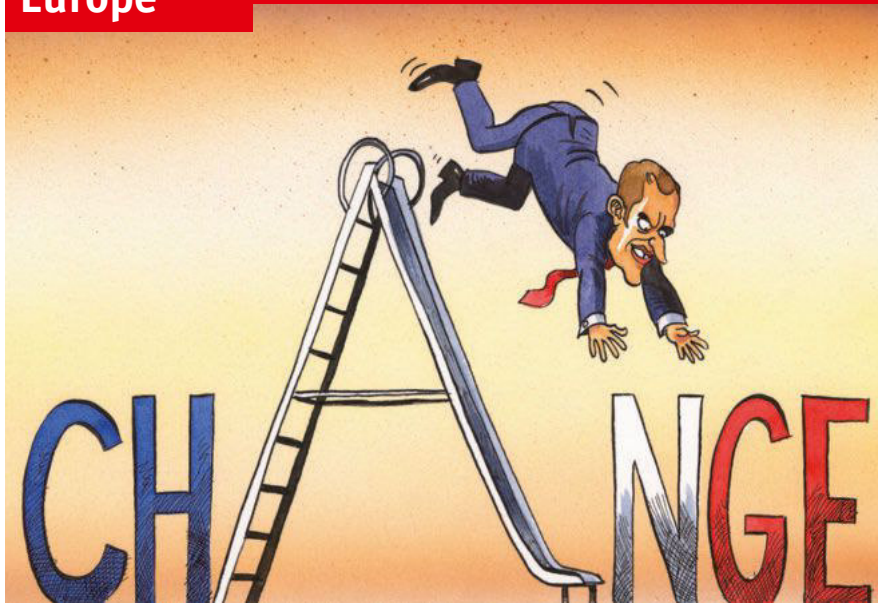
The talks, which resumed last week, have been surprisingly fruitful. The UAE has offered Hamas financial inducements worth \$15m a month, aid it sorely needs to ease the suffering in Gaza. Hamas, in turn, has said that Mr Dahlan's men can return, even though most are in no rush to swap plush pads in Abu Dhabi and Cairo for squalor in Gaza. Hamas is also taking on the jihadists in its midst and policing a cordon it created on its side of the border with Egypt. This should soothe Egypt's president, Abdel-Fattah al-Sisi, who is bedevilled by a jihadist insurgency on his side, in northern Sinai. Hamas became a victim itself on August 17th, when a jihadist blew himself up in Gaza, killing a border guard.

A report that America will withhold aid to Egypt over human-rights concerns did not stop Mr Sisi from meeting Jared Kushner, the son-in-law of President Donald Trump and one of his closest advisers, on August 23rd. The two discussed the peace process between Israel and the Palestinians. By playing a bigger role, Mr Sisi hopes to re-establish Egypt on the world stage. Israel, for its part, is happy for Egypt to work with Hamas in Gaza, as long as the enclave poses no threat.

But a broader peace is unlikely, not least because the Palestinians cannot get along. Mr Dahlan has alienated many in Fatah, his party, which rules the West Bank. Mahmoud Abbas, the party's leader and the Palestinian president, booted him out of the territory in 2011, fearing he might mount a coup. Mr Abbas, who feels increasingly isolated, is upset that Mr Dahlan and Hamas are consorting in Gaza. He has cut funding for the territory's electricity and salaries.

Egyptian officials fume that Mr Abbas has rebuffed their efforts to bring about a reconciliation between Fatah and Hamas. But they do not want to move ahead without him, lest they undermine the bedraggled Palestinian government. Gaza's siege might ease a bit, but a sweeping rehabilitation will probably have to wait. ■





France's ambitious president

## Macron stumbles

PARIS

**A reformist leader is losing popularity, in part because he is trying to shake up the status quo**

TWO months ago France's young leader could do no wrong. Emmanuel Macron defied all the rules to win the presidency at the age of 39. He secured a parliamentary majority for a party that did not exist 15 months before, and wowed the French with his muscular treatment of unsavoury foreign leaders. But summer has soured the mood. When ministers return to work next week after an uncommonly short break, they will find a president who has slid faster in the polls than any other under the Fifth Republic.

After his first 100 days in office Mr Macron's approval rating dropped to 36%, according to Ifop, a pollster (see chart). At a comparable point, François Hollande, his hapless Socialist predecessor, was ten points higher. Given that unemployment has begun to fall, the euro-zone economy is picking up and Mr Macron has yet to pass controversial legislation, this rapid fall from grace is perplexing. The best explanation rests on the nature of his victory, and three different sorts of discontent.

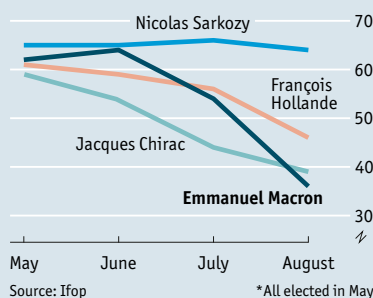
Under France's two-round system, Mr Macron was elected in a run-off with a resounding 66%. But some of this was less a vote for him than against his opponent, the far-right populist, Marine Le Pen. His solid base is his first-round score of 24%—lower than that of his two immediate predecessors, though higher than Jacques Chirac's in 1995 and 2002. These core voters are still firm *macronistes*: 76% approve. Mr Macron's ratings have tumbled among those

who never picked him as their first choice, particularly on the far left and far right.

The first source of their discontent concerns questionable political tactics. Mr Macron invited Donald Trump to attend the Bastille Day parade in Paris. This initially looked like a coup, putting France shoulder-to-shoulder with America. But voters struggle to see what the country has secured in return. The president then gave his former military chief, who had criticised defence cuts, a public dressing-down. This was intended as a show of authority, but public opinion sided with the general, who resigned. Another error was Mr Macron's effort to codify an official role for the French first lady. Polls, and an online petition, revealed this to be unpopular, and he made do with a "charter" instead.

### Taking the plunge

Satisfaction with French presidents in first 100 days of first term\*, % polled



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It might have helped if Mr Macron had explained himself. He doubtless judged that there are greater dangers in isolating America, and that the two countries may need each other—over Syria, for instance. But he has decided to pursue a "Jupiterian" presidency: he speaks little in public, entrusting the daily job of spin to his government. Where Mr Hollande gossiped to reporters, Mr Macron mostly refuses to talk to the press. This leaves images to speak for themselves. Some have been easy targets for ridicule, such as the president playing Tom Cruise in a fighter-pilot suit, or laughing at the Elysée Palace with Rihanna.

This sort of criticism is legitimate in politics, but a second type seems less serious. During a special parliamentary session, which ran into August—a time when much of Paris had left for the beach—some first-time deputies from Mr Macron's *La République en Marche* (LRM) proved accident-prone. Videos mocking blunders over legislative procedure swirled on social media. The opposition deplored their "incompetence" and "amateurism". Yet "every beginner has the right to make mistakes", says Gilles Le Gendre, vice-president of the LRM parliamentary group, pointing out that the newcomers attend far more assiduously. Spending on alcohol at the parliamentary bar is said to have plummeted.

The third form of dissatisfaction is different: Mr Macron is proving unpopular for doing the right thing. Some of his well-flagged plans involve uncomfortable changes or spending cuts. Unsurprisingly, those affected are not happy. Take his decision to finance a general reduction of payroll charges by increasing a broader charge, which touches pensions; 64% of those over 65 disapprove. His freeze on public-sector pay is, predictably, opposed by 80% of public-sector workers.

A former investment banker, Mr Macron has chosen budget cuts rather than ▶▶

▶ higher taxes as the means of sticking to the European Union's deficit rules in 2017. His underlying logic is to tax work and business less, in order to spur growth and job creation. But this is politically difficult, since some tax cuts—including to the “wealth” tax—are readily caricatured. Jean-Luc Mélenchon, the fiery far-left leader, calls the Macron government an “arrogant caste” with a “preference for the rich”.

The question is whether falling popularity will affect Mr Macron's capacity to govern. His ratings are still well above the disastrous single digits that hampered Mr Hollande. The president seems undeterred, according to those who have seen him this summer. Yet complacency would be a mistake. The point of what he is trying to do seems misunderstood. Public opinion has not given him credit, for example, for an anti-corruption law passed in August to clean up political life. A tough month lies ahead, after he unveils his labour reforms, with strikes planned on September 12th. The French voted for Mr Macron because they wanted change. They may need an eloquent reminder of what that change is all about. ■

### Alternative for Germany

## Fifty shades of blue

DRESDEN

### A loud, chaotic right-wing party heads for the Bundestag

**A**CHEER goes up as Jens Maier takes the podium at a packed sports club in Dresden. The Alternative for Germany (AfD) candidate for the Bundestag, Germany's parliament, rails against Angela Merkel's refugee policies: “Who has to live with these ‘new citizens’? Whose children have to go to school with their children? Who produces the wealth they feed off?” Germany, he concludes, needs MPs “imbued with a sense of responsibility towards their own people” who can “show up the incompetent establishment”.

At the federal election in 2013 the just-founded AfD narrowly missed the 5% vote share required to make it into the Bundestag. Since then it has ditched free-market Euroscepticism for anti-Islam nationalism as its guiding ideology. Though it has fallen back from highs of around 15% in polls following the refugee crisis, its strategy of polarisation and provocation has allowed it to reach popularity ratings of around 9% today. If that holds, the AfD would win more than 60 of the Bundestag's 600-odd seats at the election on September 24th.

Candidate lists suggest that members of such a Bundestag group will be “very loud and mostly from the right wing of the

party”, observes Melanie Amann, a journalist and expert on the party. It would probably be dominated by Alexander Gauland (pictured), the traditionalist whose vision of the AfD as a pure-protest outfit prevailed over more conciliatory alternatives at its annual conference in April.

The party's record in state parliaments is another indicator. It now has seats in 13 of Germany's 16 states. According to a study by the Otto Brenner Stiftung, a think-tank, AfD MPs are typically noisy and fractious, but legislatively active. In Saxony-Anhalt they are so volatile that the speaker has had a button installed enabling him to switch off their microphones. The AfD's legislators in Baden-Württemberg fell out and split into two rival parliamentary groups, an illustration of the furious battles over ideology and power that rage between different wings. The researchers found that the party's MPs submit motions at a relatively high rate, most often on matters like crime and migration.

Most mainstream members of the Bundestag will shun their new AfD colleagues. In some state parliaments some MPs even refuse to shake hands with the party's representatives. In March the Bundestag moved to pre-emptively block Wilhelm von Gottberg, a 77-year-old AfD candidate, from assuming the honorary title of “father of the house” by changing the definition of the term from “oldest member” to “longest-serving member”. Whether being spurned by the establishment will hinder or help the party is debatable.

Will the AfD change Germany once it is in the Bundestag? Fully 93% of Germans (and 64% of the party's voters) say they have not noticed its impact in state parliaments. Yet its presence may require the next federal government to build broader coalitions of mainstream legislators to pass contentious laws. And ministers



Agged but unmellowed

might word legislation on sensitive topics more loosely to avoid conflict, suggests Ms Amann. That Mrs Merkel's Christian Democrats (CDU) are now talking tough on security and decking out their campaign with the national flag is an early hint of the AfD's indirect influence.

It is not unthinkable that the AfD might one day enter government. (The equivalent of a CDU-AfD coalition may run Austria from October.) But to get to that point the AfD must reconcile its big internal differences, marginalise its provocateurs and find a balance between provocation and respectability. Joining the Bundestag may make those tasks harder, not easier. ■

### Eastern Europe comes home

## Wave of re-migration

PRAGUE

### Workers who went west are turning around

**W**HEN Richard Fetyko left his native Slovakia in 1992 for a high-school study-abroad programme, he planned to return at the end of the year. Instead he spent 22 years in America, earning university degrees and working in banking and on Wall Street. “I didn't really see myself able to apply my skills in Slovakia,” Mr Fetyko says. But as Slovakia's economy matured, that started to change. In 2014 he got an offer from an investment firm in Bratislava, and came home.

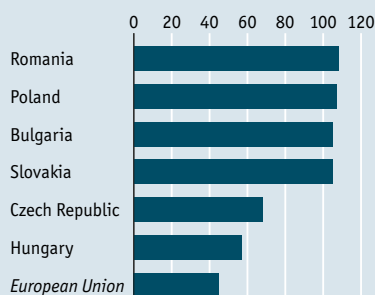
Mr Fetyko was part of a wave. From 1992 to 2015, so many people left eastern Europe that its population shrank by 18m, or about 6%, according to UN figures. The trend accelerated as the region's countries entered the European Union. It was a sour turn for the EU's new members: rather than making them as rich as western Europe, accession lured their workers to move there.

In the west, especially Britain and France, that led to fears of “Polish plumbers” undercutting local wages. On August 23rd Emmanuel Macron started a trip to three central and eastern European countries to discuss how to stem the flow. Yet there are signs that it may already be ending. Thriving economies, rising wages and low costs of living seem to be drawing more émigrés home. A report in July by Colliers, a real-estate firm, heralded a “labour-force boomerang” as professionals come back from the west.

The EU's lack of visa requirements makes internal migration hard to track, but some figures are suggestive. Since 2010, net emigration has fallen in nine of the 11 post-communist EU members. Net migration to Britain from the eastern countries that joined the EU in 2004, which was above ▶▶

### Go East, young worker

GDP per person at PPP\*, % increase, 2004-17†



Source: IMF

\*Purchasing-power parity †Forecast

▶ 30,000 in every year from 2010 to 2015, fell to 5,000 last year. That was partly because of Brexit, but partly a broader phenomenon of rising demand for labour in eastern Europe. “It’s not old people, it’s workers that are returning,” says Mark Robinson, the author of the *Colliers* report.

Jobs are easy to find: unemployment rates run from 5.3% in Romania down to a remarkable 2.9% in the Czech Republic. Fully 73% of Hungarian manufacturers say they cannot find the workers they need. That drives wages higher: salaries are up 5% in the Czech Republic compared with a year ago, and in Hungary by an extraordinary 15%, helped by a big hike in the minimum wage. Tax levels, compared with western Europe, are rock-bottom: the top income-tax rate is just 25% in Slovakia and 10% in Bulgaria.

Cheap housing is another lure. Per square metre, a flat in Prague costs about half as much as one in Dublin, and one-seventh as much as in London. The cost of living is so low that an analysis of net incomes in Europe by Deloitte, a consultant, listed the Czech Republic, Slovakia and Poland as three of the continent’s top five earners (alongside Switzerland and Malta).

But it is not just finances that bring expats home. In 2010 Milos Fusek left his hometown of Dubnica nad Vahom, in western Slovakia, for Ireland, where he worked in a warehouse and later in logistics and marketing. In 2015 he came home to run a window-manufacturing company with his father. For him, family was the decisive factor. Others find they can reach more senior positions in their home countries than in the west.

And there is another reason: a sense of patriotic optimism. Tomas Melisko, a Slovak who earned his law degree in Britain, gave up a banking job in Vienna in 2015 to work as a real-estate consultant in Bratislava. Besides being closer to friends and family, he feels that “by coming back I bring the skills I have accumulated, and give back to society”. Westerners worried that eastern Europeans will continue to flood westwards should keep in mind that many of them love their countries, too. ■

### Ukraine’s backlash

## Anti-anti-corruption measures

KIEV

### How to harass and stymie a reform movement

“A UTHORITIES confirm they’ve made progress in an investigation into the finances of anti-corruption activist Vitaliy Shabunin,” drones the anchor of an American television network, News24, in a clip recently shared across Ukrainian social media. There is only one problem: there is no News24, and the anchor is not a journalist but an actor hired through a freelance site, Fiverr.com. “I assumed the video was a prank his friends were playing on him,” says the actor, Michael-John Wolfe.

The “fake news” bulletin was an illustration of the increasingly hostile environment facing anti-corruption activists, journalists and reformist officials in Ukraine. “I cannot escape the feeling that we’re living through a counter-revolution,” writes Yaroslav Hrytsak, a historian at Ukrainian Catholic University. This is partly a backlash against reforms, particularly the new National Anti-Corruption Bureau (NABU). By allowing such measures, the political elite “opened Pandora’s box,” says Yaroslav Yurchyshyn, the executive director of Transparency International Ukraine.

Now they are trying to close it. This spring Ukraine’s parliament passed a law requiring NGOs and their employees to submit asset declarations, drawing stern rebukes from Western embassies. Ukrainian editors are concerned that security services are carrying out surveillance on journalists. (The president, Petro Poroshenko, denies it.) Anti-corruption activists increasingly find themselves derided as “agents of Putin” or *grantoedy* (“grant-eaters”). In April a mock funeral procession gathered outside the home of Olga Balytska, a reformist Kiev city-council member, carrying a coffin plastered with her photograph. “It’s one thing when people criticise you on Facebook, it’s another when they threaten death,” Ms Balytska says.

One key target is the Anti-Corruption Action Centre (AntAC), an NGO jointly led by Mr Shabunin (pictured). An MP has peddled false accusations that the group embezzled American government funds. Tax police opened an investigation into its finances. When protesters gathered outside Mr Shabunin’s home, investigative journalists revealed that an officer of the Security Service of Ukraine (SSU) oversaw them. (The SSU says he was there by chance.) In mid-August Mr Shabunin punched a video blogger, Vsevolod Filimonenko, whom he accuses of having harassed him and his colleagues for months

(Mr Filimonenko says he is simply a journalist who “asks tough questions”). Mr Shabunin now faces a potential three-year sentence; the severity of the response led many to see the case as politicised.

AntAC argues that the “systemic campaign” is meant to discredit NABU and its supporters. This spring the bureau made its first high-level arrests, bringing charges against Roman Nasirov, the former head of Ukraine’s fiscal service, and Mykola Martynenko, a powerful former lawmaker. “The deeper we probe, the more resistance we face,” says Artem Sytnyk, NABU’s director. The next big battle concerns Ukraine’s courts, which Mr Sytnyk accuses of “sabotaging” his bureau by convicting only low-level figures. Even a man who tried to bribe his way into a job at the Anti-Corruption Bureau avoided serving prison time, he notes contemptuously.

The reformers want a new independent anti-corruption court for the anti-corruption prosecutor, named in 2015. In the past the West helped push through such measures by attaching strict conditions to IMF loans and European Union aid. But Ukraine’s economy has stabilised and is less reliant on IMF loans, and the EU has granted Ukraine visa-free travel. “There are now fewer instruments to influence the Ukrainian leadership,” says Volodymyr Fesenko of Penta, a think-tank. And as the presidential election in 2019 approaches, reform will take a back seat to winning. ■



Making a fist of fighting corruption

## Terrorism in Barcelona

## Catalan questions

MADRID

## How long can Spain's unity last after the Barcelona attack?

IT HAS become a heartbreaking routine. This week Barcelona has seen the outpourings of solidarity and defiance in the aftermath of terrorism that have acquired a grim familiarity for Europeans. Like their peers in London, Paris and elsewhere, the jihadists who caused carnage on August 17th were attacking Europe's very way of life, one of freedom, tolerance, openness and hedonism. They slaughtered 15 people and injured some 130 from more than 30 countries, most of them on Barcelona's great boulevard, the Ramblas.

Many Spaniards had hoped to be spared. They suffered the murder of 192 people in the jihadist bombing of four commuter trains in Madrid in 2004. But of late Spain has played only a minor role in military operations in the Middle East and north Africa. Its security services are effective, honed by long experience against the Basque terrorists of ETA. The country's Muslim population is proportionately smaller than that of most of its neighbours, and has arrived more recently. Only around 190 Spanish residents have travelled to the Middle East to join Islamic State (IS), and only about 25 have returned.

## Reversing the reconquista

None of that has made Spain immune. IS has not forgotten Al-Andalus, the Muslim caliphate that ruled much of the country during the Middle Ages. Spain, and especially Catalonia, hosts many Salafists, devotees of an ultra-conservative brand of Sunni Islam; a minority of its adherents favour violent jihad. The authorities have recently adopted a proactive policy, jailing hundreds of terrorist suspects on lesser charges (such as extremist propaganda) before they could commit violence. A disproportionately large number of those arrests have been in Catalonia, which has become "the main site of jihadist activity" in Spain, according to Fernando Reinares of the Elcano Institute, a think-tank.

The attack on August 17th fits the recent pattern of jihadist terrorism in Europe. Its leader was Abdelbaki es Satty, a Moroccan immigrant radicalised while in jail for drug smuggling. In 2015 he turned up as the imam at a mosque in Ripoll, a Catalan town at the foot of the Pyrenees. Es Satty, who had contacts in both Belgium and France, secretly recruited a tight-knit group of young men who were not especially religious, including four sets of brothers.

Spain rightly prides itself on its toler-

ance towards immigrants. Most of the Ripoll group had arrived from Morocco as small children, and were apparently well-integrated. They spoke Catalan, had jobs and played in a local football team. None of that was enough to prevent them attacking their adopted country.

There is a second reason why the events of August 17th pose unusually sharp questions for Spain's political leaders. Catalonia's regional government is bent on organising an unconstitutional referendum on independence on October 1st. Should the "yes" side win, a unilateral declaration of independence will follow. The conservative government of Mariano Rajoy in Madrid is determined to stop the referendum.

Both Mr Rajoy and Carles Puigdemont, the pro-independence president of the Catalan government, have been careful not to politicise the attacks. (They have learned the lessons of 2004, when the conservative government wrongly blamed the bombings on ETA, helping the opposition Socialists to win the election three days later.) Mr Rajoy went to Barcelona, met Mr Puigdemont and called for unity. Mr Puigdemont reciprocated: "Our absolute and sole priority is to attend to the victims and pursue the criminals," he declared.

Yet the underlying political tension has surfaced in coded form. The Catalan police force, the Mossos d'Esquadra, responded effectively to the attack: of the 12 men involved, six were killed by police, four arrested and two, including es Satty, died when their improvised bomb factory blew up. (His original plan was apparently to bomb a Barcelona landmark, perhaps the Sagrada Familia basilica.) Standing beside

his police chief, Mr Puigdemont hailed their success as evidence that the Mossos should have a seat at international police agencies like Europol, implying they had been denied intelligence by Madrid.

The Mossos have recently gained a representative at the Spanish national office of Europol. But both Europol and Interpol recognise only a single national counterpart, notes a former police commander. The bigger problem is inter-force rivalry in Catalonia. Since 2010 the Mossos have had counter-terrorism responsibilities, which they share with Spain's national police and the Civil Guard, a paramilitary corps. Each counts several thousand officers experienced in tackling terrorism. The Mossos's current political bosses "do not allow them to interact normally" with the national forces, says Mr Reinares. Others in Madrid have criticised the Mossos for failing to detect es Satty's activities.

If Mr Puigdemont wanted a pretext to back down from his confrontation with Madrid, he now has one. But there is no sign he will take it. The political truce is unlikely to last beyond a march in Barcelona in tribute to the victims on August 26th. Will the attacks change public opinion towards independence? For its supporters, it is an emotional cause. In answer to those who see the referendum as a distraction—now more than ever—they will claim that Catalonia would be more secure alone.

The attacks have produced a wave of public sympathy towards Catalonia in the rest of Spain, after years of growing estrangement. An imaginative government might build on that to offer the Catalans more recognition of their unique status as a "cultural nation" within Spain, something Mr Rajoy has resisted. But the country also needs to think hard about what it offers its immigrants, especially as the second and third generations grow up. Unlike Britain or France, Spain has no ministers or political leaders and scarcely any national-team footballers of immigrant extraction. For Muslim and other immigrants to feel they belong, that will have to change. ■



Another candlelight march

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Household debt

# The no-longer-managings

STOKE-ON-TRENT AND ST ALBANS

For the first time since the financial crisis, more Britons are going bust

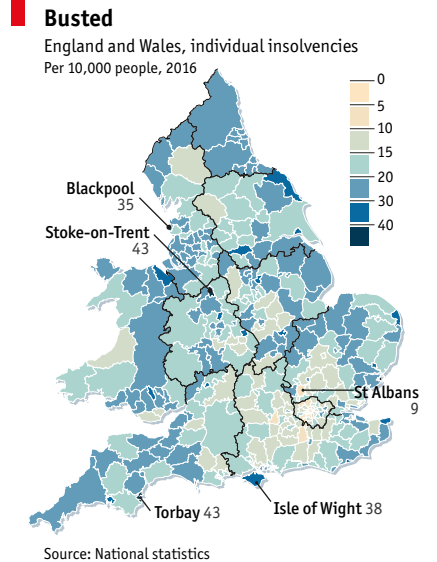
IN THE window of an electrical-goods shop in Stoke-on-Trent, in the English Midlands, is a television worth ten times the local weekly wage. Though most passers-by could not afford such goodies, the retailer offers a generous credit plan. “0% FREE CREDIT: £500 MIN SPEND” is painted in large letters on the window. In a shopping centre nearby, easy finance is available on everything from furniture to jewellery. Local wages have stagnated in recent years, yet consumer lending in Stoke galloped up by 10% in 2016.

Stoke’s taste for credit is typical of the country as a whole. In the year to June, overall consumer debt (such as borrowing on credit cards) grew by 10%. The stock of outstanding consumer debt recently passed the £200bn (\$260bn) mark for the first time since 2008. Finance to buy cars has been on a tear. In the past four years it has more than doubled, and now makes up over a quarter of the total.

Yet there is a worrying side to the credit splurge, and here Stoke is also at the forefront. In the past decade the city has seen a bigger rise in individual insolvencies than anywhere else. With Torbay, in the southwest, it vies to be Britain’s capital for going bust (see map). And what is seen in Stoke is increasingly seen elsewhere. In Britain last year the insolvency rate rose for the first time since 2009; in the first half of 2017 it was a tenth higher again. Theresa May promised in her first days as prime minis-

ter last summer to help those who were “just about managing”. The story since then is one of a growing number of people not managing at all.

On the eve of the financial crash of 2008-09, households were up to their necks in debt. On average they owed 150% of their income, with three-quarters of liabilities in the form of mortgages. Domestic banks eventually wrote off some £15bn of lending to British households (and lost much higher amounts on lending abroad).



As banks incurred losses, they curtailed lending to businesses. As people consumed less to pay down debt, demand drained from the economy.

Following the bust, households paid down much of what they owed. After falling to 130% of income, borrowing has more recently risen to 135%, with consumer lending leading the charge. At 20 per 10,000 people, the rate of insolvencies remains low compared with during the financial crisis, when it reached over 30. Yet in the past year it has in unglamorous parts of the country, such as the Isle of Wight and Blackpool.

As the electrical shop in Stoke suggests, some people are being tempted to borrow more than they can manage. And some lenders may be acting complacently. In 2012-17 the average advertised interest rate on a £10,000 personal loan fell from 8% to around 4%, even though the Bank of England barely reduced the base rate. On August 22nd shares in Provident, a door-to-door lender, fell by more than 60% after it issued a dire profit warning. The firm appears to have been poorly managed; its debt-collection rates have slumped.

Though some of the credit is being used to buy monster televisions, other people are turning to debt to make ends meet. According to Simon Harris of Stoke’s Citizens Advice bureau, increasingly the people seeking help have small debts run up by borrowing to pay everyday bills such as rent or council tax. At this time of year loan sharks step up their door-to-door rounds, knowing that with the school term approaching, parents need cash to buy their children clothes and books.

People’s growing reliance on credit is not surprising, given the recent squeeze on household accounts. Real household income has tumbled since the Brexit vote last summer, because of the inflation caused

▶ by sterling's depreciation. Even nominal household income has fallen, making it harder to service debt.

The people visiting Mr Harris may also have been affected by the big cuts to welfare which took place in 2010-16. In many areas it is harder to get help with council tax than it was. Locals complain about the so-called "bedroom tax", a cut in housing benefit for social tenants with a spare room. A second, harsher, round of benefit cuts began nationwide in April 2016.

The question is whether Stoke's experience augurs something more sinister. Before the financial crisis, poor areas were the canary in the coal mine for the nationwide problems to come. Insolvencies started to rise relatively quickly from the mid-2000s.

### Shop 'til you drop

Happily, some evidence suggests that this time will be different. Mortgage lending, by far the largest component of household debt, does not look too risky. Newish regulations encourage banks not to lend irresponsibly to homebuyers. Ultra-low interest rates mean that servicing a mortgage has never been cheaper. Thanks also to low unemployment, the share of mortgages in arrears is low.

Households' balance-sheets are also stronger than is often acknowledged. Official data suggest that, on aggregate, households could pay off their financial liabilities and still have financial assets (such as savings and shareholdings) worth four times disposable income, one of the healthiest figures in decades.

Furthermore, the bulk of the extra consumer borrowing in recent years has gone to well-off places. In St Albans, a satellite of the capital, shoppers peruse fancy establishments in the shadow of the city's cathedral. Outstanding unsecured debt in this neck of the woods has grown by fully 50% in three years, the fastest rate in the country. Yet St Albans is wealthy and has low unemployment. It has one of the country's lowest rates of insolvency.

Nonetheless, regulators are worried about pockets of the financial system. The Prudential Regulation Authority, part of the Bank of England, says that "the resilience of consumer-credit portfolios is reducing". Write-offs on credit cards have inched up. If defaults rose further, banks might curtail lending. With wages falling and the economy slowing, that is something Britain could do without.

For now, the most likely outcome is that areas of problem-debt emerge. That is in itself a cause for concern. Insolvencies hurt already-weak local economies, so the country's regional divides will widen. Resentment will grow; already there is a strong correlation between the local rate of insolvency and the propensity of residents to have voted for Brexit. Those who feel left behind are about to become more so. ■

### Brexit and the courts

## The long arm of European law

### Why Britain cannot entirely escape from the European Court of Justice

ONE of the thorniest issues for Brexit was always going to be dispute resolution. This became more obvious last October when Theresa May set out as one of her "red lines" the demand that Britain must no longer come under the jurisdiction of the European Court of Justice (ECJ). The difficulty this skates around is that the ECJ is the sole arbiter of European Union law. That means it can touch on any participant in Britain's biggest export destination, the EU's single market. Just ask big American firms like Google or Microsoft if they are ever affected by the ECJ's rulings.

It is not clear why Tory Brexiters should be so hostile to the court. Its role was not an issue during the referendum. It has been exceedingly helpful to British interests in its policing of the single market, which a predecessor of Mrs May's as prime minister, Margaret Thatcher, did so much to create. And a lot of the opprobrium over foreign judges actually concerns the entirely separate European Court of Human Rights, of which Britain will remain a member even after Brexit.

This week the government published two new papers that concern the court: one on civil-justice co-operation and the other on dispute resolution. Although ministers deny it, both marked a blurring of Mrs May's red line by talking repeatedly

only of escaping the "direct" jurisdiction of the ECJ. The clear implication is that some indirect role for the court is acceptable.

The tricky question is how this might work in practice. One possible answer from both papers is to follow the example of Iceland, Liechtenstein, Norway and Switzerland as members of the European Free Trade Association (EFTA). For civil and commercial cases, the government refers favourably to the Lugano convention, which governs judicial co-operation between the EU and EFTA countries. And for dispute resolution, it cites the EFTA court.

The EFTA court is indeed an interesting model. It plays an equivalent role to the ECJ for the three countries in the European Economic Area (EEA) that are in the EU's single market (Switzerland is in EFTA, but not the EEA). But unlike the ECJ, its rulings are advisory only: they do not have direct effect and the court cannot impose fines. Its president, Carl Baudenbacher, ironically a Swiss whose court therefore has no jurisdiction over his own country (he was nominated by Liechtenstein), says it is also more sympathetic to English legal traditions. It is not governed by the EU goal of "ever closer union". And it works in English, whereas the ECJ works in French.

The EFTA model has disadvantages, however. The biggest is that, based as it is right next to the ECJ in Luxembourg, it closely follows its bigger neighbour's jurisprudence. Its rulings may be advisory but in practice they must be accepted to preserve full access to the single market. Were Britain to seek to "dock" into the EFTA court, as Mr Baudenbacher suggests, it would get a British judge—but still be subject to rulings by foreigners. It might also have to join EFTA, raising questions over whether it could end the free movement of people from the EU. All of this may explain why the government is against using the EFTA court as an off-the-shelf answer.

Yet setting up a similar but wholly new court or arbitration tribunal may not be straightforward. As Catherine Barnard of Cambridge University, who is also in The UK in a Changing Europe, an academic network, points out, the ECJ has blocked plans for a specific EEA court, because it might impinge on its sole right to interpret EU law. But Charles Grant of the Centre for European Reform, a think-tank, believes other EU countries and the ECJ would accept British use of the EFTA court.

The bigger point is that the closer are Britain's links to the single market or to any of the EU's regulatory agencies after Brexit, the more it will have to observe EU rules. And British courts will go on referring to ECJ judgments even after Brexit, as justices of Britain's Supreme Court have made clear. Proud talk of ending the ECJ's jurisdiction altogether is no more than a figleaf for accepting that, in practice, it is bound to continue in some form. ■



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# Bagehot | Atlas and Albion

The combination of Brexit and Jeremy Corbyn could lead to an exodus of capital and talent



**I**N “ATLAS SHRUGGED”, published 60 years ago this October, Ayn Rand asked what would happen if society’s most talented businesspeople got so fed up with being taxed, regulated and otherwise messed about by government that they went on strike. Innovation would cease. The economy would stagnate. And government, starved of easy pickings, would become more bullying.

The world’s fifth-largest economy is in the early stages of its own experiment with driving Atlas crazy. Since the Thatcher revolution of the 1980s Britain has been one of the most open and business-friendly large economies. It is the biggest recipient of foreign direct investment in Europe. It ranks seventh in the World Bank’s index of ease of doing business. It has the world’s most liberal corporate-takeover rules.

Britain continues to benefit from this regime. Unemployment has hit a 42-year low, at 4.4%. Google is preparing to build a campus for 5,000 employees in London’s King’s Cross district. But the settlement is under assault from two directions. The Conservative Party is negotiating Britain’s departure from the European Union, disrupting long-established flows of trade, talent and capital. Meanwhile, the main opposition party is led by a hard-leftist who wants to consign Thatcherism to the dustbin of history.

Brexit is already beginning to damage Britain’s most globalised industry, finance. Most big investment banks have shifted some people and operations to the continent as a hedge. A trickle could become a flood when the City realises that the EU is unlikely to allow Britain to have its cake and eat it. Oliver Wyman, a consultancy, predicts that up to 75,000 finance jobs, or 7% of the total, will leave if Britain loses easy access to the single market. EY, another consultancy, puts the figure at 83,000. Demand for London houses costing over £2m (\$2.6m) is beginning to sag, while the market for such homes in Paris and Frankfurt sizzles.

The Brexit effect is extending to a range of other industries, from talent-intensive ones, where people can decide where to work, to capital-intensive ones, where companies are loth to make investments if they are uncertain about the future. The number of foreign graduates seeking jobs in Britain has fallen by 12% since the referendum, according to LinkedIn, a professional networking site. Investment in the car industry this year is on track to be less than half its level in 2016, and a quarter that in 2015.

Many Brexiteers regard temporary disruption as a price worth paying, for the reasons that Rand laid out in “Atlas Shrugged”. The EU is a giant bureaucracy that is more interested in regulating yesterday’s industries than inventing the future, they argue. Britain’s best chance of flourishing is to turn itself into a European Singapore and attract mobile industries.

An inspiring vision, perhaps, but it suffers from several problems. The first is that the EU is unlikely to allow a Singapore to form on its borders. Britain will face a choice between playing by European rules and getting access to European markets, or creating its own rules and being denied access to those markets. The second is that the cost of disruption could be very considerable indeed. Britain has a current-account deficit of around 3% of GDP. It also has an unusually large “gross” balance-sheet because it is a global hub for banks and holding-companies. This makes it sensitive to panics resulting from disruptions in the Brexit talks (such as one side walking out in a huff) or, worse, from Britain crashing out without a deal. The third and most important problem is the likely next prime minister. Where Singapore had Lee Kuan Yew, Britain will have Jeremy Bernard Corbyn.

Mr Corbyn stands on the verge of power. The Tory party is so demented that some members are rallying behind Jacob Rees-Mogg, a pantomime toff, to succeed Theresa May. There is little chance that Mr Corbyn would moderate his hard-leftism in government. He has been banging the same drums for 30 years, and is surrounded by fellow-travellers such as John McDonnell, his shadow chancellor, and Seumas Milne, his chief strategist, whose biggest disagreement is over whether Stalin or Trotsky is the greater inspiration. He is supported by snarling activists in the Momentum campaigning group and the Unite trade union.

## The last straw

His election is likely to lead to the biggest test of strength between global markets and a sovereign government since François Mitterrand proposed an extensive programme of nationalisation on his election to the French presidency in 1981. Mitterrand was forced to back down, but Mr Corbyn may well hold out for longer. His politics are a deeper red than Mitterrand’s. He believes that change comes through conflict rather than consensus, so will expect the markets and media to tell him he is ruining the country: that’s what the reactionary establishment does. As heavily indebted renters, his young supporters may not mind surging inflation and crashing property prices.

The combined result of Brexit and Corbyn could be the dystopia that Rand warned about: a stagnant society driven by resentment of the successful. The flight of talent will not only have a knock-on effect on the wider economy, as high earners who would have spent money in London or Leeds start moving to Paris or Frankfurt. It will also reduce the state’s revenues, since the top 1% of earners pay almost 30% of income tax and the top 10% pay nearly 60%. Mr Corbyn seems to think that all he need do is to ask “the rich” to pay “a little bit more” and everything will be fine. But why would successful people put up with higher taxes, particularly if they follow on the heels of Brexit-related uncertainty and disruption? As Luke Johnson, a serial entrepreneur, points out, the world is full of places where Britain’s Atlases would be welcome, from neighbouring countries like France, which is courting London’s bankers and tech workers, to emerging markets such as Dubai and Singapore. When Atlas shrugs, the whole of Albion suffers. ■





### Primary health care

## Diagnosing doctors

DELHI AND KIGALI

**In poor countries it is easier than ever to see a medic. But it is still hard to find one who will make you better**

**A**T THE Peeragarhi clinic in west Delhi, a woman takes a fold of her gold sari and wipes her brow. She is the 140th patient of the day and Dr Alka Choudhary shows no sign of flagging. The doctor poses questions (“Have you been sick?”; “Do you ache?”), gauges the patient’s blood pressure and checks for rashes. The illness may be dengue fever, a viral infection common in the surrounding slum. She takes a blood sample, prescribes oral rehydration tablets and tells the woman to return soon.

Before the *mohalla* (community) clinic opened in 2015, many of Dr Choudhary’s patients would have queued all day at a hospital or gone untreated. Now, like thousands who attend the 158 such clinics that have opened over the past two years in Delhi, they receive free, comprehensive medical care, all under one prefab roof.

According to the World Bank, primary care—the generalist, front-line form of medicine practised by Dr Choudhary—can deal with 90% of health problems. A survey of 102 developing countries in 2015 found that those with established primary-care systems had higher life expectancy and lower infant mortality. Recent roll-outs of primary care, for example in Brazil, Rwanda, Sri Lanka and Thailand, have been followed by falls in child mortality.

In 2015 governments across the world pledged to expand primary care as part of

the UN’s “sustainable development goals” to be met by 2030. A similar aspiration was expressed in 1978, but little was done. The renewed ambition reflects a recent change in approach to health care in developing countries.

For the past two decades policymakers and donors have mostly focused on specific diseases. Fully 86% of children are now immunised against diphtheria, tetanus and pertussis (whooping cough). The Global Fund, a multi-billion-dollar philanthropic effort, reckons it has helped save 22m lives from HIV/AIDS, malaria and tuberculosis since 2002.

Yet health experts worry about the failure to build on that success and create primary-care systems to deal with the growing burden of chronic illness in poor countries. Primary care is “not flashy”, says Dr Asaf Bitton of Ariadne Labs, a research group, so it gets less attention. The result is a big gap between the care people need and what they get.

How big a gap is hard to quantify. Researchers have tended to estimate the number of people who cannot get access to any of a list of “essential health services”, such as contraception, antenatal visits or treatment for tuberculosis. Using this measure the World Health Organisation (WHO) thinks 400m people globally lack access to primary care.

But this definition is unsatisfactory for two reasons. The first is that it ignores non-communicable diseases such as cardiovascular disease and diabetes. By 2020 these will account for about 70% of deaths in developing countries. The World Bank and WHO reckon that in most countries outside the OECD, a club that contains nearly all the developed ones, more than half of people with hypertension are unaware of their condition. The share receiving treatment to manage their blood pressure varies by country, and ranges from 7% to 31%. Between 24% and 62% of diabetics are undiagnosed and untreated—as are an estimated 82% of people with mental illnesses in the developing world.

The second problem is that the WHO definition largely ignores quality. New research suggests that, increasingly, the problem is not finding a health-care provider but what happens next. Without understanding why quality is so poor, the potential of primary care will remain unrealised.

### Who cares?

In India, for example, there are plenty of health-care providers and patients visit them often. Indians in rural areas visit a doctor on average six times a year. City-dwellers do so five times a year. For Americans, the annual average number of visits is just three. Nor do Indians have to travel far to find a clinic. In a survey of seven neighbourhoods in Delhi, Jishnu Das of the World Bank and Jeffrey Hammer of the University of Princeton found an average of 75 providers within a 15-minute walk. The Centre for Policy Research, a Delhi-based think-tank, estimates that there are about 4.4 providers per village.

But few of the visits are to doctors with modern training. In rural India 50-80% are ▶▶

▶ to “informal providers”, including traditional healers, drug dispensers and people who served apprenticeships with doctors but did not qualify. The picture is similar elsewhere, according to a paper by May Sudhinaraset of the University of California, San Francisco, and colleagues published in 2013. In Bangladesh 65-77% of visits are to informal providers. In Thailand the share is 55-77%, in Nigeria 36-49% and in Kenya 33%.

Markets for this type of care are much freer than in rich countries. Providers are typically paid directly by the patient. About a third of total health spending globally is paid out of pocket; in India the share is closer to 70%.

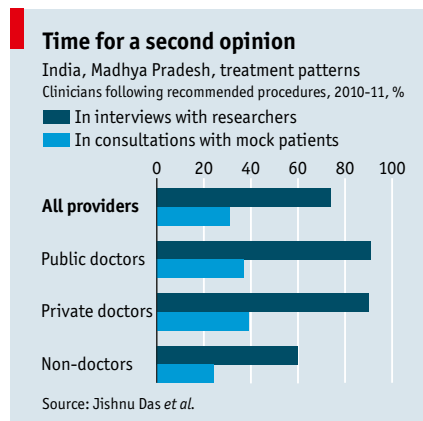
Dozens of studies have tried to work out whether public or private clinics do a better job of providing primary care, without much success. Two systematic reviews published in the past two years used many of the same papers—and came to opposite conclusions. Most of the research has failed to consider what actually happens in clinics. But a few researchers have used “standardised patients”—people coached to describe symptoms of specific ailments, for example angina, or to say that they have a child at home with diarrhoea. Afterwards researchers quiz the mock patients and assess the quality of their treatment.

The results are startling. In India the average consultation lasted three minutes, a quarter as long as in OECD countries. A third lasted less than a minute and involved no examination and just one question from the clinician: “What’s wrong with you?” The correct treatment was given in 30% of cases, and unnecessary or harmful treatment in 42%.

Patients fare little better in China. A team led by Sean Sylvia of Renmin University of China sent standardised patients to clinics in Shaanxi province. Health workers spent an average of 96 seconds with patients. They gave a correct diagnosis in just 26% of cases, and an outright wrong one in 41%. Inept treatment is not because providers are too busy. According to the World Bank, in India, Kenya, Senegal and Tanzania each one sees just eight to ten patients a day. Those in India spent just 40 minutes a day on average seeing patients.

A better explanation starts with the fact that many clinicians have received little training and do not know what they are doing. In India and China more medical training is (reassuringly) associated with making fewer mistakes. And a recent Kenyan study using standardised patients found that clinicians in Nairobi made “significantly better” diagnoses than Indian and Chinese ones, who had less training.

One reason Brazil and Costa Rica have better health-care systems than other countries of similar income is their dense networks of trained primary-care workers. In Costa Rica, local teams including a doc-



tor and a nurse provide three-quarters of consultations. The country, which spends less than the global average on health care (\$970 per person), has the third-highest life expectancy in the Americas, behind only Canada and Chile. Its rate of maternal mortality is lower than America’s.

Costa Rica’s health-care system is small and well-structured. Copying it in India, with its chaotic mix of public and private providers, would be impractical. But an alternative—upgrading informal providers by giving them some basic training—is unpopular with medics. “Teaching burglars how to steal more effectively” is how a former chairman of one Indian doctors’ association puts it. Yet it seems to work. A recent study in West Bengal found that a nine-month training scheme costing \$175 per person improved the share of cases managed correctly by eight percentage points.

Technology can help, too. Each *mohalla* clinic is equipped with a Swasthya Slate, a relatively cheap (\$640) device that can perform 33 common medical tests, including measuring blood pressure and blood-sugar levels. In Rwanda, Babylon, a British digital health company, is testing a Kigali-wide telemedicine service, which allows pa-



The doctor will see you now

tients to call a doctor and get a quick response rather than queue in a hospital.

But even when providers have the training and technology to follow the correct procedures, they often do not. The “know-do” gap is evident from studies that compare what clinicians told researchers about how they would treat a hypothetical case with their actual dealings with standardised patients (see chart). In one study 74% of Indian clinicians described the correct way to handle patients with angina, asthma or diarrhoea. But in reality just 31% acted correctly. There was little overall difference in quality between public and private providers—though the same provider delivered a better service when paid directly than when doing public-sector work.

The know-do gap appears to be largest for qualified doctors, suggesting it cannot be closed by training alone. Attempts to improve primary care must take account of the incentives that influence what doctors do. For example, in patient-clinician relationships there is an asymmetry of information: patients know they are ill but not why, or what the right cure is. That can encourage them to demand prescriptions even when they are not needed. And when health-care workers can profit from that mismatch, they often take that chance.

### Quack attack

In China, for example, until recently doctors often shared in the revenues from prescriptions. That led to rampant overuse of antibiotics. Chinese studies by Janet Currie, of Princeton University, and Wanchuan Lin, of Peking University, used standardised patients with flu-like symptoms who, since their symptoms suggested they were suffering from a virus, did not need antibiotics. Yet 63% of doctors prescribed them. That fell to 43% when patients mentioned that they had read that antibiotics are not always suitable in such cases—and to 12% when they said they would buy the antibiotics from a relative’s pharmacy.

Fortunately, incentives can also be used to make primary care better. In Rwanda a scheme that rewards health workers for sticking to clinical recommendations has been found to narrow the know-do gap. In Thailand, doctors are offered financial incentives to work in rural clinics. A study published in January found that giving residents of a Ugandan village information about what to expect from their clinic led to better services.

Research into how to improve primary care in poor countries, whether provided by the market or the state, is still in its infancy. But by pulling back the curtain of the examination room it is beginning to show why patients often do not get the care they need. One vital implication is that, as Mr Das says, “doctors are neither demons nor angels. They are human.” ■



### Activism in Europe

## Call to action

PARIS

**Investor activism is surging in continental Europe, as American and home-grown funds test their mettle**

LEAVE it to the Americans to besiege European companies in August, when the entire continent is on holiday. It emerged this month that Corvex Management, an American hedge fund, had built up a \$400m position in Danone, a French food giant. AkzoNobel, a Dutch paints-and-chemicals firm which has been under heavy fire from Elliott Advisors, a subsidiary of another American activist fund, agreed to appoint three new directors to its board. An even bigger skirmish is under way in Switzerland, where Third Point, an American fund run by Daniel Loeb, is seeking to shake up Nestlé, the world's biggest food company. Ulf Mark Schneider, Nestlé's new boss, is under pressure to present bold plans to investors in September.

Such tussles used to be relatively rare in Europe. But shareholder activism is on the rise, with restive investors demanding corporate overhauls. Armand Grumberg, a mergers lawyer in Paris, last year counted 70 such campaigns in continental Europe. He expects this year to be even livelier. "It is the new normal," he says.

The surge in activism has several causes. As American activist funds jostle to find targets at home, some are seeking less well-trodden hunting grounds abroad. Relatively cheap European firms are tempting prey. Many Americans also see continental models of corporate governance as ripe for

disruption. Americans (and Britons) think that boards must prioritise shareholders' interests; Europeans, backed by courts, insist boards should also take the interests of staff, creditors and suppliers into account.

It is not just Americans who have sprung into action. A London-based group, The Children's Investment Fund, recently led a successful campaign to urge Safran, a French maker of aeronautical parts, to lower its offer price for Zodiac, a poorly run French producer of aeroplane seats and toilets. On the other side of the deal, a French fund called CIAM had invested in Zodiac and sought the Safran takeover.

CIAM's profile has risen in recent years. In 2013 it opposed a sale of Club Med, a tourism company in which it held a stake; that allowed a Chinese buyer, Fosun International, to step in with a higher bid. CIAM also campaigned for Disney to pay more to minority investors in Euro Disney, a subsidiary that was taken private in June. Anne-Sophie d'Andlau of CIAM calls such activism "new in France", but says the trend is picking up. Activists previously struggled even to meet asset managers, for instance in Paris, says Ms d'Andlau. Now investors listen when she explains an idea.

In Germany a new corporate-governance code, modelled on a British one, is emboldening activists, too: the latest version says that institutional investors "are

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expected to exercise their ownership rights actively". Cevian Capital, a big Swedish activist group, has built up a holding in ThyssenKrupp, a German steelmaker. Knight Vinke, yet another active investor, has been trying to dismantle E.ON, a German energy conglomerate. A German-led investment fund, Active Ownership Capital (AOC), last year built a 7% stake in Stada, a maker of generic drugs near Frankfurt, eventually forcing changes to its board, managers and strategy. AOC was vindicated this month: two private-equity firms said on August 18th that they had acquired enough shares to complete a €4.1bn (\$4.8bn) takeover of Stada. It will be Europe's biggest such deal in four years.

Many more campaigns are conducted behind the scenes, as funds work amicably with companies. For instance, the founders of Teleios Capital Partners, a Switzerland-based activist fund, say that in the past three years they have urged shake-ups at about two dozen companies. Of these, only three turned sufficiently adversarial to draw public attention.

Some fights do inevitably spill into the open. When they do, Europeans usually try to avoid the rough-and-tumble approach associated with their American peers; it is crucial not to be seen as "aggressive" or like "cowboy Americans", sniff local activists. A cautious approach makes it easier to win backing from other investors. Teleios recently set its sights on Kongsberg Automotive, a big, lumbering Norwegian car-parts maker. Founders of Teleios describe being chided at first in Norway, for example by local pension funds, for using methods "that were not how things were done". By laying out detailed plans for Kongsberg and showing "humility", they won enough allies to support big changes. ►►

► If activists find Europe more fertile ground than they once did, they still face difficulties. In many countries corporate-governance rules remain a thicket. In the Netherlands foundations control some companies and may appoint directors or issue new stock. In Germany two tiers of boards govern firms, so an investor might win a seat on a supervisory board yet find no influence over a management board. In France long-term shareholders can claim double voting rights.

Yet investors familiar with European ways can also benefit from such peculiarities. Kay Bommer of DIRK, a lobby group that represents over 300 listed companies in Germany, says that some clever activists try to exploit differences of opinion between supervisory and management boards of German firms. In France, activists with long-term horizons can make use of double voting rights themselves.

Ms d'Andlau says her fund has no shortage of tempting targets, especially among firms worth €1bn-5bn in Germany, Italy, Spain and Switzerland. AOC sees "around 1,000" possible targets in Germany, Scandinavia and the Benelux countries. European bosses may be on holiday, but they cannot properly relax. ■

## Infosys

# Founder's folly

MUMBAI

## An ill-timed tussle at the top of an Indian outsourcing group

THE quickest way to start a Mexican wave in India is to head to the campus of Infosys, an IT outsourcing firm based in Bangalore, and ask all those who think they should be in charge to raise their hands. On August 18th the company's chief executive, Vishal Sikka (pictured), resigned unexpectedly. But he still serves as executive vice-chairman. Now a chairman, a co-chairman, the interim chief executive who succeeded Mr Sikka, the board of directors and a retired founder all seem to think they should be running the show. The stalemate risks leaving the firm without a leader just as it had started the urgent work of overhauling its business.

The company's management crisis is surprising. As one of only a few Indian IT firms that multinational companies trust to build and maintain their computer systems, Infosys has long sought to exude an aura of professionalism bordering on the dull. But clashing egos at the top now make it seem anything but. In 2014 Mr Sikka became the first person outside a cluster of co-founders to become chief executive. This month he quit after months of incessant



Less than thrilled

sant heckling from the firm's principal founder, Narayana Murthy. Shares promptly tanked, dropping by 15%.

Mr Murthy has not received much in the way of gratitude for driving out Mr Sikka. Corporate-governance experts decried his method—notably a whispering campaign that suggested, but fell well short of proving, that Mr Sikka had profited from an acquisition Infosys made under his watch. Mr Murthy's right to complain is also shaky. Though he is admired as a godfather of the tech scene, having pioneered the outsourcing model that has since become a major industry in India, he is a tiny shareholder in Infosys, owning just 0.38% of the company (his relatives own another 3% or so).

The board of directors has made it clear that it sides with Mr Sikka. Soon after his resignation, it denounced Mr Murthy's "misguided campaign" and pointed to independent audits that found no wrongdoing by the outgoing boss. An enraged Mr Murthy is now said to be seeking support among shareholders—mainly foreign and domestic institutional investors—to evict directors who oppose him.

Mr Murthy's defenders paint him as a catalyst for change in the mould of activist investors. His critics denounce him as a bully who cannot accept that Infosys is no longer his to run (he returned to the helm once before, in 2013). Either way, his campaign is ill-timed. Whatever Mr Sikka's flaws—a propensity for grandiose "thought leadership", a penchant for private jets—he communicated a clear vision of how Infosys must transform its business model.

On this he convinced nearly everyone: there is an obvious need for Infosys to change. The trick Mr Murthy and his co-founders perfected, of persuading Western firms to replace their expensive local IT staff with Indian engineers earning \$5,000

a year, has largely played out.

Shipping Indian engineers to work at customers' premises in America, the company's biggest market, may become harder under the presidency of Donald Trump. Even without any new restrictions on immigration into America, growth at India's outsourcing firms has slowed markedly. More corporate IT spending is going into mobile apps, analytics and other snazzy offerings, a far cry from the routine code-debugging that made Indian firms rich (remember Y2K?).

Much of the drudge work Infosys staff do can increasingly be carried out by machines; Mr Sikka said as much in a recent letter to staff, warning them of a looming "tidal wave of automation" that threatens to engulf the industry. Margins have been dropping in recent quarters. So Mr Sikka had planned to invest in order to develop more innovative services for clients and to use automation to become more productive, offering workers training in machine learning.

Few expect Infosys to reverse efforts to rejig its business. Rivals such as Tata Consultancy Services and Wipro are doing much the same. But if the company's clients fret about instability among management, Infosys will struggle to retain the legacy mainframe-maintenance contracts it still depends on for most profits. Staff can also jump ship. The sooner all sides agree on who is running Infosys, the better. ■

## Tech firms and TV

# Game of phones

NEW YORK

## Facebook, Twitter and Apple are getting into the television business

ON AUGUST 27th the season finale of HBO's "Game of Thrones", one of the most expensively produced series in television history, will air to an audience of more than 10m Americans. When it ends, viewers can switch to one of the most inexpensively produced shows in the industry, "Talk the Thrones", in which boffins sit around and discuss HBO's show. Hundreds of thousands are expected to watch.

Besides the obvious gap in entertainment value (one has dragons, the other has people talking about them), there is another distinction between the series. "Game of Thrones" is available only for a subscription on pay TV. "Talk the Thrones" is free on Twitter, produced by a digital site called *The Ringer* and sponsored by Verizon, a telecommunications giant. Although the HBO series is more popular, "Talk the Thrones" may be a better sign of how the TV industry might evolve. ►►

▶ A new generation of TV shows is being made for smartphones, tablets and other internet-connected screens. Netflix and Amazon have been at this for some time. But other technology companies are now joining them, splashing out on new series and testing different formats.

This month Facebook introduced a small number of its users to TV shows under a new tab called “Watch”, which should soon become more widely available. The social-media platform is streaming live sports such as Major League Baseball and Mexican football. Twitter in May announced deals to stream more live sport and other content, including a 24-hour feed from Bloomberg, a news company; a morning show with BuzzFeed, a digital-news firm; and a daily entertainment show called #WhatsHappening from Propagate, a production company in Los Angeles. Snap has commissioned a number of short shows that target the young users of its Snapchat messaging app.

Many of the new series are inexpensive: an episode might cost tens of thousands of dollars to make, compared with up to \$20m for an action-packed hour of “Game of Thrones”. But more costly shows for apps are on the way.

Apple recently hired a pair of executives from Sony’s television studio, with reported plans to shell out up to \$1bn on TV shows. Facebook has suggested to possible partners in Hollywood that it will splurge on future series, spending as much as \$100,000 a minute. Google’s YouTube, which has already invested heavily in shows featuring social-media stars, is now planning to make more mainstream fare. And Jeffrey Katzenberg, a former Disney executive and co-founder of DreamWorks Animation, is seeking \$2bn for a venture to produce top-quality shows that are just minutes long. Imagine Netflix, but for shorter attention spans.

The success of these attempts is uncertain. For all the time people spend gawping at their phones (see chart), they do not often use them to watch video. American adults consume 47 minutes of video each

week on a smartphone, according to Nielsen, a research firm; those aged 18-24 watch more, 83 minutes per week. An early, expensive foray into TV made for phones, Verizon’s “go90” app, has struggled since its launch two years ago; the shows have not proved compelling enough to attract a wide audience. But that has not dissuaded the technology companies. Firms such as Facebook, Snap and Twitter are keen for users to spend even more time on their platforms. New shows are potentially a good way to attract them.

This surge of investment will force a fast-changing industry to adapt even more

quickly, says Ben Silverman, a former co-chairman of NBC Entertainment who now runs Propagate. Old-fashioned TV looks more vulnerable by the day. The amount of time Americans aged 18-24 spend watching pay TV has plunged by almost half in this decade. Many viewers are shifting to Netflix, which is itself pouring money into its business. This summer it lured Shonda Rhimes, a famous TV producer, from ABC, a conventional network. But other tech firms smell ample opportunity for their own apps. Competition in the TV business is already intense. An even fiercer fight is coming to a phone near you. ■

Business and the White House

## Private interests

NEW YORK

A public split has not sapped the desire of bosses to influence policy

INCORPORATE America, “Trump” seems to be a dirty word, at least in public. After President Donald Trump seemed to equate the actions of white supremacists and their opponents in Charlottesville earlier this month, dozens of chief executives abandoned his advisory councils. Several organisations cancelled fundraising galas booked at Mr Trump’s Mar-a-Lago resort in Florida. Lloyd Blankfein, the boss of Goldman Sachs, an investment bank, compared Mr Trump to the dark shadow cast over parts of America by a solar eclipse: “We got through one, we’ll get through the other.”

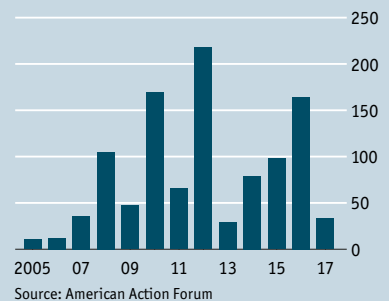
Look past the public repudiation, though, and the schism is less stark. As Jason Furman of Harvard University’s Kennedy School, who led the White House Council of Economic Advisers during Barack Obama’s presidency, points out, the bosses’ public rejection of Mr Trump has done nothing to sap their appetite to guide policy. Lower-ranking executives from large firms continue to serve on informal working groups to help the Treasury and the Commerce Department with deregulation. Others are advising on trade policy, trying to steer the administration away from its protectionist impulses.

An insider at a trade association representing big business waves the Charlottesville furore aside, declaring: “The hard work of policymaking in Washington must continue.” One chief executive who left a White House advisory council explains that firms are still keen to work with the administration, albeit quietly: “Executive action will continue, so corporate working groups will continue.”

They have already made progress. Under Mr Obama, the cost of new federal rules issued each year grew significantly from the levels of George W. Bush’s presi-

### By the rules

United States, total cost of new regulations issued by the federal government, \$bn



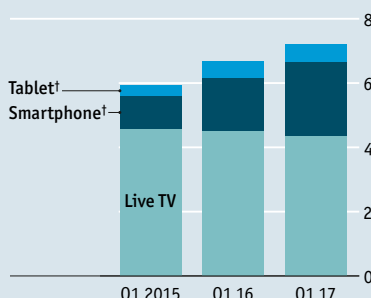
dency, according to the American Action Forum, a conservative think-tank (see chart). The early months of the Trump era have already seen that trend reverse.

But the big prize for firms remains tax reform. The chances of that are hurt by Mr Trump’s divisiveness, the Republicans’ slim majority in Congress, and by the need for tricky negotiations over funding the government and raising the debt ceiling, which will delay debate on taxes. Yet many business leaders still reckon that this is the best chance at tax reform since the sweeping Reagan-era overhaul of 1986.

That is enough for some executives to stay close to the administration. “The president is not ultimately that powerful,” says another boss who left a White House advisory council. “Things get done in the Cabinet departments and various agencies.” Such optimism may be misplaced, according to William Galston of the Brookings Institution, a centre-left think-tank. “Business interest in reform is not diminished,” he says, “but the ability of the White House to get its way is diminished.”

### Screen time

United States, time spent per adult\*  
Average hours per day



## Digital labour

## The human cumulus

## Artificial intelligence will give rise to new forms of work

WHEN the first printed books with illustrations started to appear in the 1470s in the German city of Augsburg, wood engravers rose up in protest. Worried about their jobs, they literally stopped the presses. In fact, their skills turned out to be in higher demand than before: somebody had to illustrate the growing number of books.

Fears about the impact of technology on jobs have resurfaced periodically ever since. The latest bout of anxiety concerns the arrival of artificial intelligence (AI). Once again, however, technology is creating demand for work. To take one example, more and more people are supplying digital services online via what is sometimes dubbed the “human cloud”. Counter-intuitively, many are doing so in response to AI.

According to the World Bank, more than 5m people already offer to work remotely on online marketplaces such as Freelancer.com and UpWork. Jobs range from designing websites to writing legal briefs, and typically bring in at least a few dollars an hour. In 2016 such firms earned about \$6bn in revenue, according to Staffing Industry Analysts, a market researcher. Those who prefer work in smaller bites can use “micro-work” sites such as Mechanical Turk, a service operated by Amazon. About 500,000 “Turkers” perform tasks such as transcribing bits of audio, often earning no more than a few cents for each “human-intelligence task”.

Many big tech companies employ, mostly through outsourcing firms, thousands of people who police the firms’ own services and control quality. Google is said to have an army of 10,000 “raters” who, among other things, look at YouTube videos or test new services. Microsoft operates something called a Universal Human Relevance System, which handles millions of micro-tasks each month, such as checking the results of its search algorithms.

These numbers are likely to rise. One reason is increasing demand for “content moderation”. A new law in Germany will require social media to remove any content that is illegal in the country, such as Holocaust denial, within 24 hours or face hefty fines. Facebook has announced that it will increase the number of its moderators globally, from 4,500 to 7,500.

AI will eliminate some forms of this digital labour—software, for instance, has got better at transcribing audio. Yet AI will also create demand for other types of digi-

tal work. The technology may use a lot of computing power and fancy mathematics, but it also relies on data distilled by humans. For autonomous cars to recognise road signs and pedestrians, algorithms must be trained by feeding them lots of video showing both. That footage needs to be manually “tagged”, meaning that road signs and pedestrians have to be marked as such. This labelling already keeps thousands busy. Once an algorithm is put to work, humans must check whether it does a good job and give feedback to improve it.

A service offered by CrowdFlower, a micro-task startup, is an example of what is called “human in the loop”. Digital workers classify e-mail queries from consumers, for instance, by content, sentiment and other criteria. These data are fed through an algorithm, which can handle most of the queries. But questions with no simple answer are again routed through humans.

You might expect humans to be taken out of the loop as algorithms improve. But this is unlikely to happen soon, if ever, says Mary Gray, who works for Microsoft’s research arm. Algorithms may eventually become clever enough to handle some tasks on their own and to learn by themselves. But consumers and companies will also expect ever-smarter AI services: digital assistants such as Amazon’s Alexa and Microsoft’s Cortana will have to answer more complex questions. Humans will still be needed to train algorithms and handle exceptions.

Accordingly, Ms Gray and Siddharth Suri, her collaborator at Microsoft Research, see services such as UpWork and Mechanical Turk as early signs of things to come. They expect much human labour to be split up into distinct tasks which can be delivered online and combined with AI offerings. A travel agency, for instance, might use AI to deal with routine tasks (such as booking a flight), but direct the more complicated ones (a request to create a customised city tour, say) to humans.

Michael Bernstein of Stanford University sees things going even further. He anticipates the rise of temporary “firms” whose staff are hired online and configured with the help of AI. To test the idea, Mr Bernstein and his team developed a program to assemble such virtual companies for specific projects—for instance, recruiting workers and assigning them tasks in order to design a smartphone app to report injuries from an ambulance racing to a hospital.

Working in such “flash organisations” could well be fun. But many fear that the human cloud will create a global digital proletariat. Sarah Roberts of the University of California, Los Angeles, found that content moderators often suffer from burnout after checking dodgy social-media content for extended periods. Mark Graham of the University of Oxford concludes that platforms for online work do indeed offer new sources of income for many, particularly in poor countries, but that these services also drive down wages. So governments need to be careful when designing big digital-labour programmes—as Kenya has done, hoping to train more than 1m people for online jobs.

Technology is rarely an unalloyed bane or blessing. The printing press created new work for the wood engravers in Augsburg, but they quickly discovered that it had become much more repetitive. Similar trade-offs are likely in future. ■



# Schumpeter | Making money in India

As it gets easier to do business, it will get harder to earn huge profits



**I**F YOU run a big firm in India you must straddle different worlds. The country's leading bosses can wax lyrical about artificial intelligence and debate returns on capital with foreign fund managers. But they have also mastered India's poor infrastructure and huge informal economy. Shiny campuses sit beside open sewers. Millions of customers can be reached only by dirt tracks. Suppliers and distributors often operate in the shadows. In a typical month an Indian boss might have wheatgrass shots in Silicon Valley, slug bootlegged single malt with a local politician and sip masala chai from clay cups with villagers.

India's gross domestic product (GDP) is the world's seventh-largest and its stockmarket the ninth-biggest, but the country is like no other major economy. The informal sector accounts for about 50% of output, 80-90% of jobs and at least 90% of firms. Red tape and bad roads mean the country comes 130th in the World Bank's ease-of-doing-business rankings.

However, firms that overcome these challenges are exceptionally profitable. Since 2001 the return on equity (ROE) of listed Indian firms has averaged 19%, eight percentage points above the figure for companies in rich markets and five percentage points above those in emerging ones.

India is a terrible and brilliant place to do business. Just as investors talk about a "Korea discount", to describe *chaebols'* lousy profits, so there is an "India premium". The leading private lender, HDFC Bank, has an 18% ROE, ranking tenth among the top 100 global lenders. Hindustan Unilever, a consumer-goods firm, has a 77% ROE, over twice that of its parent, Unilever. Even in basic industries, such as cement, returns have been relatively high.

This record reflects good management: most firms know how to allocate capital well, unlike their profligate Chinese peers. But India's informality and bad infrastructure also create obstacles for new entrants. Inputs such as capital, land and energy can be nightmarishly hard to secure. It takes 10-20 years to build dense national supply chains and distribution networks. For example, Maruti-Suzuki, the biggest car firm (with a 22% ROE), has over three times more dealerships than its nearest competitor.

Now, a quarter of a century after India first liberalised, the pace of formalisation is picking up. A breakthrough came in 2012, when the courts began to crack down on crony capitalists, espe-

cially firms that used graft to get access to natural resources and land. Now a new stage is in full swing, says Sanjeev Prasad of Kotak, a bank (14% ROE). A new value-added tax, known as the GST, requires firms to reconcile their tax returns with those of their suppliers and customers, forcing millions of companies into the tax net. The GST is complex but replaces a patchwork of local taxes, helping to create a single national market. A government decision to retire old bank notes at the end of 2016 has made it riskier to hoard illicit cash. E-commerce accounts for only 3% of retail sales but provides a new way to distribute products. New digital identities for all Indians mean that more can open bank accounts.

Measuring the share of economic activity that is informal is tricky. Still, the signs are encouraging. In the past year there has been a 13% increase in formal savings such as bank deposits, life-insurance policies and mutual funds. Cash in circulation has fallen from 12% of GDP to 10%. The value of digital payments have risen by over 40% and the number of taxpayers has almost doubled.

Make no mistake: parts of India are in a time warp. The north and east of the country lag behind. Courts have a backlog of 30m cases. Nonetheless, formalisation is happening. Firms of all sizes are responding to the GST: one fund manager recalls meeting a huge poultry business hidden away in Chhattisgarh, a remote state, which is planning to come into the tax net.

For tens of millions of informal firms—shoe factories, plywood manufacturers, drinks wholesalers supplying roadside stalls—tough times are ahead. If they stay in the shadows they will be cut out of formal firms' supply chains. If they enter the formal economy, their tax costs will climb. Some will fail, causing unemployment to rise. Others will consolidate. For example, the fragmented haulage industry could merge into a few big firms that take advantage of a single national market. They may also take out more formal loans to lease trucks.

For big companies, formalisation could boost profits in the short term. They may take business from smaller firms: at least 40% of India's tea, 85% of its jewellery and 70% of its dairy products are sold in the grey economy. Tata Steel, a metals producer, has said it expects to gain market share from informal smelters.

However the risk is that the "India premium" eventually crumbles along with long-standing barriers to entry. The assault on crony capitalism, along with lower commodity prices, has already reduced the ROE of listed Indian firms from 26% in 2006 to 13% (this is still well above the 11% global average). At least half of this fall is due to a slump at firms with reputations for graft, which often operate in the basic-materials, infrastructure, property and energy sectors—and the state-owned banks that financed them.

## An uncomfortable seat in the premium economy

In most consumer-facing industries, returns remain high. But in the long run big Indian firms may be hurt by better-functioning markets for capital, land and natural resources, as well as more efficient supply and distribution chains. The advantages that they have assembled over years could be eroded. To maintain high profits, they may have to spend more on innovation.

Investors don't seem to be thinking about this much. India's stockmarket is valued at three times book value. That makes it the dearest big market in the world and implies, roughly, that long-term ROEs will be 17-20%. India's consumer-facing firms trade on higher multiples of their profits than Facebook or Alibaba, and its best banks are not far behind. Formalisation is a giant step forward for India's economy, but investors could be in for a shock. ■



The natural rate of unemployment

## Central bankers' holy grail

Policymakers have spent half a century in search of the natural rate of unemployment. The fifth in our series on big economic ideas

**W**HY does unemployment exist? If there is a central question in macroeconomics, this is it. There are few bigger wastes than the loss to idleness of hours, days and years by people who would rather be working. Unemployment can ruin lives, sink budgets and topple governments. Yet policymakers do not wage all-out war on joblessness. Most, like the Federal Reserve, America's central bank, target what is known as unemployment's "natural" rate, at which inflation is stable.

The importance of this concept is hard to overstate. The Fed's argument for its recent interest-rate rises, for example, hinges on stopping unemployment from falling too far beneath the natural rate. Yet the natural rate is in many respects an article of faith, always sought but never seen. Where does it come from?

There are several reasons why unemployment cannot simply be eradicated fully. It takes time for people to move from one job to another: this is said to cause "frictional" unemployment. If people cannot find jobs because they have outdated skills—think hand weavers after the invention of the loom—they might become "structurally" unemployed.

### In this series

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But it is the trade-off between unemployment and inflation that most preoccupies central bankers. John Maynard Keynes, the great British economist, took a first step towards the natural-rate hypothesis when he focused minds on "involuntary" unemployment. In his book "The General Theory", published in 1936 in the aftermath of the Depression, Keynes noted that many people could not find jobs at the going wage, even if they had comparable skills to those in work. Classical economics blamed artificially high wages, perhaps caused by trade unions. But Keynes pointed to lacklustre economy-wide spending. Even if wages fell, he reasoned, workers

would have less to spend, making the demand deficiency worse. The answer, he thought, was for governments to manage aggregate demand in order to keep employment "full".

Keynes was not the father of all that is now thought of as "Keynesian". Inflation, for instance, barely entered his analysis of unemployment. But by the late 1960s Keynesianism had become associated with the idea that when managing aggregate demand, policymakers are not just choosing a rate of unemployment. They are simultaneously choosing how fast prices rise.

The relationship between inflation and unemployment was first studied by Irving Fisher in 1926. But the "Phillips curve", as it came to be known, owes its name to a study in 1958 by William Phillips of the London School of Economics. In his study, Phillips traced the relationship between unemployment and wage growth in Britain over the course of almost a century. He found that from 1861 to 1957 the relationship had been pretty stable: the lower the unemployment rate, the faster wages rose. This was remarkable, given the changes over that period in workers' rights. In 1861 most workers could not vote; by 1957 the post-war Labour government had nationalised much of the economy.

Paul Samuelson and Robert Solow, two other economic luminaries, subsequently investigated the relationship in America, and reported that there was no such stability there. The Phillips curve shifted around. But in any given era, Samuelson and Solow wrote, "wage rates do tend to rise when the labour market is tight, and the tighter the faster." They described the relationship as a "menu", encouraging the idea that the job of Keynesian policymakers was to pick a point on the curve that best aligned with their preferences. How low unemployment could fall, in other words, depended only on what level of inflation was tolerable (for rising wages would surely end up lifting prices, too).

It is unclear whether policymakers actually thought of the relationship between inflation and unemployment as a menu. But the idea was prominent enough by the late 1960s to attract withering criticism. Its two main detractors, Edmund Phelps and Milton Friedman, would each go on to win a Nobel prize.

Mr Phelps began writing groundbreaking models of the labour market in 1966. A year later, Friedman gave what became the canonical criticism of the old way of thinking in an address to the American Economics Association. In it, he argued that, far from there being a menu of options for policymakers to pick from, one rate of unemployment—a natural rate—would eventually prevail.

Suppose, Friedman reasoned, that a central bank prints money in an attempt to ►►



▶ push unemployment lower than the natural rate. A larger money supply would lead to more spending. Firms would respond to increased demand for their products by expanding production and raising prices, say by 5%. This inflation would catch workers by surprise. Their wages would be worth less than they bargained for when they had negotiated their contracts. Labour would, for a while, be artificially cheap, encouraging hiring. Unemployment would fall below the natural rate. The central bank would achieve its goal.

The next time pay was negotiated, however, workers would demand a 5% raise to restore their standard of living. Neither firm nor worker has gained or lost negotiating power since the last time real wages were set, so the natural rate of unemployment would reassert itself as firms shed staff to pay for the raise. To get unemployment back down again, the central bank could embark on another round of easing. But workers can be fooled only for so long. They would come to expect 5% inflation, and would insist on commensurately higher wages in advance, rather than playing catch-up with the central bank. Without an inflation surprise, there would be no period of unexpectedly cheap labour. So unemployment would not fall.

The implication? For a central bank to keep unemployment below the natural rate, it must keep outdoing itself, delivering inflation surprise after inflation surprise. Hence, Friedman reasoned, Keynesians were wrong to pin a low rate of unemployment to a given, high rate of inflation. To sustain unemployment even a little below the natural rate, inflation would need to accelerate year in, year out. Friedman's and Phelps's natural rate became known as the "non-accelerating inflation rate of unemployment" (NAIRU).

No society could tolerate endlessly rising, or falling, inflation. Phillips had observed a correlation in the data, but it was not one that policymakers could exploit in the long run. "There is always a temporary trade-off between inflation and unemployment," Friedman said. "There is no permanent trade-off." Nearly 50 years on, that remains the premise on which rich-world central banks operate. When officials talk about the Phillips curve, they mean Friedman's temporary trade-off. In the long run, they believe, unemployment will come to rest at the natural rate.

The idea has such influence partly because Friedman's and Phelps's contributions were so well timed. Before 1968, America had had two years with unemployment below 4% and inflation below 3%. But when Friedman spoke, prices were indeed accelerating; inflation rose to 4.2% in 1968. The next year it hit 5.4% even as unemployment changed little. The "stagflation" of the 1970s killed off the idea of a stable Phillips curve. Successive shocks to oil

prices, in 1973 and 1979, sent both inflation and unemployment surging. In 1975 both were above 8%; in 1980 inflation hit 13.5% even as unemployment exceeded 7%. The idea of the NAIRU looked a little shaky, too; inflation was meant to fall so long as unemployment was too high. But Friedman's followers could argue that bad supply-side policies, in conjunction with the oil-price shocks, had pushed the NAIRU up.

Around the same time, however, the concept of the NAIRU came under attack from theorists. It was built, in part, on the idea that inflation expectations are "adaptive": to predict inflation, firms and workers look at its current value. But the doctrine of "rational expectations" decreed that firms and consumers would, to the greatest extent possible, anticipate policymakers' actions. Whenever the public suspected that central bankers would try to push employment below the natural rate, inflation would rise immediately. On the other hand, a credible promise not to seek any unsustainable jobs booms should keep inflation under control, simply by "anchoring" expectations.

That proposition was put to the test after Paul Volcker became Fed chairman in 1979. Mr Volcker was set on getting inflation down. As it turned out, he would need to prove his mettle. His tight monetary policies—the federal funds rate reached almost 20% in 1981—contributed to a double-dip recession, which pushed unemployment above 10%. It got the job done; inflation tumbled. Since Mr Volcker's time at the Fed, it has rarely exceeded 5%.

To this day, some economists point to the Volcker recessions as proof that inflation expectations are adaptive. The public did not believe inflation would fall just because the Fed said it would. America had to suffer high unemployment to bring inflation down. Policymakers had to grapple with a short-term Phillips curve after all, as Friedman and Phelps had argued.

Yet the experience of the 1980s would

not be repeated. In the decades that followed, central banks committed to inflation targets. As they gained credibility, the trade-off between inflation and unemployment weakened. Economists wrote "New Keynesian" models incorporating rational expectations. By the mid-2000s some of these models showed a "divine coincidence": targeting the best possible path for inflation, after an economic shock, would also result in the best possible path for unemployment.

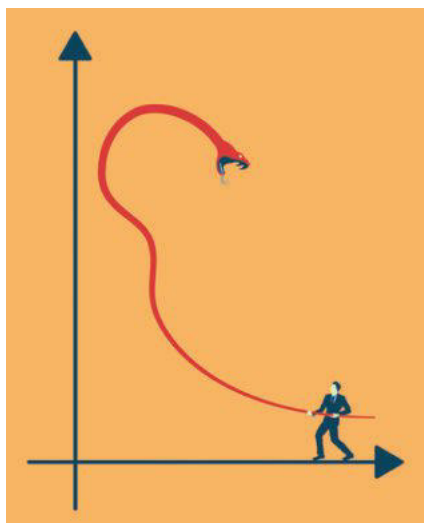
Few economists think the divine coincidence holds in practice. New Keynesian models usually struggle to explain reality unless they are tweaked to incorporate, for example, at least some people with adaptive expectations. A cursory examination of the data suggests expectations follow inflation (they sank, for instance, after oil prices fell in late-2014).

### Odd jobs

Inflation has behaved strangely over the past decade. The recession that followed the financial crisis of 2007-08 sent American unemployment soaring to 10%. But underlying inflation fell below 1% only briefly—nothing like the fall that models predicted. Because the only way economists can estimate the natural rate is by watching how inflation and unemployment move in reality, they assumed that the natural rate had risen (an estimate in 2013 by Robert Gordon, of Northwestern University, put it at 6.5%). Yet as labour markets have tightened—unemployment was 4.3% in July—inflation has remained quiescent. Estimates of the natural rate have been revised back down.

Such volatility in estimates of the natural rate limits its usefulness to policymakers. Some argue that the wrong data are being used, because the unemployment rate excludes those who have stopped looking for work. Others say that the short-term Phillips curve has flattened as inflation expectations have become ever more firmly anchored. The question is: how long will they remain so? So long as low unemployment fails to generate enough inflation, central banks will face pressure to keep applying stimulus. Their officials worry that if inflation suddenly surges, they might lose their hard-won credibility and end up back in 1980, having to create a recession to get inflation back down again.

This recent experience has led some to doubt the very existence of the natural rate of unemployment. But to reject the natural rate entirely, you would need to believe one of two things. Either central banks cannot influence the rate of unemployment even in the short term, or they can peg unemployment as low as they like—zero, even—without sparking inflation. Neither claim is credible. The natural rate of unemployment surely exists. Whether it is knowable is another matter. ■





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**Market indices**

## Big fingers

NEW YORK

**Index-makers are growing in power, and facing greater scrutiny**

IT WAS in 1896 that Charles Dow, co-founder of Dow Jones & Company, created the index that still bears his name. Today, indices such as the Dow Jones Industrial Average and the S&P 500 (for shares listed in New York), or the FTSE 100 (for London), are among the best-known brands in financial markets. The role they play has expanded massively in recent years. Index-makers have become finance's new king-makers: arbiters of how investors should allocate their money.

Stockmarket indices were devised as a measure of the overall market, against which those trading in shares could compare their performance. At first they were concocted by the press or by exchanges themselves. For bonds, indices were compiled by the banks that traded them. Except for a few of the very earliest indices, such as the Dow, which is weighted by share price, nearly all are weighted by market capitalisation or, in the case of bond indices, by the volume of debt outstanding.

Three large firms—FTSE Russell, MSCI and S&P Dow Jones Indices—dominate equity index-making. The amounts of money they influence are staggering. S&P Dow Jones reckons \$4.2trn in assets are invested in “passive” funds that track its indices, with \$3trn assigned just to the S&P 500. Another \$7.5trn in actively managed assets use its indices as “benchmarks”: that is, they measure their performance against them. The two other big index-providers command similarly vast sums: \$15trn in ac-

tive and passive money follows FTSE Russell's indices, and \$11trn hug MSCI's.

Index-makers insist they are less powerful than they look. Alex Matturri, head of S&P Dow Jones, points out that even though assets in exchange-traded funds (ETFs), virtually all of which are passive, have reached \$4trn globally, that is only a “small part of the global investable universe” (estimated at around \$300trn). Mr Matturri also emphasises the transparency and “rules-driven approach” of index construction and governance. Big changes are made only after consulting the market.

Moreover, argues Mark Makepeace, chief executive of FTSE Russell, index-making remains very competitive. Some smaller providers, such as Morningstar, give away data on most of their indices (on the weightings of their components, for example). They charge a fee only if a passive fund wants to track an index and use their brand. The big three charge both for access to data and for the use of their indices in passive funds.

Regulation also constrains the firms. From January 2018 index-makers in Europe will be directly regulated under the EU's “Benchmarks Regulation”, which includes requirements such as an annual external audit for benchmarks deemed “critical”, and direct oversight by the EU regulator.

Nevertheless, index-makers' power is considerable. It is boosted by the rise of passive investing. In America, for instance, three-tenths of assets are now in passive

funds. And though some smaller competitors survive, the index industry is becoming more concentrated. Many banks have quit the bond-index business, selling their brands. Bloomberg acquired Barclays' indices last year; FTSE Russell has nearly completed the purchase of Citigroup's.

Despite harping on the objectivity and transparency of their rules, moreover, many of the decisions that index providers make are, ultimately, subjective. Take the decision in June by MSCI to include Chinese shares in its emerging-markets equity index (followed by around \$1.6trn in assets). Shares listed in mainland China had been excluded because of the opacity of China's capital markets, and the restrictions foreigners face there. China's capital controls remain in place, but, after consulting market participants, MSCI decided to include the shares—albeit at a weighting of only 0.73% (and even that in two phases) so as not to disrupt the index's composition too quickly.

**Snap slapped**

Similarly, both FTSE Russell and S&P, in the wake of Snap's listing on the New York Stock Exchange in March, chose to alter their rules to exclude companies that list only non-voting shares (as the tech firm did). This stemmed partly from pressure from investors such as Norway's sovereign-wealth fund. FTSE Russell said that the majority of asset managers it consulted wanted a company's shares to be included in an index only if the voting power of stockmarket investors passed a threshold of 25%, but the index-maker opted for a lower minimum of 5% and a gradual phase-in, again to avoid disruption.

The composition of bond indices has also come under scrutiny. Earlier this year, J.P. Morgan faced calls to exclude Venezuelan bonds from its emerging-market bond index (EMBI) in protest at the misdeeds of ▶▶

▶ the government in Caracas. But index-makers are less mighty in the world of fixed income. Passive investment is less prevalent in bonds than in equities. Moreover, with so many bonds available, fund managers can replicate indices while maintaining some flexibility in the exact choice of assets. A bigger concern with bond indices is their weighting by volume: those who track them end up most exposed to the most indebted borrowers.

Index-makers enjoy the prestige that comes from compiling a market's most recognised benchmark. But they are keener to discuss their work in developing new and different sorts of indices (S&P says it now has over 1m), including for other asset classes. For example, a few indices are starting to provide reliable benchmarks for opaque asset classes like private equity (see box).

Other new indices slice up the universe of stocks and bonds in varied ways, such as whether the share prices are undervalued,

whether firms are socially responsible or whether they are exposed to specific risks. Kensho, a startup, compiles share indices around trendy themes such as nanotechnology or drones. Some new products bear little resemblance to conventional indices. S&P Dow Jones's new STRIDE index encompasses different asset classes whose weighting varies over time, to suit the needs of a worker preparing to retire. A few verge on the absurd. This week S&P announced an index containing only companies from which the Indian government wants to divest.

For as long as indices have acted as shorthand for the markets they seek to capture, index-makers have received attention. Their importance has grown to match their profile. Being the source of "authoritative guidance" on what should even count as an asset class (as Norway's sovereign-wealth fund puts it) brings new responsibilities. Index-makers will have to get used to ever more scrutiny. ■

## Banking in Bangladesh

# Against the odds

DHAKA

**Islamic banking is popular, but not with the authorities**

**I**N MOTIJHEEL, the main business district in Bangladesh's capital, Dhaka, an iron fence and terrible traffic divide two branches of the country's oldest private bank—a "conventional" one and an Islamic one. Abdus Sattar, manager of the Islamic one, says that when he joined AB Bank, in 2005, his was "a loser branch". Today, like most Islamic banks in the country, it is more profitable and better run than its conventional peers. Islamic banking's future in the country, however, remains murky.

Bangladesh has eight full-fledged Islamic banks; a handful of orthodox banks, like AB, also offer Islamic-banking services alongside others. Islami Bank Bangladesh, founded in 1983 by Saudi and Kuwaiti investors, commands 90% of Islamic-banking assets and deposits. It is also the biggest private lender overall, with 14,000 staff, 12m depositors and a balance-sheet of \$10bn. Its success was built on the "two Rs": remittances and ready-made garments. Islami Bank was a pioneer in financing Bangladesh's rise as the apparel industry's main production base outside China. It also runs the world's biggest Islamic microfinance scheme.

Azizul Huq, a former vice-chairman of Islami Bank, thinks *sharia*-compliant banking will eventually outgrow the conventional kind (at present it controls just 20% of deposits). The population of 170m is 90% Muslim. The World Bank reports that only one in three Bangladeshis has a bank account. The government's own polls show that Islamic banking is wildly popular, especially in the cities and among the young. Overall, 84% "approve" of it.

Ahsan Mansur, the executive director of Policy Research Institute (PRI), a think-tank in Dhaka, says Islami was the only bank where "bribery was not institutionalised". On conventional banks bad loans to politically connected businesses have been piling up. Politicians seem to be encouraging nepotism: a new banking law will allow directors to stay on boards for nine years (up from six); and allow controlling families four members (up from two).

This month the central bank reported that net profits at conventional banks rose by just 4.9% over the year to June. Non-performing loans (NPLs) stood at 9.2%, compared with just 4.3% at Islamic ones. At nine of the country's 57 banks, over 20% of loans were non-performing. The bad-loan problem may yet worsen as business struggles with stagnant exports: in the 12 ▶▶

## Private equity

# Replicating success

CHICAGO

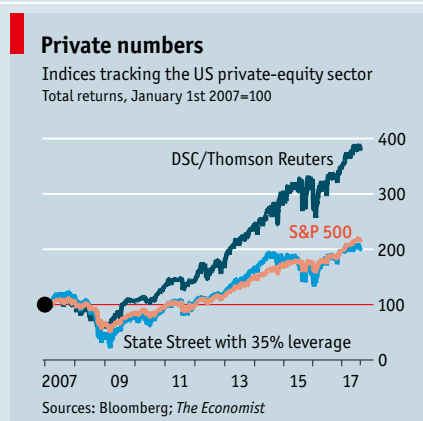
**A few pioneers use indices to offer private-equity returns using public assets**

**I**T IS hard for individual investors to match the returns achieved by private-equity funds. But what if their success in outperforming the public markets could be tracked and replicated? A few pioneering firms claim to have done just that. DSC Quantitative Group, a Chicago-based fund, and State Street, an asset manager, both offer "investable" indices, launched in 2014 and 2015 respectively, that allow investors to mimic the performance of American private equity.

Both firms needed a measure of the industry's returns. DSC teamed up with Thomson Reuters, a data firm, to compile an index; State Street had been making one since 2004, using data it gleans as a custodian of private-equity assets.

They then match the private-equity risk-and-return profile with a basket of public assets. DSC's index first matches the sector weights of the private portfolio with equivalent public companies, and adds a modest amount of debt (around 25%) unevenly across the sectors—all using predictive modelling, as the reference index of private transactions is published only after a delay. State Street's investable index does not include any debt and only matches sector weights, although some clients opt to borrow so that their investment more closely resembles a typical private-equity fund's leverage of 35%.

The performance, particularly of the DSC Thomson Reuters index, seems



alluring, even over the long term (both indices have been back-calculated for a number of years—see chart). Of course, an individual private-equity fund may well do much better. But such funds have their downsides: they often require investors to lock up their money for a decade or more; and they charge sky-high fees. Jeff Knupp of DSC claims that his one achieves private-equity returns for its clients for only 20% of the usual cost.

Private equity may be just the start. The index-makers are looking at other asset classes. DSC already offers a similar product for venture capital, and State Street wants to broaden its indices to other opaque sectors such as property or infrastructure. Index-makers do not just follow markets; they also expand them.

months to June, garment exports expanded by 1.7% year on year, the slowest pace in 15 years. The central bank's stress tests show that if the three biggest borrowers defaulted, 23 banks would fail.

In this context, Islamic banking might expect some official help. Far from it. The central bank has been sitting for years on applications from eight banks to change to an Islamic business model. It is yet to write rules for new *sharia*-compliant financial instruments, such as a sovereign *sukuk*, or Islamic bond. Islamic banks have no role in financing government projects.

Resistance comes from both the financial and political establishments. The central bank adheres to economic orthodoxy and is wary of a form of banking in which interest rates are nominally abolished. And the government of Sheikh Hasina, the prime minister, has long identified Islamic banking with the political opposition.

In January the government in effect instigated a boardroom coup at Islami Bank, which had been run by members of the biggest Islamic party. Ownership is now in the hands of those close to the prime minister's family. This, too, may stunt Islamic banking. Bangladesh's biggest successes—garments, microfinance and telecoms—are in industries where the government took a back seat. Since the takeover, the bank's biggest institutional investor, the



Cash is still king

Jeddah-based Islamic Development Bank, has reduced its stake from 7.5% to 2.1%.

Mr Mansur of PRI notes that the takeover “clearly signals that assets in Bangladesh may not be safe in the future”. Islami Bank's chairman, Arastoo Khan, insists it will bounce back, despite a record low 10% dividend in 2016 compared with a historic average of 21%, and rising NPLs. The future of Islamic banking in Bangladesh may hinge on whether he is right. ■

## Banking

# Changing maps

NEW YORK

## The shape of global banking has turned upside down

IN THE 1980s, when Citicorp was America's largest bank and pursuing every avenue for international expansion, John Reed, the bank's boss, would muse about moving its headquarters to a neutral location, notably the moon. Such sentiments are inconceivable today. Jamie Dimon, boss of JPMorgan Chase, Citi's successor atop the league tables, recently said he is an American “patriot” first, head of a bank second. His strategy, though hardly shunning international markets, reflects this.

Mr Dimon turned down several big foreign acquisitions before and during the financial crisis. His stellar reputation may rest as much on those undone deals as on those completed. Citi, meanwhile, has been lopping off foreign affiliates. It has retail operations in just 19 countries, down from 50 in 2007. Further contraction may be in the offing. Bank of America has long chosen to live down to its name, as an almost entirely domestic bank.

The same process is under way in west-



ern Europe. Visible retrenchments by leading banks in each country reflect even deeper ones that are harder to see. On August 22nd McKinsey, a consultancy, released a trove of statistics showing how the map of global banking has changed over the past ten years. According to its

analysis of the leading banks in each country, foreign claims (including loans, guarantees, etc) have contracted by a third for Swiss and British institutions and by half for those in the rest of Europe. Even the volume of foreign-exchange trading, after a long history of expansion, is falling.

The downward trend is particularly sharp, and significant, in “correspondent” banking, traditionally seen as the first level of financial support for world trade (see chart). The correspondent ties between banks in different countries have mattered particularly for companies in places without global banks that can finance imports and exports. The number of correspondent relationships has been declining since 2011, according to McKinsey.

Why this has occurred is no mystery. Correspondent relationships used to be seen as a responsible way for a bank to transact business in a country it did not know well. It has become a source of vulnerability: a bank may be held accountable for any transaction even if only as a link in a long chain. The rising cost of complying with regulations on money-laundering, economic sanctions and terrorism-financing has had the predictable consequence of prompting a broad pullback.

Harder to understand is work by the Bank of England and America's National Bureau of Economic Research, showing a long-term correlation between growth in capital requirements and declines in cross-border lending. McKinsey notes that rules passed to ensure liquidity, particularly in a crisis, may be easier to satisfy if money is close to home.

American and European retrenchment has been partially offset by expansion elsewhere. Canadian banks, which sailed through the financial crisis, now have half their assets offshore, up from 38% a decade ago. Chinese banks, having had negligible foreign assets a decade ago, now have more than \$1trn. Strong domestic growth means that this sum is still just a tiny fraction of their balance-sheets. Banks in Japan, India and Russia are also expanding internationally at a strong pace.

This geographic shift could continue for many years to come. Similar trends, however, have been seen in the past only to go abruptly into reverse. The Chinese government has recently signalled its concern at some Chinese firms' foreign acquisitions, suggesting there may be problems percolating. Whether Western banks stir from their recent quiescence may also depend on the regulators. Over correspondent banking, for example, there is a debate in government. The State Department wants America's banks to bring other countries, especially poor ones, into the global financial system. The Treasury, focused on checking untoward activity and holding banks to account, is more cautious. Banks would like to stay out of the crossfire. ■

## Ageing and wages

## Retirement accounts

WASHINGTON, DC

**Economists debate whether ageing is to blame for America's poor wage growth**

WHEN America's unemployment was last as low as it has been recently, in early 2007, wages were growing by about 3.5% a year. Today wage growth seems stuck at about 2.5%. This puzzles economists. Some say the labour market is less healthy than the jobless rate suggests; others point to weak productivity growth or low inflation expectations. The latest idea is to blame retiring baby-boomers.

The thinking goes as follows. The average worker gains skills and seniority, and hence higher pay, over time. When he retires, his high-paying job will vanish unless a similarly-seasoned worker is waiting in the wings. A flurry of retirements could therefore put downward pressure on average wages, however well the economy does. The first baby-boomers began to hit retirement age around 2007, just as the financial crisis started. And since 2010, the first full year of the recovery, the number of middle-aged workers has shrunk considerably. They have been replaced partly by lower-earning youngsters (see chart).

Researchers at the Federal Reserve Bank of San Francisco think this could explain disappointing wage growth over that period. They split earnings growth into the portion caused by pay rises, and the portion caused by people joining or leaving the workforce. From mid-2012 until recently, changes to labour-force composition have reduced income growth by about two percentage points. By comparison, in early 2007 the drag was less than one percentage point. For those in work continuously, pay is rising just as fast as it was then.

Does that mean the labour market is running hot? Not so fast, says Adam Ozimek of Moody's Analytics. He points out that the number of workers aged over 55 is growing, not shrinking, as a fraction of the workforce. What is more, statistically controlling for ageing barely changes esti-

## Man v woman in investment

## Half the sky

SHANGHAI

**Women are often more cautious than men in trading, but not always**

WOULD more women on the trading floor inject a dose of sanity into the world's financial markets? This question gained prominence after the 2007-08 crisis. As Christine Lagarde, then France's finance minister and now head of the IMF, quipped, had Lehman Brothers been Lehman Sisters, history would have been different. Many studies support this idea, showing that testosterone-laden men are prone to overconfidence in trading. Women are more cautious.

But things may not be so simple. Previous research has mostly used evidence from the West. To test if the conclusions apply universally, Wang Jianxin of China's Central South University, Daniel Houser of George Mason University and Xu Hui of Beijing Normal University looked at both America and China. And they found that in China's markets, women can be just as manic as men.

The economists arranged for 342 students to form experimental markets. They were allocated dividend-paying shares and tokens (in lieu of cash), and given 15 rounds to trade within gender-based groups. Participants could, in theory, calculate fair value of the shares in any given round but few did so.

In America, the outcomes matched past experiments. Shares quickly inflated to a bubble in male-only trading groups, before crashing. Women-only groups traded the shares at a discount for much of the time. In China male-only markets were just as unhinged. But so were the female-only markets, going from bubble to bust just like the male-only ones.

Critics will object that this was just an experiment. However, there is a long history of using such devices to study investment behaviour. Anecdotally, women have played a part in China's market manias. In trading halls full of elderly day-traders, white-haired ladies sit alongside wizened men. Over the past two years women have also been on the front lines of protests after a series of online investment schemes collapsed.

Why China's women might be as bold—and reckless—as men is open to debate. Other research highlights Communist Party policies promoting equality. But in practice women in China are woefully underrepresented in the financial sector. Only when that changes will it be possible to judge if China truly has gender parity in irrational exuberance.



Tiger investor?

mates of aggregate wage growth, according to his model.

So what is going on? The San Francisco Fed's researchers also note that many low earners have recently joined the labour force (such workers are usually the last to benefit from economic expansions). Growth in low-skilled jobs can hold back average wage growth. But this explanation does not imply that the labour market has fully recovered, because more people may yet be tempted to look for a job. In fact, Mr Ozimek denies there is a wage puzzle to begin with. Replace the unemployment rate, which counts only those who are seeking work, with the fraction of 25-to-54-year-olds who are jobless, and wage growth is exactly where you would expect it to be (at least according to Mr Ozimek's preferred measure of pay and benefits).

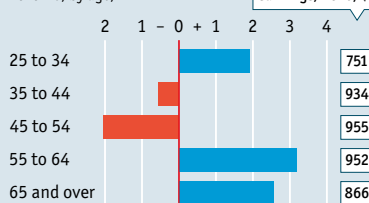
Another problem with the ageing ex-

planation is that it is not just wage growth that has been disappointing. Inflation, too, has been puzzlingly low this year: the core consumer-price index, which excludes food and energy, has undershot forecasts for five consecutive months. Ageing cannot easily explain low inflation. True, retiring baby-boomers reduce firms' wage bills. But if older workers earn their high pay through high productivity then firms' unit costs should not fall as retirements rise.

Ageing is too often overlooked as an explanation for economic trends—politicians routinely promise that the economy will grow as fast as it did before baby-boomers started retiring and the workforce began to shrink. Yet when it comes to wage growth, the effect of ageing is probably modest. Policymakers should not hide behind it. Despite low unemployment, the labour market is not yet simmering. ■

## The squeezed middle

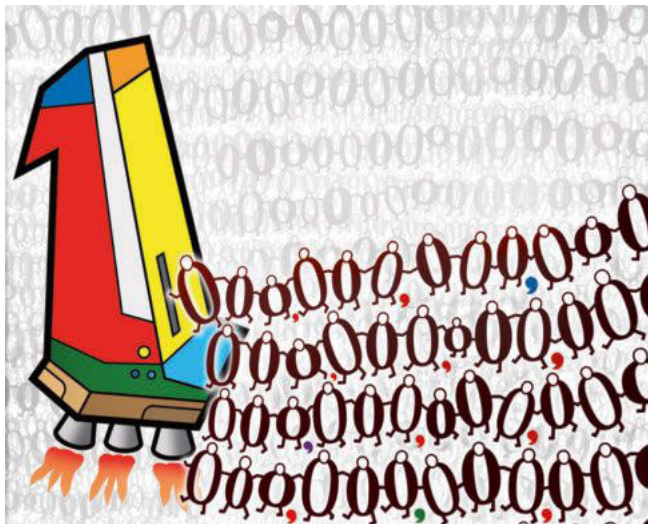
Change in US labour force 2010-16, by age, m



Source: US Bureau of Labour Statistics

# Free exchange | Priceless

## Free stuff on the internet comes at a cost



**F**ACEBOOK, whose users visit for an average of 50 minutes a day, promises members: “It’s free and always will be.” It certainly sounds like a steal. But it is only one of the bargains that apparently litter the internet: YouTube watchers devour 1bn hours of videos every day, for instance. These free lunches do come at a cost; the problem is calculating how much it is. Because consumers do not pay for many digital services in cash, beyond the cost of an internet connection, economists cannot treat these exchanges like normal transactions. The economics of free are different.

Unlike conventional merchants, companies like Facebook and Google have their users themselves produce value. Information and pictures uploaded to social networks draw others to the site. Online searches, selections and “likes” teach algorithms what people want. (Now you’ve bought “The Communist Manifesto”, how about a copy of “Das Kapital”?)

The prevalence of free services is partly a result of history. In the early years of the internet, consumers became used to getting stuff for nothing. They have little idea of how much their data are worth; since digital companies have access to billions of people, the value of one person’s data is tiny anyway. More fundamentally, scarcity is not a constraint in the digital world as it is in the physical one. Data are both inexhaustible and super-cheap to transport. In 1993 MCI Mail was charging people 50 cents for the first 500 characters of a digital message, increasing by ten cents for each extra 500. The internet slashed that price to zero. Charging would have been impractical, so small is the marginal cost.

Users may pay nothing, but companies like Google and Facebook have fixed costs to cover: engineers, data centres, etc. To make money, they squeeze their users indirectly, by charging companies to put appropriate advertisements in front of captive eyeballs. In the second quarter of 2017, Facebook eked an average of \$4.65 out of each of its users by peppering screens with ads and promoted posts. (By comparison, just eight cents came from payments and other fees, mainly from people paying for stuff within virtual games.)

In the absence of prices, economists struggle to work out what people are getting back when they barter their data and attention for digital services. Some evidence suggests that they are doing rather well. A recent study by Erik Brynjolfsson, Felix Eggers and

Avinash Gannameneni of the Massachusetts Institute of Technology offered people different cash amounts in exchange for giving up Facebook for a month. Based on the responses, they then estimated its average annual value to the consumer at around \$750. A simpler survey in the same study (without real cash offers) suggested that on average people value free search engines at \$16,600 per year, maps at \$2,800 and video at \$900.

This sounds like a wonderful deal for the consumer, but it generates problems elsewhere. Take taxes. Professionals are not allowed to evade tax by selling their services for benefits in kind, so why should consumers not be taxed if they are paid for their data in the form of services? Statisticians also struggle in a post-price world. GDP is mostly measured by transactions at market prices. A recent study by Leonard Nakamura of the Federal Reserve Bank of Philadelphia and Jon Samuels and Rachel Soloveichik of the Bureau of Economic Analysis used the amount spent on advertising to estimate uncounted output, and calculated that in 2013 American GDP should have been \$19bn higher than reported.

Privacy activists also worry. Consumers tend to respond much more strongly to “free” offers than to prices that are only fractionally higher than zero. When Amazon first offered free shipping in European countries, orders surged—but not in France, where by mistake it charged around ten cents. The activists’ concern is that the “free” label fosters poor decisions, making people, for example, reveal more about themselves than they would in a more formal exchange. Researchers talk of the “privacy paradox”: when asked, people say that they care much more about their privacy than their actions would suggest.

The free economy also troubles competition authorities. Excessive market power can be defined as the ability to raise prices above what would be charged in a competitive market. With no prices to compare, and other options only a click away, companies such as Google seem to operate in an environment of cut-throat competition. It is naive to think so. Consumers are more captive than the low cost of switching might imply. Google, for example, commands a market share for internet search of over 90% in most countries in the European Union, where antitrust authorities in June fined it €2.4bn (\$2.7bn) for promoting its own comparison shopping services above its competitors’. Its services may have been free, but the trustbusters judged that its market power was curbing consumers’ choices. In the absence of prices, lack of competition will show up in other ways: demanding more information from users than they want to give, for example; or irritating them by stuffing their service chock-full of adverts.

### No such thing as a free exchange

Opinion is divided on whether the free economy needs fixing, and if so, how. In his book “Who Owns the Future?”, Jaron Lanier suggests that tiny payments for digital contributions might correct yet another problem, a misallocation of labour. If companies paid people for useful data, rather than mopping up what they leave behind as they use online services, then prices could nudge people towards more productive online activity. Others advocate tougher regulation, mandating that consumers have the option of paying for a version of their social-media platforms free of advertisements and digital profiles. Neither seems imminent, and each comes with its own problems. But both would at least force people to start counting the cost of that priceless lunch. ■




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**Growing leather in factories**

## More skin in the game

**Genetic engineering can now be used to grow leather without any need to raise and kill animals**

**L**EATHERMAKING is an ancient craft. The oldest leather artefact found so far is a 5,500-year-old shoe from a cave in Armenia, but paintings in Egyptian tombs show that, 7,000 years ago, leather was being turned into all manner of things, from sandals to buckets to military equipment. It is a fair bet that the use of animal skins for shelter and clothing goes back hundreds of thousands of years at least.

Leathermaking is also, though, a nasty business. In 18th-century London the soaking of putrefying hides in urine and lime, to loosen any remaining flesh and hair, and the subsequent pounding of dog faeces into those skins to soften and preserve them, caused such a stench that the business was outlawed from the City proper and forced downwind and across the river into Bermondsey. In countries such as India and Japan, the trade tainted people as well as places and was (and often still remains) the preserve of social outcasts such as Dalits and Burakumin.

Modern production methods are less stomach-turning than those of the 18th century. Dog turds, lime and urine have been replaced by chromium and other chemicals. But some of those replacements are, themselves, pretty caustic substances. And the whole leather industry, based as it is on animal hides, is vulnerable these days to sensibilities about the relationship between human beings and other

animals that would scarcely have crossed peoples' minds in former years. Set against these considerations is a commercial one: leather, prized for its durability and suppleness, is a business worth \$100bn a year.

These contrasting facts make leather manufacturing a tempting target for technological disruption. And tanned animal skins are indeed about to face a rival. The challenge comes not, as might be assumed, from a substitute made of synthetic polymer, but rather from something which is, in most respects, the same as natural leather. The difference is that, instead of coming from an animal's back, this leather is grown, by the metre, in factories.

### Moo!

The most advanced practitioner of the still-experimental art of growing leather is Modern Meadow, an American firm. This month it moved from Brooklyn, New York, where its 60 staff have been quietly developing the new material, to a laboratory in Nutley, New Jersey, where they will begin production trials. Modern Meadow, which has raised more than \$50m from investors and is collaborating with a number of as-yet-unnamed other firms in the clothing, shoe, furniture and automotive industries, hopes to bring the new material to market within two years.

Factory-grown leather promises several advantages over skins taken from ani-

mals. One is that it can be made in convenient sheets with straight edges, rather than being constrained by the irregular shapes that animals come in. Another is that it is more consistent than the natural stuff. It is devoid of the scars, marks and other defects to which real skin is inevitably prone. Nor does it vary from animal to animal in the way that natural leather does. All these facts reduce waste and improve quality. They will also, presumably, please those who feel that animals should not have to die in order that people can have nice shoes and plush seat covers.

To produce its leather, Modern Meadow begins with a strain of yeast that has been genetically engineered to make a protein identical to bovine collagen. Collagen is the principal structural protein in animal bodies. In particular, it gives strength and elasticity to skin. It consists of long chains of amino-acids, the building blocks of all proteins, wound together in threesomes to form triple-helices that are then, in turn, wound together to make fibres.

In animal skins both the synthesis of the initial amino-acid chains and their subsequent winding into fibres are done by special cells called fibroblasts. One crucial trick Modern Meadow's bioengineers have mastered, though they are reluctant to talk about the details, is encouraging the chains spat out by the yeast to assemble themselves into fibres without the intervention of fibroblasts. Once the fibres are there, though, it is not too hard to persuade them to organise themselves into layers that are, to all intents and purposes, sheets of raw leather. These can then go for tanning, dyeing and finishing in the usual way.

According to Dave Williamson, the company's chief technology officer, this process has been designed so that it can be scaled up easily and carried out in existing ►►



industrial plants. Dr Williamson used to work for DuPont, a big chemicals firm, so he has lots of experience with such equipment. It would also be possible, he observes, to make the collagen in large, central facilities and then transport it to local factories and tanneries for conversion into hide. As to cost, the new material will, he says, be competitive with natural leather.

One other advantage of Modern Meadow's manufacturing process is that it permits different parts of a sheet to be given different properties. That can change both the look and the feel of the product in controlled ways. One area might, for instance, be made stiff while another is made soft. This would allow the newfangled "hides" to be custom-built for particular designs of shoe. The process could also be tweaked, though the company has announced no plans to do so, to expand beyond cow hides, by encoding other types of collagen

in the yeast. That would permit analogues of specialist leathers, such as ostrich or alligator, to be grown.

Modern Meadow is not, Dr Williamson says, actually out to ape leather. Rather, the firm's aim is to produce a new material in its own right, complete with brand name. That is designed to take the wind out of the sails of anyone who might seek, paradoxically, to contrast the perfection of a synthetic product with the inherent flaws of a natural one in a way advantageous to the latter, as has happened to synthetic gem-quality diamonds.

The chosen name will be revealed on October 1st at a fashion show in the Museum of Modern Art, in New York—as will a t-shirt, the first garment to be made from the material. Biotechnology will thus strut its stuff on the catwalk, and leather, whatever title it goes by, will take its first, halting steps away from the abattoir. ■

### Garment-making

## Stitches in time

### Sewing still needs human hands. But robot tailors are on their way

IN 1970 William J. Bank, president of the Blue Jeans Corporation, predicted that there would be a man on Mars before the production of apparel was automated. Almost half a century later, he has not yet been proved wrong. Viewed through the lens of history, this is astonishing. Spinning was one of the first processes to succumb to industrialisation. Weaving followed shortly afterwards. Cutting the resultant cloth into pieces from which an item is then assembled is easy now that patterns can be reduced to software. But, though effective sewing machines have been around since the 1840s, their activities still have to be guided by hand. The idea of putting a bolt of fabric into one end of an automated production line and getting completed garments out of the other thus remains as impossible as it was in Bank's day. Two American companies, however, think that they have cracked the problem, and that a system which can turn cloth into clothing without the need for tailors is just around the corner.

One of these aspiring firms, SoftWear Automation in Atlanta, Georgia, already makes machines, Sewbots, that can turn out towels, pillows, rugs, mats and other such essentially rectangular goods. SoftWear's boss, Palaniswamy Rajan, thinks Sewbots are almost ready to take the plunge with actual garments—in particular, with t-shirts. The other aspirant, Sewbo, which is based in Seattle, has made

a t-shirt already, as a proof of principle, though it does not yet have a commercial production system.

The problem both firms are trying to overcome is that cloth is floppy and behaves unpredictably when pushed around. It is thus hard to align two pieces of it in a way that allows them to be sewn together accurately. The putative solutions the firms have come up with are, though, completely different from one another. SoftWear Automation's approach has been to improve its sewing robots' ability to handle cloth—in essence, to make those robots more like human tailors. Sewbo's has been to make cloth itself easier for robots to handle.

SoftWear's Sewbots rely on two things: high-speed, high-resolution cameras able to monitor the movement of individual threads in a piece of cloth, and software that takes those movements and generalises them to describe the distortion and orientation of the fabric which the threads in question are part of. That permits a Sewbot to adjust the fabric appropriately as it is fed to the machine's needles. This feeding is done by a vacuum-powered robotic grip, which can be programmed to work with a variety of fabric sizes.

Sewbo's approach is to simplify the feeding process by stiffening the fabric. This is done by coating it with a thin layer of a plastic called polyvinyl alcohol before it gets anywhere near the needles. From

then on, according to Jonathan Zornow, Sewbo's founder, it can be handled as sheets of metal might be in a car plant. Aligning such sheets so that they can be sewn together is easy. And, once a garment is completed, the plastic can be removed by soaking in warm water. This is a routine procedure, for polyvinyl alcohol is already used elsewhere in textile production to strengthen yarn during weaving.

That both Mr Rajan and Mr Zornow have their eyes on the t-shirt market is no coincidence. t-shirts are structurally simple and demand for them is huge. Both of these things make them ideal for automated mass production. Mr Rajan thinks SoftWear's Sewbot t-shirt assembly lines will be able to turn out 3,300 items a day. He hopes to start shipping them within two years. Twenty-one of them will go to a factory in Arkansas that belongs to Tianyuan Garments—a firm which is the largest producer of apparel for Adidas, a German sportswear firm.

Sewbo's plans—those that have been publicly announced, at least—are less specific. The company's demonstration t-shirt was made last year. Now, Mr Zornow says, they are refining their methods for various types of fabrics and industrial settings. Though the first use of fully automated tailoring will be for mass production, he foresees the technology becoming more specialised quite quickly. Removing the need for cheap human hands to assemble garments will permit factories to set up shop near customers in rich countries. That will allow rapid delivery to shops, and let retailers try things out in the knowledge that they can resupply successful lines almost instantly. In the longer run, the automation of garment-making may also usher in an era of "mass bespoke", in which customers choose a style and have it made to fit their bodies in a way only haute couture or Savile Row can manage today. Whether that will happen before a human being walks on Mars remains to be seen. ■



Sew long and thanks for all the jobs



## Planetary science

## A hard rain

## Diamonds are uncommon on Earth. Elsewhere, they fall from the sky

IN THE marketplaces of planet Earth diamonds are both desirable and scarce, and that makes them expensive. Both the demand and the rarity are, however, largely artificial. Diamonds were made desirable in the 20th century mainly by a marketing campaign from De Beers, a big South African producer of the stones. The scarcity was, until recently, a result of the same company—which at one point controlled about 90% of the world's production—ensuring that the number of stones which found their way into the world's jewellery shops was well regulated.

In nature, though, diamonds are unremarkable. They are simply crystals of carbon, albeit crystals of a type that needs a fair amount of pressure to form. And carbon is the fourth-most abundant element in the universe. For that reason, diamonds are thought to be the commonest gemstones on Earth. Elsewhere in the cosmos, as demonstrated in a paper just published in *Nature Astronomy*, they are probably available in embarrassing abundance.

Dominik Kraus, a physicist at the Helmholtz Centre in Dresden, and his colleagues, are interested in ice-giant planets, such as Uranus (pictured) and Neptune. Unlike gas giants (Jupiter and Saturn being local examples), which are made mostly of hydrogen and helium, ice giants are rich in comparatively heavy elements such as oxygen, nitrogen and, crucially, carbon. That carbon is locked up in compounds, mostly hydrocarbons such as methane, ethane and the like.

Ice giants, as the name suggests, are also big. This means that, in the depths of their thick atmospheres, temperatures are high enough to split those hydrocarbons into

## Personality, poverty and purchases

## Spending profiles

## The poorer the extrovert, the more, proportionately, he will spend on status

EVEN when money is short, an occasional high-end experience is tempting. From luxury clothes to a round of golf, splurging not only makes people feel better, but may also enhance their status with their friends and relations. And for those without much status to start with, that seems to matter more. Researchers have long observed that people who have low incomes spend a bigger fraction of their earnings on things they perceive as status-enhancing than do those with money in more abundance. However, work by Blaine Landis and Joe Gladstone of University College, London, suggests that this is not equally true of everyone. Differences in personality have a big effect on how people respond to poverty.

In their study, just published in *Psychological Science*, Dr Landis and Dr Gladstone analyse a year of data from more than 700 British bank accounts in 2014. They sort purchases into categories, ranging from high-status (foreign air travel, electronic goods and so on) to low-status (money spent at salvage yards and discount stores). They then correlate the results with those from personality tests taken by the account-holders.

Though neither group was exactly profligate—spending on status-enhancing items amounted to only a few hundred pounds a year (see chart)—the study found that extroverts spent more of their income on luxury goods and services than did their introverted peers. Since past research shows that people who are outgoing care more about status than do those who are inward-looking that result is, perhaps, hardly surprising.

hydrogen and carbon, and pressures are sufficient to compress the carbon into diamonds. The consequence, 10,000km or so beneath the top of the atmosphere, is a constant rain of diamonds. Those diamonds sink towards the planet's core, encrusting it in a thick layer of gem stones.

That, at least, is the prediction. Testing it is tricky. Previous attempts, using anvils to compress hydrocarbons and lasers to heat them, have hinted that theory may, with a few tweaks, match reality. But Dr Kraus's paper is definitive. He and his colleagues put tiny samples of polystyrene—which, like methane, is made of carbon and hydrogen—in front of a giant x-ray laser at the National Accelerator Laboratory, near Stanford University in California, in order to squeeze and heat it at the same time.

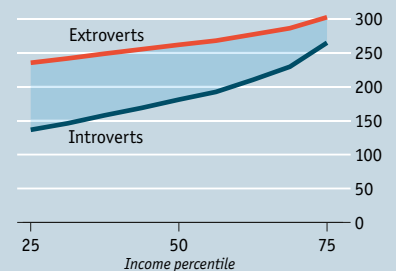
The results confirmed what researchers

Dr Landis and Dr Gladstone also found, though, that the gap widened with poverty. Extroverts with an annual income of £10,850 (\$17,780; the 25th percentile of British individual incomes in 2014), spent approximately 65% more on high-status goods than similarly remunerated introverts did. At the 75th percentile, £28,470, they spent only 14% more. This suggests how keenly extroverts feel about keeping up appearances.

Dr Landis believes such information is relevant to policymakers, who may be trying to design one-size-fits-all approaches to helping people on low incomes manage their money. He suggests that an approach which takes account of people's personalities might be more effective. Possibly that is true. But it is hard to imagine the average person, however outgoing, allowing a government inspector to measure his or her level of extroversion.

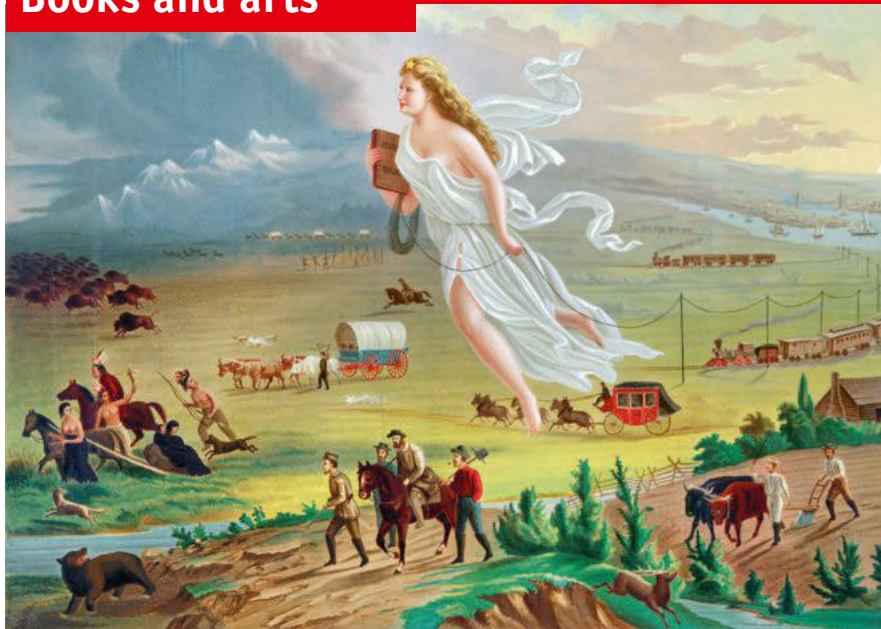
## Out-going shopping

Britain, spending on status-enhancing goods and services by income percentile, 2014, £



Source: *Psychological Science*

had long suspected. Diamonds do indeed form in such conditions, although the pressure required is a bit higher than previously thought. And Dr Kraus's research will be of interest to more than just gem-cutters of the distant future looking for new sources of supply. Knowing the temperature and pressure at which parts of an ice giant's atmosphere start to decompose into their elementary constituents can help astronomers fix the relationship between the radius and mass of such planets. That is useful, for these days scientists are interested in planets outside the solar system as well as those within it. For such bodies, mass and radius are often the only data available. Knowing how they relate will help astronomers catalogue just how many more diamond-encrusted planets are lurking out there in the cosmos. ■



## American history

## Onward and upward

## Technology and capitalism shaped America in unexpected ways after the civil war

“THE Oxford History of the United States” is one of the great achievements of modern historical scholarship. The series, which began appearing in 1982 and has since won three Pulitzer prizes, includes some exceptional individual volumes, such as James McPherson’s “Battle Cry of Freedom”, about the civil war, and David Kennedy’s “Freedom From Fear”, which covered the Depression and the second world war. It maintains a consistently high standard of excellence throughout and is notably better, on average, than the “Oxford History of England”. David Kennedy, the current series editor, deserves the highest praise.

Fans of the series have been waiting for the latest volume with particular eagerness. The era from 1865 to 1896 is obviously interesting in its own right: it takes America from the end of the civil war, when the South lay shattered, to the height of the gilded age, when America was taking over from Britain as the world’s mightiest economy. It is also interesting because of the parallels with our own times. This era saw the rise of great entrepreneurs who refashioned the material basis of civilisation with the discovery of efficient methods of producing steel and oil. It also saw a growing tension between the country’s egalitarian and individualistic traditions on the one hand, and its emerging business empires on the other. This tension gave rise to radical new political movements, such as

**The Republic for Which It Stands: The United States During Reconstruction and the Gilded Age, 1865-1896.** By Richard White. *Oxford University Press*; 928 pages; \$35. To be published in Britain by OUP in October

populism and progressivism, and wild pendulum swings of political fortunes.

Richard White is well qualified to cover this tumultuous era. As the author of a fine book on America’s railways (“Railroaded: The Transcontinentals and the Making of Modern America”), he knows as much as anybody about the most important technology of the era. As a professor at Stanford University, he can see the era from the perspective of the west coast as well as the east. Three great themes run through this sprawling narrative, which moves back and forth between politics, economics and political thought.

The first is that capitalism was never as triumphant in this era as its apostles claim. Contemporaries such as Ida Tarbell did a good job of demonising John D. Rockefeller and other tycoons as “robber barons”. Mr White applies the same technique to companies that those barons created. Alfred Chandler, the doyen of American business historians, and his followers argued that the great story of this era was the establishment of giant corporations, with their mastery of the logic of scale and

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scope, at the heart of the American economy. Mr White argues that these groups were deeply flawed. They were run by insiders who milked them for excess profits. They gained advantage by bribing politicians as well as producing new products.

The march of capitalism left a great deal of destruction in its wake. The settlers massacred both the Native Americans and the buffalo that had made their homes on the great American plains. The robber barons built their factories and railways without regard to the quality of the air or workers’ safety: in just one year, 1893, 1,567 railway workers were killed and 18,877 injured. The “creative” side of creative destruction did not necessarily compensate: Americans who were born during the gilded age were shorter and had a briefer lifespan than those born half a century earlier.

The second theme is the conflict between America’s conception of itself as a land of equal and self-reliant citizens and the reality of post-civil-war America. The North took up arms against the South in order to universalise the ideal of a republic based on free labour. It passed a succession of measures such as free land for settlers (provided they worked the soil for five years) and public support for education in order to give the ideal flesh. But reality pulled in a different direction. The Confederacy all but re-enslaved the blacks in the iron cage of Jim Crow and prejudice. Giant organisations crushed small independent workshops. Some of the best passages in this book look at how Americans struggled with the contradictions between what they believed about the world and what stared them in the face.

The third theme is the unification of the country, as Americans gave up saying the United States “are” and began to say the United States “is”. The country became both bigger and smaller. Bigger because ►►

▶ eastern settlers pushed ever westward, from the prairies to the Great Plains over the Rockies to the west coast, as epitomised by “American Progress”, which John Gast painted in 1872 (pictured previous page). Smaller because the railway and the telegraph shrank distances. In 1865 it took months to travel from east to west. In 1895 you could make the same journey in days. At the same time the country turned on its axis. In the first half of the 19th century the flow of American trade was north-to-south via the coasts and river systems. In the second half of the 19th century, thanks to the arrival of the railways, it was increasingly from east to west.

At times, Mr White is so keen on exposing the destructive side of capitalism that he downplays the creative side. During this period America replaced Britain as the world’s most important economy. Great companies seized on new technologies and innovative management techniques to reduce the price of basic commodities, sometimes by as much as 90%, as in the case of steel and oil. And millions of people, many of whom came from Europe in boats, were given the chance of achieving the republican dream of a house of their own.

“The Republic for Which It Stands” should be read alongside more positive accounts such as Robert Gordon’s “The Rise and Fall of American Growth”, which argues that productivity gains in this period laid the foundation of America’s mass prosperity. But most of all Mr White’s book should be read—not just because it has so much to say about the latter part of the 19th century, but also because it casts light on America’s current problems with giant companies and roiling populism. ■

### The politics of cyberspace

## Grasping the dangers

### The Virtual Weapon and International Order.

By Lucas Kello. *Yale University Press*; 319 pages; £25. To be published in America by *Yale* in September; \$35

THE woes of international-relations theorists do not usually elicit public sympathy. But “The Virtual Weapon and International Order”, Lucas Kello’s lucid and insightful book on the politics of cyberspace, does a good job of persuading the reader of the near-vacuum that prevails in academic work on the threats to people’s computers and networks.

New technologies, he argues, have upended conventional understanding of the way states deal with defence and deterrence. The threat is pervasive; a cyber-

attack can hit anything from a missile-control system to a media website, with potentially profound consequences. Geography is irrelevant. Old thinking about defending a perimeter makes no sense when the adversary is probably already lurking in your networks. The simpler techniques may be used by all manner of adversaries: criminals and hooligans as well as spies and soldiers. These categories may overlap. Attributing an attack is more difficult.

The shift is much bigger than from past changes in military capability—the author highlights the use of submarines, powered flight, tanks, radar or nuclear weapons. Some academic colleagues still maintain that nothing new has really happened; technological change does not fundamentally alter the understanding of warfare. Mr Kello lambasts such sceptics on both practical and theoretical grounds.

His case studies include the crude but crippling attack on Estonia’s information systems in 2007, which was probably a Russian response to the moving of a Soviet-era war memorial. He also looks at the hack of Sony Pictures, probably by North Korea in response to the release of “The Interview”, a satirical film about the country’s leader, and the American-Israeli Stuxnet software-driven sabotage of Iran’s nuclear centrifuges.

Such state-sponsored attacks stop short of full-scale war, but are too aggressive to count as normal peacetime behaviour. Another riddle for theorists is that attacks straddle the civilian-military divide. Mr Kello, an American-educated Argentine-Estonian who now works at Oxford University, coins the term “unpeace” to describe the ambiguous, persistent irritants and stunts of recent years. He also outlines an interesting notion of “punctuated deterrence” as a way of responding to such attacks. The means employed would include military and non-military means, with unpredictable timing. Such a prospect, he argues, would deter attacks more credibly than the threat of all-out “kinetic” (real-world) war. He is vague on the details: a serious book on cyber-deterrence would be welcomed by many.

Although he is not himself a computer scientist, Mr Kello displays an enviable grasp of the technical issues, as well as of the academic landscape. One of his targets is complacency. Another is overspecialisation: lawyers, military theorists, political scientists and technogeeks each see only their own side of the problem. A co-operative, all-round approach would mean a better framework for understanding the interaction between individuals and states in cyberspace.

Academic jousting is a spectator sport for most outsiders, but the dangers facing our computers and networks are not. Readers of all kinds will find Mr Kello’s book informative and thought-provoking. ■

### South-East Asian politics

## Beauty and the beasts

### Blood and Silk: Power and Conflict in Modern

*Southeast Asia.* By Michael Vatikiotis. *Weidenfeld & Nicolson*; 336 pages; £20

SOUTH-EAST ASIA is adorned by jungles, islands and gleaming skyscrapers. Home to more than 640m people, the variety of the region’s 11 countries defies most analytical attempts at clustering them together. Sweeping takes often fail to encapsulate the complexity of ancient cultures, languages and people that are to be found from the tip of Timor-Leste to the top of Myanmar. This is precisely what makes “Blood and Silk”, Michael Vatikiotis’s frenetic overview of politics in South-East Asia, so ambitious.

In his analysis of the power structures which define the region, Mr Vatikiotis, a private diplomat, analyses the role of monarchies and elite groups in perpetuating political uncertainty. Corruption, violence and religious extremism follow in cycles of misery: “When the water is high the fish eat the ants; when the water is low the ants eat the fish,” goes a Cambodian saying he records. An array of interview subjects, from Malaysian bigwigs with faded clothes to Javanese taxi drivers who believe in royal magic, provide small glimpses of humanity amid a landscape darkly portrayed.

The most intriguing insights regard the nature of power itself in South-East Asia. “Power is regarded as an absolute attribute ... you either have it, or you don’t,” Mr Vatikiotis writes. “And your life is worth far less if you don’t.” His understanding comes from time spent both as a journalist, pestering officials, and as a peace negotiator, challenging them. In America former presidents plan libraries and speaking tours; by contrast, leaders in South-East Asia fear their own decline. Hun Sen, Cambodia’s prime minister, has been in charge since 1985. ▶



Systems of patronage break down unless the man or woman at the top stays there. So he or she tends to cling to the position for as long as possible. Jewel-like historical examples embellish the book, but one in particular encapsulates this point. Sir James George Scott, a 19th-century observer of Burmese society, related that on hearing that William Gladstone had been replaced as Britain's prime minister by Benjamin Disraeli in 1874, King Mindon Min responded with sympathy for Gladstone, whom he supposed must be in prison.

The competition for power is all the

more desperate given the weakness of civic institutions in South-East Asia. Victims of violence and slaughter, such as those attacked in anti-communist massacres in Indonesia in the 1960s, receive little justice. Mr Vatikiotis tells how 40,000 people were killed on the island of Bali alone, now a paradisiacal destination for more than 4m tourists a year. But the bloodshed is barely discussed there amid the surfing schools and the yoga studios. Impunity festers too in Cambodia, Myanmar and Thailand.

"Blood and Silk" is a timely book. In Malaysia voters anticipate an election; in

Thailand a new king awaits coronation; and in the Philippines the army is fighting for victory against militants linked to Islamic State (IS). China's growing influence, and uncertainty over the role America wishes to play in the region now that Donald Trump is president, are causing a shift in alliances. The magnitude of the abuses, deceptions, conflicts and scandals which have shaped South-East Asia's politics over the past century is barely contained within the book's pages. Yet Mr Vatikiotis has some advice for those trying to live and work in spite of them: "When elephants fight, stay out of the long grass." ■

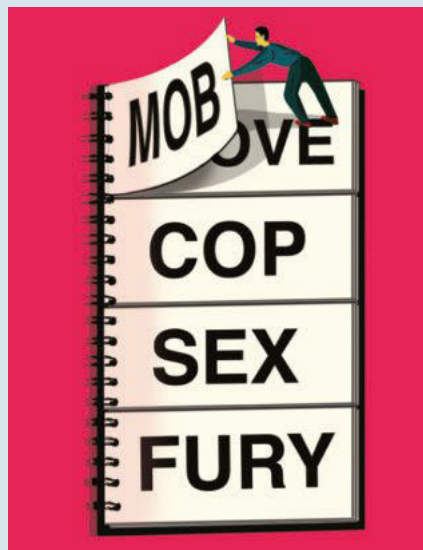
## Johnson | Journalese

### The many pitfalls of language as used by journalists

EVERY trade is also a tribe, and journalists are no exception. One way that tribes, from teens to programmers, signal membership of the group is through language. Hacks do the same. They write "hed" for headline, "lede" or "intro" for the first sentence in a story, "graf" for "paragraph", "nut graf" for the core paragraph that gives the story's main idea. The last line is always the "kicker".

But journalists should not be obscure. After all, the whole point of the job is to make things clear to readers. Yet readers are often baffled by the first words they see in a newspaper: headlines. In Britain, a broad range of national newspapers compete on nearly every news-stand. So the tabloids, in particular, put a premium on getting as many short, emotion-grabbing words in the biggest font possible on front page—often at the expense of making sense. A recent headline in the *Sun*, Britain's bestselling tabloid, declaring "LOVE ISLE SEX DRUG SHOCK" did not carry any information about who did what to whom; note the lack of a verb. But it did include just about as many jolts to the British id as are possible in five words. Rupert Murdoch, the *Sun*'s owner, is often considered the father of the modern tabloid, so it is no surprise that his New York tabloid, the *Post*, copies this style. Possibly the most New York headline ever was "MOB COP SEX FURY".

Even where headline-writers are more sober, as in the broadsheets, they try to get as many content-rich words in as they can. Keeping the font big means omitting many of those little function words: "the", "a", "and", prepositions and the like. But these words, despite their small size, have an outside importance: they convey the who-did-what-to-whom of the content words by providing structure and context. Omitting too many of them gives rise to



headlines like "Services For Man Who Refused To Hate Thursday In Atlanta", raising the question of who exactly does hate Thursday in Atlanta, or "Patrick Stewart Surprises Fan With Life-Threatening Illness", which would seem a pretty cruel thing for Mr Stewart to do, if read with a certain tilt of the head.

In the main text, journalists tend to the opposite sin. Instead of being obscure, they make prose feel so dreadfully familiar that the reader wonders if the paper came out last month—or even last year. A satirical piece in the *Washington Post* covered the white-nationalist marches in Virginia as though written by a hack foreign correspondent, describing "tribal politics" and "flashpoints" in which the "Trump regime" sided with the "ethnic majority". Good editors have a list of clichés that they strike from their pages with zeal. Only a journalist finds "fresh" a fresh synonym for "new", so that the reader hears of "fresh clashes"

or "fresh elections", or in one grisly example, "fresh bodies" washing up weeks after a tsunami. Only in the papers do time periods "see" this or that: March saw major demonstrations, April saw fresh clashes, and so on.

Overused words like landmark, historic, crisis, watershed, make-or-break and the like give the impression that the writer does not trust the facts themselves to convey any drama. The inexperienced writer may find these clichés and overused words rushing to the fingertips. It is tempting to write like many of the journalists you have read, to show that you have mastered the way it is usually done.

Whereas this might work on a lazy editor, it is no road to distinction. George Orwell once wrote: "Never use a metaphor, simile or other figure of speech which you are used to seeing in print." Where most writers find themselves talking about people rushing to something "like moths to a flame", Orwell had them doing so "like bluebottles to a dead cat". Though known best as a novelist and essayist, he was also a master chronicler of the things he saw as a journalist.

Orwell's concern was not just stylistic. It was that hackneyed writing betrays rushed, automatic thinking, rather than slow and critical reflection. Of course, it is hard to be reflective when working to a deadline. Every newspaper, including this one, will feature some verbiage that is the equivalent of the ubiquitous flat-pack Ikea furniture, chosen not because it inspires, but because it is quick to assemble and gets the job done. Yet crafting fresh language, for all the time and effort it takes, is the first step in producing stories that will not only be published, but be read with pleasure. Tribal language may be useful for insiders, but most outsiders just find it annoying.

## New fiction

## World's end

**The Susan Effect.** By Peter Hoeg. Translated by Martin Aitken. *Harvill Secker*; 352 pages; £16.99

**I**N A summer of nuclear threats and bluffs, a futurist thriller about looming global catastrophe will appeal to readers who like their holidays to contain a prickle of dread. Peter Hoeg, a Danish author who is still best known for his 1992 bestseller, “Miss Smilla’s Feeling for Snow”, takes a circuitous route towards a Hollywood-style showdown in which social breakdown, environmental disaster and atomic weapons in rogue hands mean that “the scenarios of apocalypse are unfolding now”. What is more, the venue for this panic-attack is serene Copenhagen; the date, Christmas 2018. The world’s time, Mr Hoeg insists in his entertaining if cartoonish confection, is fast running out.

Mr Hoeg reverts to the Smilla model with another spookily gifted heroine, this time Susan Svendsen, a quantum physicist. Beyond her maverick genius, Susan has another precious asset: she can draw intimate confessions out of almost everyone she meets, possessing a freakish capacity for “empathetic opening”. A brisk materialist who thinks that “people are small next to physics” and interprets love as no more than a “Darwinist illusion”, she shares a steely detachment with the female sleuths of Nordic noir.

After Susan, her composer husband Laban and their teenage twins run into legal trouble in India, an enigmatic Danish official offers a deal. All charges will vanish if she can find the final report of a mysterious “Future Commission” of youthful super-brains. Established in 1972, it was sidelined as the young prophets began to forecast world events with “a predictive precision without parallel”. Here the formulaic fun begins: Susan tracks down the now-ageing sages only to find that someone is killing them, and conspiring to destroy her.

As the plot veers towards outright fantasy, the reader learns that Denmark’s rulers, convinced the “end of the world” foreseen by the commission is at hand, plan an evacuation of the country’s elite to a tropical refuge, “a sustainable Atlantis”. At the end of this diverting but increasingly outlandish adventure, you wonder when planetary catastrophe will strike. Why have the Scandinavian democracies, stable and open beyond compare, become world-leaders in sinister tales of high-level conspiracies against truth and justice? For all her paranormal prowess, Susan never quite tells you. ■



## Post-war British immigration

## In search of the motherland

**Lovers and Strangers: An Immigrant History of Post-War Britain.** By Clair Wills. *Allen Lane*; 442 pages; £25

**I**N 1956 an airstrip was built on Montserrat. For the first time it was easy to fly to and from the Caribbean island; within five years 30% of its inhabitants had emigrated to Britain. Similar exoduses took place across the world: by 1961 nearly a sixth of those born in the Republic of Ireland lived in Britain. Like a quarter of the population on Earth, the Montserratians and Irish lived in a British colony or former colony. Under the British Nationality Act of 1948, imperial subjects and Commonwealth citizens were entitled to the same rights as anyone born in Britain.

This proved to be short-lived. The Commonwealth “open door”, the subject of Clair Wills’s poignant book, “Lovers and Strangers”, lasted only until 1968. Ms Wills, a Princeton professor, has produced a series of thematic “miniatures” depicting “the fragmentary experiences of metropolitan migrant life”. This is the source of the book’s strengths and weaknesses: it is a rich account that does not always cohere in a satisfying way.

The economic appeal of migration was obvious. In Mirpur, the region that many Pakistani immigrants came from, the average weekly wage for a labourer in the early 1960s was less than 40 pence; in Britain it

was £31 (\$39.70). In the 1940s and 1950s most of those who arrived planned to stay a short time to make the most of opportunities; they considered themselves migrants, not immigrants who had settled for good. Migration “needed to be made to pay back home”, Ms Wills writes, and this was achieved by sending remittances.

Immigrants stayed connected to home in other ways, too. Many held on to the ties and prejudices of the places they came from. Irish pubs in Birmingham were segregated along geographical lines—one might be frequented by Dubliners, another by immigrants from western Ireland. Home was recreated, too, with music and poetry—such as Trinidadian calypso or Punjabi *boliyan*—even as new lyrics described life in Britain with its Lyons Corner Houses and welfare state.

For all the joys of the migrants’ experience, as depicted in these songs, what stands out in “Lovers and Strangers” are the difficulties they faced. This was perhaps most acute for immigrants from the Caribbean. Educated in schools modelled on the British system, they expected a warm welcome from the “mother country”; yet when they arrived they struggled to find landlords willing to rent them homes. Most Commonwealth citizens found themselves regarded as the “strangers” of the book’s title.

Violence towards West Indians erupted with the Notting Hill riots in 1958. It was, Ms Wills writes, a “watershed”, marking the start of an era in which immigration became more openly contentious. In the election of 1964 the West Midlands seat of Smethwick was won by Peter Griffiths, a Conservative who called for immigration to be halted for five years. Against this backdrop, the Commonwealth Immigrants Acts of 1962 and 1968 were passed, first limiting entry to those with work vouchers, then to those with a parent or grandparent who was a British citizen.

This legislation sparked a rush to “beat the ban”. In the 18 months before the 1962 act came into force, 98,000 immigrants arrived from the Caribbean alone. More significant, it ushered in a new phase of immigration. Many men brought over their families, fearing it would soon become impossible to do so: between 1962 and 1965, more than 90% of Commonwealth immigrants were the dependents of men living in the country.

After reunion with one’s family, it was easier to imagine oneself an immigrant rather than a migrant, to feel settled for the long haul. Still, as the author writes, immigrants lived in a limbo, “belonging securely” neither to Britain nor to their homeland. But no matter how remote that homeland might feel, it could still exert a powerful pull. “If I dream tonight,” one Jamaican immigrant said in 1966, “you can beat your life it will be about Jamaica.” ■



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## Economic data

% change on year ago

	Gross domestic product			Industrial production latest	Consumer prices		Unemployment rate, %	Current-account balance		Budget balance % of GDP 2017 <sup>†</sup>	Interest rates, % 10-year gov't bonds, latest	Currency units, per \$	
	latest	qtr* 2017 <sup>†</sup>	2017 <sup>†</sup>		latest	2017 <sup>†</sup>		latest 12 months, \$bn	% of GDP 2017 <sup>†</sup>			% of GDP 2017 <sup>†</sup>	Aug 23rd
United States	+2.1 Q2	+2.6	+2.2	+2.2 Jul	+1.7 Jul	+1.9	4.3 Jul	-449.3 Q1	-2.5	-3.4	2.20	-	-
China	+6.9 Q2	+7.0	+6.7	+6.4 Jul	+1.4 Jul	+1.9	4.0 Q2 <sup>§</sup>	+157.3 Q2	+1.6	-3.9	3.62 <sup>§§</sup>	6.66	6.64
Japan	+2.0 Q2	+4.0	+1.4	+5.5 Jun	+0.3 Jun	+0.6	2.8 Jun	+187.8 Jun	+3.6	-4.5	0.04	109	100
Britain	+1.7 Q2	+1.2	+1.5	+0.3 Jun	+2.6 Jul	+2.7	4.4 May <sup>††</sup>	-99.8 Q1	-3.4	-3.6	1.10	0.78	0.76
Canada	+2.3 Q1	+3.7	+2.4	+12.6 May	+1.2 Jul	+1.8	6.3 Jul	-48.4 Q1	-2.6	-2.4	1.88	1.26	1.29
Euro area	+2.2 Q2	+2.5	+2.0	+2.6 Jun	+1.3 Jun	+1.5	9.1 Jun	+372.7 Jun	+3.2	-1.3	0.37	0.85	0.88
Austria	+2.3 Q1	+5.7	+1.9	+3.6 May	+2.0 Jul	+1.9	5.2 Jun	+6.4 Q1	+2.2	-1.2	0.60	0.85	0.88
Belgium	+1.5 Q2	+1.6	+1.6	+2.0 May	+1.8 Jul	+2.1	7.6 Mar	-4.2 Mar	+0.1	-2.1	0.73	0.85	0.88
France	+1.8 Q2	+2.2	+1.5	+2.6 Jun	+0.7 Jul	+1.2	9.6 Jun	-25.3 Jun	-1.3	-3.1	0.70	0.85	0.88
Germany	+2.1 Q2	+2.5	+1.9	+2.5 Jun	+1.7 Jul	+1.6	3.8 Jun <sup>‡</sup>	+270.6 Jun	+8.0	+0.7	0.37	0.85	0.88
Greece	+0.8 Q1	+1.8	+1.0	+1.6 Jun	+1.0 Jul	+1.3	21.7 May	-1.0 Jun	-1.2	-1.4	5.59	0.85	0.88
Italy	+1.5 Q2	+1.6	+1.2	+5.3 Jun	+1.1 Jul	+1.3	11.1 Jun	+50.3 Jun	+2.1	-2.3	2.12	0.85	0.88
Netherlands	+3.3 Q2	+6.2	+2.2	+3.3 Jun	+1.3 Jun	+1.1	6.0 Jun	+68.4 Q1	+10.0	+0.6	0.53	0.85	0.88
Spain	+3.1 Q2	+3.6	+3.0	+3.4 Jun	+1.5 Jul	+1.9	17.1 Jun	+21.5 May	+1.7	-3.3	1.57	0.85	0.88
Czech Republic	+4.0 Q1	+9.5	+3.2	+2.2 Jun	+2.5 Jul	+2.3	2.9 Jun <sup>‡</sup>	+1.4 Q1	+0.9	-0.2	0.93	22.1	23.9
Denmark	+3.6 Q1	+2.0	+1.8	+2.3 Jun	+1.5 Jul	+1.0	4.3 Jun	+26.4 Jun	+8.0	-0.6	0.51	6.30	6.57
Norway	+2.6 Q1	+0.9	+1.9	+2.8 Jun	+1.5 Jul	+2.1	4.3 Jun <sup>‡‡</sup>	+22.4 Q1	+7.0	+4.2	1.61	7.87	8.19
Poland	+4.4 Q1	+4.5	+3.6	+6.3 Jul	+1.7 Jul	+1.8	7.1 Jul <sup>§</sup>	-2.5 Jun	-0.5	-2.2	3.32	3.63	3.80
Russia	+2.5 Q2	na	+1.5	+1.0 Jul	+3.9 Jul	+4.1	5.1 Jul <sup>§</sup>	+33.6 Q2	+2.5	-2.2	8.13	59.1	64.3
Sweden	+3.9 Q2	+7.1	+2.7	+8.5 Jun	+2.2 Jul	+1.7	7.4 Jun <sup>§</sup>	+22.0 Q1	+4.8	+0.3	0.63	8.07	8.36
Switzerland	+1.1 Q1	+1.1	+1.3	-1.3 Q1	+0.3 Jul	+0.5	3.2 Jul	+73.6 Q1	+9.6	+0.2	-0.11	0.96	0.96
Turkey	+5.0 Q1	na	+3.7	-3.6 Jun	+9.8 Jul	+10.3	10.2 May <sup>§</sup>	-34.3 Jun	-4.3	-2.0	10.68	3.49	2.94
Australia	+1.7 Q1	+1.1	+2.3	-0.8 Q1	+1.9 Q2	+2.2	5.6 Jul	-25.0 Q1	-1.5	-1.8	2.62	1.27	1.31
Hong Kong	+3.8 Q2	+4.1	+3.0	+0.2 Q1	+1.9 Jul	+1.6	3.1 Jul <sup>††</sup>	+14.9 Q1	+5.8	+1.7	1.59	7.83	7.75
India	+6.1 Q1	+7.2	+7.1	-0.1 Jun	+2.4 Jul	+3.9	5.0 2015	-15.2 Q1	-1.1	-3.2	6.54	64.1	67.1
Indonesia	+5.0 Q2	na	+5.2	-1.4 Jun	+3.9 Jul	+4.3	5.3 Q1 <sup>§</sup>	-14.2 Q2	-1.7	-2.4	6.79	13,353	13,219
Malaysia	+5.8 Q2	na	+5.2	+4.0 Jun	+3.2 Jul	+3.9	3.4 Jun <sup>§</sup>	+8.1 Q2	+2.2	-3.0	3.97	4.28	4.03
Pakistan	+5.7 2017**	na	+5.7	+3.4 Jun	+2.9 Jul	+4.2	5.9 2015	-12.1 Q2	-3.8	-4.5	8.10 <sup>†††</sup>	105	105
Philippines	+6.5 Q2	+7.0	+6.5	+8.1 Jun	+2.8 Jul	+3.0	5.7 Q2 <sup>§</sup>	-0.4 Mar	+0.3	-2.8	4.69	51.2	46.5
Singapore	+2.9 Q2	+2.2	+2.9	+13.1 Jun	+0.6 Jul	+0.9	2.2 Q2	+59.0 Q2	+18.4	-1.0	2.16	1.36	1.35
South Korea	+2.7 Q2	+2.4	+2.8	-0.3 Jun	+2.2 Jul	+1.9	3.5 Jul <sup>§</sup>	+83.3 Jun	+5.9	+0.9	2.30	1,132	1,116
Taiwan	+2.1 Q2	+0.5	+2.3	+2.4 Jul	+0.8 Jul	+0.5	3.8 Jul	+70.7 Q2	+12.6	+0.2	1.03	30.3	31.7
Thailand	+3.7 Q2	+5.4	+3.3	-0.2 Jun	+0.2 Jul	+0.8	1.1 Jun <sup>§</sup>	+44.9 Q2	+11.9	-2.5	2.26	33.4	34.6
Argentina	+0.3 Q1	+4.3	+2.5	-2.5 Oct	+21.5 Jul <sup>‡</sup>	+24.2	9.2 Q1 <sup>§</sup>	-16.8 Q1	-2.9	-6.1	na	17.2	14.8
Brazil	-0.4 Q1	+4.3	+0.5	+0.5 Jun	+2.7 Jul	+3.8	13.0 Jun <sup>§</sup>	-13.8 Jul	-1.0	-8.1	9.24	3.16	3.20
Chile	+0.9 Q2	+3.0	+1.4	-2.2 Jun	+1.7 Jul	+2.4	7.0 Jun <sup>§††</sup>	-5.6 Q2	-1.3	-3.1	4.31	642	668
Colombia	+1.3 Q2	+3.0	+1.7	-1.9 Jun	+3.4 Jul	+4.0	8.7 Jun <sup>§</sup>	-11.9 Q1	-3.7	-3.3	6.79	2,989	2,902
Mexico	+1.8 Q2	+2.3	+2.0	-0.3 Jun	+6.4 Jul	+5.7	3.3 Jun	-22.0 Q1	-2.0	-1.9	6.79	17.7	18.3
Venezuela	-8.8 Q4~	-6.2	-9.0	+0.8 Sep	na	+667	7.3 Apr <sup>§</sup>	-17.8 Q3~	-1.1	-19.5	11.02	10.0	9.99
Egypt	+4.3 Q1	na	+3.7	+33.0 Jun	+33.0 Jun	+22.8	12.0 Q2 <sup>§</sup>	-18.0 Q1	-5.9	-10.8	na	17.7	8.88
Israel	+4.0 Q2	+2.7	+4.1	+0.9 Jun	-0.7 Jul	+0.5	4.1 Jul	+11.7 Q1	+4.1	-2.6	1.67	3.62	3.77
Saudi Arabia	+1.7 2016	na	-0.5	na	-0.3 Jul	+1.1	5.6 2016	-1.0 Q1	+0.5	-8.2	3.68	3.75	3.75
South Africa	+1.0 Q1	-0.7	+0.6	-2.7 Jun	+4.6 Jul	+5.4	27.7 Q2 <sup>§</sup>	-7.9 Q1	-3.3	-3.2	8.59	13.2	13.5

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.

The Economist

FILMS

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## THE DEEP

Exploring the ocean floor

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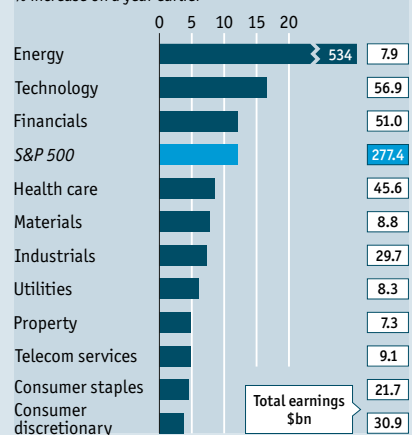
Markets

	Index Aug 23rd	% change on		
		one week	in local currency	in \$ terms
United States (DJIA)	21,812.1	-1.0	+10.4	+10.4
China (SSEA)	3,443.2	+1.3	+6.0	+10.5
Japan (Nikkei 225)	19,434.6	-1.5	+1.7	+8.8
Britain (FTSE 100)	7,382.7	-0.7	+3.4	+7.0
Canada (S&P/TSX)	15,063.2	-0.1	-1.5	+5.2
Euro area (FTSE Euro 100)	1,179.9	-1.2	+6.1	+18.9
Euro area (EURO STOXX 50)	3,438.6	-1.3	+4.5	+17.1
Austria (ATX)	3,184.8	-1.7	+21.6	+36.2
Belgium (Bel 20)	3,909.7	-1.1	+8.4	+21.4
France (CAC 40)	5,115.4	-1.2	+5.2	+17.8
Germany (DAX)*	12,174.3	-0.7	+6.0	+18.8
Greece (Athex Comp)	829.2	-1.6	+28.8	+44.3
Italy (FTSE/MIB)	21,620.3	-1.7	+12.4	+25.9
Netherlands (AEX)	519.4	-1.2	+7.5	+20.4
Spain (Madrid SE)	1,040.9	-2.0	+10.3	+23.6
Czech Republic (PX)	1,031.3	-0.2	+11.9	+29.6
Denmark (OMXC20)	909.5	-0.2	+13.9	+27.5
Hungary (BUX)	37,753.2	+2.3	+18.0	+34.9
Norway (OSEAX)	803.9	-0.8	+5.1	+14.9
Poland (WIG)	62,699.8	+0.3	+21.1	+39.4
Russia (RTS, \$ terms)	1,045.0	+1.5	-9.3	-9.3
Sweden (OMXS30)	1,542.1	-0.6	+1.6	+14.4
Switzerland (SMI)	8,958.5	-0.9	+9.0	+14.8
Turkey (BIST)	108,952.7	+2.0	+39.4	+40.5
Australia (All Ord.)	5,792.7	-0.7	+1.3	+11.0
Hong Kong (Hang Seng)	27,401.7	nil	+24.5	+23.4
India (BSE)	31,568.0	-0.6	+18.6	+25.5
Indonesia (JSX)	5,914.0	+0.4	+11.7	+12.7
Malaysia (KLSE)	1,772.9	nil	+8.0	+13.2
Pakistan (KSE)	42,910.8	-2.9	-10.2	-11.1
Singapore (STI)	3,260.1	-0.6	+13.2	+20.1
South Korea (KOSPI)	2,366.4	+0.8	+16.8	+24.6
Taiwan (TWI)	10,406.8	+1.1	+12.5	+19.7
Thailand (SET)	1,573.4	+0.4	+2.0	+9.5
Argentina (MERV)	23,262.4	+1.6	+37.5	+26.6
Brazil (BVSP)	70,477.6	+2.7	+17.0	+20.7
Chile (IGPA)	25,614.0	+0.4	+23.5	+28.9
Colombia (IGBC)	10,975.0	+1.1	+8.6	+9.1
Mexico (IPC)	51,280.2	+0.2	+12.4	+30.6
Venezuela (IBC)	198,170.5	+6.6	+525	na
Egypt (EGX 30)	12,996.2	-1.2	+5.3	+7.6
Israel (TA-125)	1,262.6	-0.2	-1.1	+5.3
Saudi Arabia (Tadawul)	7,263.8	+1.9	+0.4	+0.4
South Africa (JSE AS)	56,162.3	+1.1	+10.9	+14.7

Corporate profits

It has been a cheery earnings season for American businesses. With only a few firms still to report, second-quarter earnings for S&P 500 companies are expected to be 12% higher than a year ago. Of the firms that report revenue by country, 40% of sales come from abroad; these have been buoyed by improving global growth and a weak dollar. Profits in the energy industry are thought to have boomed by a staggering 534% to \$7.9bn, after low oil prices caused misery in 2016. The tech sector has done well, with Facebook's and Apple's earnings exceeding expectations. Profits of "consumer discretionary" firms have barely risen, owing to Amazon's weaker-than-expected earnings.

S&P 500, earnings by sector, Q2 2017\*  
% increase on a year earlier



Source: Thomson Reuters I/B/E/S \*Reported and estimated

Other markets

	Index Aug 23rd	% change on		
		one week	in local currency	in \$ terms
United States (S&P 500)	2,444.0	-1.0	+9.2	+9.2
United States (NAScomp)	6,278.4	-1.1	+16.6	+16.6
China (SSEB, \$ terms)	337.2	+0.7	-1.4	-1.4
Japan (Topix)	1,600.1	-1.0	+5.4	+12.7
Europe (FTSEurofirst 300)	1,469.1	-1.3	+2.9	+15.2
World, dev'd (MSCI)	1,942.1	-0.6	+10.9	+10.9
Emerging markets (MSCI)	1,075.6	+1.4	+24.7	+24.7
World, all (MSCI)	474.0	-0.4	+12.4	+12.4
World bonds (Citigroup)	949.3	+0.9	+7.4	+7.4
EMBI+ (JPMorgan)	831.4	+0.3	+7.7	+7.7
Hedge funds (HFRX)	1,240.8 <sup>§</sup>	nil	+3.1	+3.1
Volatility, US (VIX)	12.3	+11.7	+14.0 (levels)	
CDSs, Eur (iTRAXX) <sup>†</sup>	57.9	+2.7	-19.7	-10.1
CDSs, N Am (CDX) <sup>†</sup>	61.1	+2.4	-9.8	-9.8
Carbon trading (EU ETS) €	6.0	+2.4	-9.6	+1.3

Sources: IHS Markit; Thomson Reuters. \*Total return index.  
<sup>†</sup>Credit-default-swap spreads, basis points. <sup>§</sup>Aug 22nd.

Indicators for more countries and additional series, go to: [Economist.com/indicators](http://Economist.com/indicators)

The Economist commodity-price index

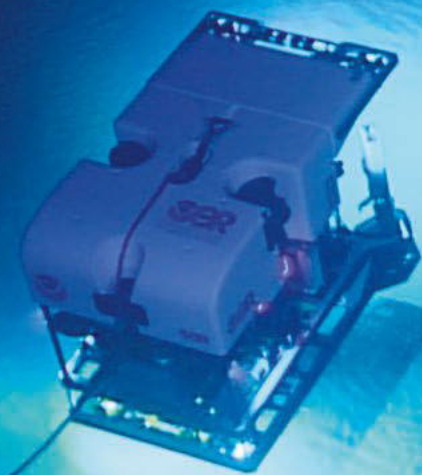
2005=100

			% change on	
	Aug 15th	Aug 22nd*	one month	one year
<b>Dollar Index</b>				
All Items	143.2	143.9	-0.6	+4.1
Food	147.6	146.1	-5.4	-8.4
Industrials				
All	138.6	141.6	+5.0	+21.9
Nfa <sup>†</sup>	129.9	128.8	-3.5	+3.3
Metals	142.3	147.1	+8.6	+30.8
<b>Sterling Index</b>				
All items	202.6	203.9	+1.0	+6.9
<b>Euro Index</b>				
All items	151.9	152.1	-1.5	+0.1
<b>Gold</b>				
\$ per oz	1,271.2	1,287.3	+2.9	-3.9
<b>West Texas Intermediate</b>				
\$ per barrel	47.6	47.6	-0.5	nil

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

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## Ladies and gentlemen...

**Sir Bruce Forsyth, star of variety, died on August 18th, aged 89**

LET me tell you a little story. (It won't take long, and by the time you wake up it'll be over.) It's about a fellow called Bruce. Skinny little runt, not much of a looker: far too much chin and not enough hair, though it's wonderful what a good toupee and a comb-over will do. No matinée idol, more like your embarrassing Uncle Fred, who never quite decided whether he wanted that moustache. The sort of chap girls take pity on, but not enough pity on, if you take my meaning. Anyway, never mind all that.

He was a lovely dancer. You can always tell a dancer by his walk: feet turned out. No, dear, I don't mean sissy, though I dare say you might. And he dreamed of making a living tapping the boards, making that fantastic noise. But being prudent, and loving his mum and dad who had scraped and saved to give him dance lessons, he also trained as a teleprinter-operator when he was in the RAF, just so he had a proper trade to go to.

Which was just as well, since for a long, long while Bruce's best showbiz moment was bottom of the bill at the Theatre Royal in Bilston. That put precisely 13 shillings and fourpence in his pocket. Poor lad! you sigh. So deserving. And so modest that when he did a turn, or several, at the Windmill in Soho, among be vies of beauties

wearing nothing but a bunch of grapes (who's a lucky boy, then?), he never once lost his cool. Well, only once, and then he married her. So shy and retiring that when he was rescued from Summer Season at Eastbourne Hippodrome for his Big TV Break on "Sunday Night at the London Palladium" (in 1958, for peanuts, on a two-week contract), he was so worried about over-exposure on the telly that he booked himself for Summer Season at Almost Anywhere Else-on-Sea.

And then along came "Brucie" to take Britain by storm! Shimmying across the screen with those big teeth, that tireless cheesy patter and those nifty feet (over-exposure was his middle name!). His three big shows—for anyone out there who's been locked in a deep freeze for 50 years—were "Palladium" in the 60s, "The Generation Game" in the 70s and 90s and "Strictly Come Dancing" in the noughties, and they were always the biggest thing on telly, topping the ratings as smoothly as he danced the night away. From 13 shillings and fourpence for a whole run to £1,000 a week, 1962 money! Brucie's showbiz career lasted so long, 75 years, that it got into Guinness World Records. How hearts raced (or stomachs turned) when his tenor tones soared over the credits for "The Generation Game" as he posed in silhouette, back bent

and fist raised to brow: not so much Rodin's "Thinker" as "Game Show Host as Human Questionmark"!

Li-ife is the name of the game  
And I wanna play the game with you.

Brucie was loud. He started every show he could with his best London-costermonger's roar, "Nice to see you..." so the fans would all roar back, "To see you nice!" And he was rude. My word could he be rude, as the poor contestants tried to dance flamenco or do magic tricks or make a pot on a wheel, all against the clock of course. "You've made a real mess of that, haven't you?" "Do you wanna play, or not?" "Oh, do shut up dear, I'm trying to get on with the show!" But how the audience loved it, with all the knowing winks and jaw-drops in their direction, and the truly dreadful prizes of microwaves and glitterballs and a year's worth of socks! They lapped it up. As for the girls, he only had to say "Give us a twirl!" and they fell into his open arms. He held a record there too—don't be cheeky!—for bedding two Miss Worlds, one of whom was so gorgeously curved that she became Mrs Brucie number three. How about that, then?

### Rolling back the carpet

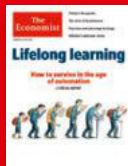
Now, modest Bruce found loud Brucie difficult. In fact, he couldn't stand him. All he wanted was to do the best he could; that name-in-lights stuff was nonsense. Yet Brucie had been there from the start, of course. Why else did little eight-year-old Bruce become so obsessed with Fred Astaire that he danced until his feet ached, rolling back the lounge carpet to tap across the lino? Who else nudged him to become "Boy Bruce, the Mighty Atom" at the tender age of 14, and gave him the courage to tell church-hall pianists, "No dear, no, it's got to be faster"? Who else pushed him to be a complete professional in all the things he did, even plinking the ukulele? Who else moaned and moaned when his TV shows were put on at 5.40, after "Doctor Who", rather than in prime time? And took it even worse when the dud game shows (yes, there were a few) were axed?

And who else but Brucie was the final starburst of the variety show, all-singing, all-dancing, all awful jokes? His energy could fill any theatre, especially his favourite, the wonderful Palladium, all marble and brass and plush. But kind, gentlemanly Bruce brought the warmth of the old style, which showed through even when vain Brucie was being tetchy and tart: a real love of playing to a live family audience. To be honest, "Strictly", played to camera, wasn't half so much fun. But there couldn't be a better way to bow out, with a "Keeeeeep dancing!" and a sail across the floor, while the whole world of entertainment cried: "Didn't he do well?" ■

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