

# The Economist

SEPTEMBER 29TH–OCTOBER 5TH 2018

Remaking Britain's politics

China's war on burials

The 20th century's biggest killer

Highly effective people's annoying habits

## Sex and power

#MeToo, one year on



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### Politics this week

Print edition | The world this week Sep 29th 2018

More women made allegations of sexual assault against **Brett Kavanaugh** dating back to the 1980s, complicating the Republicans' plan for his swift confirmation to the Supreme Court. The #MeToo movement, which began a year ago, has rallied to oppose Mr Kavanaugh. He denies all claims of sexual misconduct. See [article](#).

**Rod Rosenstein**, America's deputy attorney-general, described a report that he had thought about secretly taping Donald Trump and had discussed ways to remove him from office as "inaccurate". Mr Rosenstein appointed the special counsel currently investigating Russian meddling in American elections. Mr Trump has often expressed displeasure with him.

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#### Atheists appoint bishops

China and the Vatican agreed to share responsibility for appointing **Chinese bishops**. The church had previously insisted that only it could decide who was holy enough for the job. But China's aggressively atheist regime cannot abide organisations that it does not control. The Vatican hopes that persecution of Catholics in China will now ease. See [article](#).

The government in **Hong Kong** banned a small political group, the Hong Kong National Party, which supports the territory's formal independence from China. It is the first political party to be outlawed in Hong Kong since it was handed back to China in 1997. See [article](#).

**China** postponed military talks with America and denied a request for an American warship to make a port call in Hong Kong. Tension between the two countries has risen since America decided to impose sanctions on China for buying jets and missiles from Russia.

Ibrahim Mohamed Solih won a presidential election in the **Maldives**, defeating the incumbent, Abdulla Yameen. In February Mr Yameen had declared a state of emergency and arrested judges to stay in power, so Maldivians were surprised and delighted when he conceded. See [article](#).

Police in the **Philippines** arrested Antonio Trillanes, a senator and critic of President Rodrigo Duterte. Mr Trillanes was pardoned for the crime in question—mutiny—by Mr Duterte's predecessor, but Mr Duterte revoked the pardon.

**India's** supreme court ruled that a vast biometric identification scheme was constitutional, and that participation could be required for those receiving public benefits or filing tax returns. But it limited the scope for private businesses to use the system. See [article](#).

#### So that's sorted then?

Britain's opposition **Labour Party** passed a motion at its annual conference that left the door open to a second referendum on Brexit. Sir Keir Starmer, the party's Brexit spokesman, won loud applause when he said such a referendum could include the option to remain in the EU. Some unions and MPs say this would be a betrayal. The party's leader, Jeremy Corbyn, just wants an election. See [article](#).

Labour's Brexit manoeuvres came after Theresa May's "Chequers" deal for **Britain** to leave the EU was rejected at a summit in Salzburg. Donald Tusk, the president of the European Council, said the EU could not accept the British prime minister's plans. Mrs May said the solutions demanded by the EU would "make a mockery" of British voters' decision to leave. Some of her hardline backbenchers say much the same about her own plan.

Bellingcat, a journalism website, said that the real name of one of the two **Russian** military intelligence agents accused by Britain of carrying out a chemical attack in Britain is Colonel Anatoliy Chepiga, who was awarded Russia's highest honour in 2014 by Vladimir Putin personally.

Volker Kauder, a close ally of **Germany's** chancellor, Angela Merkel, was ousted as head of her CDU party's parliamentary group. The move is a further sign of Mrs Merkel's weakening position.

In **Sweden**, the prime minister, Stefan Lofven, was formally ousted by a parliamentary vote following an inconclusive election on September 9th. However, he will stay on as caretaker until a new government can be formed, which might take a while.

#### Caputo kaput

The president of **Argentina's** central bank, Luis Caputo, quit after just three months in the job. His interventions to prop up the peso had brought him into conflict with the finance minister, Nicolás Dujovne, who objected to the sale of the country's reserves to defend the currency. The new head of the central bank is Guido Sandleris, who was Mr Dujovne's deputy. See [article](#).

The United States Treasury imposed sanctions on Cilia Flores, the wife of **Venezuela's** president, Nicolás Maduro, and three other members of his inner circle. The sanctions bar American citizens from doing business with them and subject any assets

they have in America to seizure. America has imposed sanctions on dozens of members of Venezuela's dictatorial regime.

### **Russia defends Iran in Syria**

Vladimir Putin said **Russia** would supply **Syria** with an advanced anti-aircraft missile system. **Israel**, which has carried out dozens of air strikes on Iranian targets in Syria, opposed the move. Relations between Russia and Israel have been strained since Syria mistakenly shot down a Russian plane in response to an Israeli air strike. See [article](#) .

Several gunmen attacked a military parade in the **Iranian** city of Ahvaz, killing at least 25 people. Ethnic Arab separatists and the jihadists of Islamic State issued competing claims to have carried out the attack. The government claimed, without evidence, that the gunmen were backed by Saudi Arabia, the United Arab Emirates and America. See [article](#) .

In a speech to the UN, Donald Trump accused **Iran** of "sowing chaos, death and destruction" in the Middle East. Iran's president, Hassan Rouhani, retorted that Mr Trump suffered from a "weakness of intellect".

José Filomeno dos Santos, the son of **Angola's** ex-dictator and himself the former head of Angola's sovereign-wealth fund, was arrested on suspicion of money-laundering, embezzlement and fraud. Mr dos Santos is the most prominent figure from the former regime to face prosecution in President João Lourenço's anti-corruption campaign.

## Business this week

Print edition | The world this week Sep 29th 2018

The Federal Reserve lifted its benchmark **interest rate** by a quarter of a percentage point, to a range of between 2% and 2.25%, the third rise this year. It also hinted that rates may be approaching the level at which they no longer stimulate growth, nearly a decade after they were cut to near-zero in response to the financial crisis. Another rise is on the cards before the end of this year and three more forecast for 2019.

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A resolution of the **trade war** between America and China remained a distant prospect, as new tariffs came into force. One Chinese official said talks could not take place as long as America "holds a knife" to China's neck. Meanwhile, **Japan** changed tack and announced that it would enter into trade talks with America. The Trump administration had been seeking a bilateral negotiation for months. The Japanese had held out for an American return to the Trans-Pacific Partnership.

### End of an era

**Comcast** won a blind auction for **Sky**, Britain's premier subscription-TV broadcaster, with a £30.6bn (\$40.3bn) offer. That beat a competing bid from Rupert Murdoch's **21st Century Fox**, ending his involvement with Sky, which he launched in 1989 as an upstart rival to Britain's established TV channels. Disney, which is buying Fox's entertainment assets, consented to Fox selling its 39% stake in Sky to Comcast. See [article](#).

**Santander**, a Spanish retail bank with an empire that spans Europe and the Americas, named Andrea Orcel as its new CEO. Mr Orcel has been in charge of the investment-banking business at UBS for six years, undertaking a restructuring that slashed its balance-sheet. He is a confidant of the Botín family, which has held the reins at Santander for decades, advising them on several big acquisitions, including the takeover of Britain's Abbey bank in 2004.

Germany's financial regulator, BaFin, appointed an auditor to monitor **Deutsche Bank's** progress in preventing money-laundering. It is the first time BaFin has taken such a step, apparently out of frustration with Deutsche's compliance procedures. The bank was fined last year by American and British regulators following an investigation into Russian asset-laundering.

Daimler announced that **Dieter Zetsche** (pictured) will step aside as chief executive in May next year to be replaced by **Ola Kaellenius**, who is overseeing the carmaker's push into electric vehicles. A Swede, Mr Kaellenius will become the first non-German to lead the company. Mr Zetsche steered the Mercedes brand as it overtook BMW in luxury-car sales; he will become chairman of the supervisory board in 2021.

**BMW** issued a profit warning. It blamed a number of factors, including higher costs associated with stricter emissions tests in Europe and the trade war between America and China. Cars exported from BMW's factory in South Carolina to China have been hit by stiff tariffs.

### Creeping up

**Oil prices** hit a four-year high, with Brent crude trading at around \$81.30 a barrel, in reaction to the decision by OPEC and Russia to maintain current output and defy a call from President Donald Trump to ramp up production. Prospects for Iranian crude are also a factor in the price spike, as traders weigh up the consequences of sanctions that America will impose on Iran's oil exports in November. See [article](#).

In the gold-mining industry's biggest acquisition for years, **Barrick Gold** said it would pay \$6bn for **Randgold**, a smaller rival. See [article](#).

Kevin Systrom and Mike Krieger resigned from **Instagram**, which they founded. Instagram was bought by Facebook in 2012; Mr Systrom served as chief executive and Mr Krieger as chief technical officer. The photo-sharing app has grown snappily and now boasts 1bn monthly users. That is in contrast to Facebook, which has warned that its growth will slow as it brings in new privacy measures. Observers attributed the pair's departure to efforts by Facebook to exercise tighter control over Instagram.

### No static at all

In a deal that could help both firms better compete with Spotify and Apple Music, **Sirius XM** said it would acquire **Pandora** for \$3.5bn. Sirius offers satellite radio to car drivers and Pandora allows listeners to customise streaming playlists. Both disrupted the music industry in the early 2000s, but since then digital music services have grown enormously.

**Michael Kors**, an American fashion company that holds sway in the middle of the luxury-brand market, agreed to buy **Versace**, one of the few remaining big independent fashion houses, for \$2.1bn. Donatella Versace, who has led the Milanese firm since the murder of her brother, Gianni, in 1997, will remain as its principal creative force. See [article](#).

## **KAL's cartoon**

**Print edition | The world this week** Sep 27th 2018

### Britain

The quest to remake politics

Britain beyond Brexit

## The quest to remake British politics

*Beneath the chaos of the Brexit talks, big ideas are forming that will shape the next decade*

Print edition | Leaders Sep 27th 2018

PITY the disaffected British voter who looks to the autumn conferences for inspiration. Both the main parties are hypnotised by Brexit. Labour, which gathered this week in Liverpool, tried to fudge its position only to fall into more bickering. The Conservatives, who will meet in Birmingham next week, are so divided over Europe that they are openly conspiring to oust their own prime minister. The earthquake of the referendum two years ago has energised Britain's parties like nothing else—and crowded out debate on everything else.

However, at last there are signs that politicians are starting to think about the direction that Britain should take after it leaves the EU (see [Briefing](#)). Some of the fundamental ideas that have underpinned Western governments of all stripes for decades are being questioned from right and left. A party which could come up with persuasive answers would stand to dominate British politics for many years. And just as the Brexit rebellion has been followed by populist revolts in other countries, so the ideas fermenting in Britain may well spread. Some of them are promising; others downright dangerous.

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### The people have spoken

The Leave campaign's demand to "take back control" resonated because it applied to more than just Britain's relationship with Europe. It chimed with those sick of a hyper-centralised state, where feeble councils take marching orders from an out-of-touch London. It tapped into growing anger at the outsourcing of public services to remote and incompetent private companies. It pointed to the firms that bypass employment law by treating staff as "gig" workers with few rights. And it reflected a feeling of impotence in the face of a system of global capitalism which, ten years ago, sent Britain into recession after bankers thousands of miles away mis-sold securities that no one, including themselves, understood.

On becoming prime minister in 2016, Theresa May assured voters that she had heard their cry, and boldly vowed to reshape "the forces of liberalism and globalisation which have held sway...across the Western world." She has not kept this promise. Her lack of imagination, squandered majority and the all-consuming Brexit negotiations—the ones with her party, rather than the EU—mean that, more than two years on from their great howl, the British people have seen nothing in return. When Brexit day comes next March, and Britain is left with either a bad deal or with no deal at all, the call for revolutionary change will not have been sated—it will be stronger than ever.

Alarmingly, the camp readiest to answer that call is a Labour Party marching ever further and more confidently to the left. Many of the ideas in its manifesto last year recast old policies, such as renationalising the railways, which would not answer the fundamental new questions being asked of the state. But since then Labour's economic plan has evolved. The shadow chancellor, John McDonnell—a bigger thinker than his boss, Jeremy Corbyn—proposes "the greatest extension of economic democratic rights that this country has ever seen".

Mr McDonnell correctly identifies that power has drained from labour towards capital in recent years. But his proposals to redress this balance would see the state strong-arm its way deeply into the economy (see [article](#)). Companies would have to nominate workers to make up a third of their boards, while pay would be determined by collective bargaining. Ten per cent of companies' equity would be expropriated and put in funds managed by workers' representatives, that would become the largest shareholders in many of the biggest firms. Workers would receive some dividends, but the majority would go to the government. The Treasury would be "reprogrammed" to channel money to favoured industries. Coupled with a plan to raise the minimum wage so that it embraces 60% of employees under 25, the package represents a transfer of power not just to workers but also to the state and the unions. Labour-supporting economists propose still more ideas, including the introduction of capital controls. "The greater the mess we inherit, the more radical we have to be," Mr McDonnell told the conference. Brexit is likely to provide the mess required to justify a socialist shock-doctrine.

The Tories have been slower to regroup, but they too are teeming with ideas. Some want to dust off the free-market principles of Thatcherism and apply them to new areas, lifting planning restrictions to encourage housebuilding, say. Others want the party to blunt capitalism's sharper edges, for instance by mimicking the trust-busting of Teddy Roosevelt, whose target today would be the overmighty, rent-seeking tech monopolies. Still others believe the remedy for Britain's fractiousness is to update Benjamin Disraeli's "One Nation" Conservatism, arguing that its modern mission should be to unite a country whose deep divides—by age, class, region and more—were exposed by Brexit.



### **But what did they mean?**

These ideas could mark a dramatic break with the past. But whereas an insurgent Labour has united behind a growing list of detailed plans, the Tories' thoughts are ill-defined, and the party far from agreed on which to pursue. Their leader, on the rack in Brussels and fighting for her job in Westminster, has no time for philosophising. She is unlikely to make way for a successor until Britain has left the EU. Yet there is no time to lose. Too many Tories doubt that plans as drastic as Mr McDonnell's could ever be enacted in Britain. That is complacent. The grotesque folly of Brexit will be enough to persuade many wealthy Britons to ditch the Tories, even if it means electing a far-left chancellor. And Britain's winner-takes-all system lets governments quickly and dramatically reshape the country. Mr McDonnell would not face the checks and balances that have restrained President Donald Trump.

Britain is at last getting the battle of ideas that the referendum result demanded. That presents big opportunities, but also grave risks. It is time for those who dislike the sound of the future described by Labour this week to do some hard thinking of their own.

*This article appeared in the Leaders section of the print edition under the headline "The quest to remake politics"*

Passports for sale

## Countries should be free to sell citizenship, but not to crooks

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*There are many good reasons for wanting a second passport, but also some bad ones*

Print edition | Leaders Sep 27th 2018

WHEN Roman Abramovich had problems renewing his British visa, he turned to Switzerland. It rejected his residence application, however, after Swiss police said he posed a “reputation risk”. (He denies wrongdoing.) The colourful Russian billionaire and owner of Chelsea football club now has an Israeli passport, allowing him visa-free travel to Britain, and is converting a former hotel into his Tel Aviv pad.

Israel offers nationality to any Jew who asks for it. Other oligarchs have to pay for the privilege, but they are spoilt for choice. Citizenship- and residence-for-sale schemes, typically charging between \$100,000 and \$2m, are booming (see [article](#)). More than a dozen countries sell passports and around 100 sell residence. An industry of lawyers, bankers, accountants, consultants and estate agents has sprouted up to serve well-heeled “investment migrants”.

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The idea of selling passports repels some people. Citizenship is a sacred bond, they argue, and should be granted only to foreigners who prove themselves worthy. Why should the rich be allowed to jump the queue? Especially since some of the queue-jumpers are crooks or tax-dodgers, who want a new home in which to hide or launder their loot.

There are legitimate reasons for wanting a second passport. Travelling businessfolk from poor or Muslim countries face endless visa hassles unless they have one. Others seek an extra passport as insurance against instability or persecution. More than a third of rich Chinese would like a foreign bolthole (which may mean flouting China's ban on dual citizenship). Countries meeting this demand gain a straightforward benefit: easy money to spend on public services. For hurricane-hit Caribbean states, passport-flogging has been a lifeline.

Regardless of who gains, a principle is at stake. Countries have every right to reserve citizenship for people who try to become like the native-born population, for instance by learning the language. But they also have the right to sell it, if voters agree. Citizenship is a basic matter of national competence.

### Citizens of somewhere, and somewhere else

Its sale should not be unconstrained, however. Member states of the European Union need to agree on common principles governing whom to admit, since a passport from one gives access to live and work in all. Tiny states that sell lots of passports face another risk. If they overdo it, native voters could eventually be outnumbered by citizens of convenience. Some states may therefore wish to restrict voting rights to those who forge a deeper connection with the place, for instance by residing there for a minimum period each year.

All citizenship-sellers, large and small, should do more to weed out undesirables. Too often, their programmes open a back door to dirty money; think of the ill-gotten Russian gains that have been laundered through Cyprus, one of the EU's most enthusiastic hawkers of passports. The industry talks a good game, emphasising recent improvements in client-vetting. But it has moved too slowly.

The time has come for stricter “know-your-customer” rules and the blacklisting of countries that offer havens for migrants with dirty money. Stiffer rules are also needed to thwart passport-buyers whose aim is to evade tax on money that was lawfully earned. In the United Arab Emirates, for instance, foreigners are buying residence and using it to secure tax residence too, which allows them to block the flow of data to tax authorities elsewhere. Banks should be required to establish where clients' personal and economic links are strongest, and to snitch on those whose tax residence looks like a sham.

There are many sound reasons to grant residence or citizenship to foreigners who are prepared to pay for it. Abetting criminals is not one of them.

*This article appeared in the Leaders section of the print edition under the headline “What price a passport?”*

Cash for trash

## How the world should cope with its growing piles of rubbish

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*Poor countries must build infrastructure. Rich ones should waste less*

Print edition | Leaders Sep 27th 2018

THE world is producing ever more rubbish. Households and businesses took out 2bn tonnes of trash in 2016, the equivalent of 740g each day for every person on the planet. The World Bank predicts the annual pile could grow by 70% by 2050, as the developing world gets richer.

Such waste is not simply unsightly, it also threatens public health. Diarrhoea, respiratory infections and neurological conditions are more common in areas where waste is not regularly collected. And even where it is, it can cause environmental problems (see our [special report](#) this week). Greenhouse gases from the waste industry, principally in the form of methane from older landfill sites, could account for as much as a tenth of the global total by 2025. The case for taking action is clear. But what kind of action depends on where you are.

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Poorer countries often lack good waste infrastructure. Rubbish piles up on open dumps, if not in the street. In July, for example, India's Supreme Court warned that Delhi is buried under "mountain-loads of garbage". Such places must invest enough to get the basics right. One study found that burning, dumping or discharging rubbish into waterways costs south Asian economies \$375 per tonne in pollution and disease. Basic disposal systems would cost only \$50-100 per tonne. Morocco's government reckons the \$300m it has recently invested in sanitary landfills has already averted \$440m in damage. Such spending makes sense even when budgets are tight.

The rich world has a different problem. It is good at collection. But at the start of 2018, China, until then the destination for many of the world's recyclable material, stopped importing most waste plastic and paper, and severely curtailed imports of cardboard. Rich countries must recycle more, dispose of more waste at home or no longer produce as much.

For environmentalists the preference for recycling is obvious. Some even want economies to become "circular"—ie, to reuse or recycle everything. But anyone arguing that reducing physical waste is a moral imperative needs to reckon with recycling's hidden costs. Somebody must pick out, clean, transport and process junk. When the time and effort obviously pay off, the economy is already naturally circular. Three-quarters of all aluminium ever smelted remains in use, and there is a thriving market for used aluminium cans. But for other materials, recycling just isn't worth it.

### Round and round

That is partly because chucking stuff out is artificially cheap. Were landfill and incineration priced to reflect their environmental and social costs, people would throw their rubbish in the river or dump it by the road instead. Rules to discourage waste should therefore focus on producers rather than households. The principle of taxing pollution should be extended to cover makers of things that will need disposing of. A good example is the requirement, pioneered in Europe, for firms to finance the collection and recycling of electronic waste.

Transparent subsidies for the recycling industry would also help. It is better to pay the industry to absorb trash, and let the market take care of the rest, than to craft crude rules with unknowable costs, such as San Francisco's ambition to send zero waste to landfill. If recycling is sufficiently profitable, more waste will become a valuable commodity. Some of it might even be dug back out of the ground.

Thankfully, rubbish is one environmental issue where there is little need to worry about political incentives. Voters everywhere want rubbish to be taken away—and they do not want to live near landfill sites and incinerators. The trick is to get the economics right, too.

*This article appeared in the Leaders section of the print edition under the headline "Cash for trash"*

Tick tock

## The end of LIBOR

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*The hunt for a new benchmark interest rate poses risks to financial stability*

Print edition | Leaders Sep 27th 2018

IT HAS been called the world's most important number. LIBOR, which stands for the London Interbank Offered Rate, is a benchmark interest rate, representing the amount that banks pay to borrow unsecured from each other. Globally, it underpins \$260trn of loans and derivatives, from variable-rate mortgages to interest-rate swaps. But LIBOR's days are numbered. It is due to be phased out in three years. Broadly speaking, LIBOR's planned demise is a good thing. But that does not mean it will go smoothly.

The case for moving away from LIBOR as a reference rate is powerful. The rate is based on a panel of banks submitting estimates of their own borrowing costs. The rigging scandals that made LIBOR notorious in 2012 showed how this process could be manipulated. They have also made many banks nervous of being involved. The interbank market has become less important since the financial crisis, because new rules encourage banks to use other forms of borrowing. That means there are fewer transactions to base the rate on. Anyway, it is unclear why a measure depending in part on banks' credit risk should be part of an interest-rate swap, say, between two companies.

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Hence the decision by British financial regulators to cease requiring banks to submit rates after 2021. Hence, too, the race by central banks, regulators and the industry to cook up replacements (see [article](#)). An alphabet soup of new reference rates, from SOFR and SARON to SONIA and TONAR, is already simmering away.

Welcome though it is, the end of LIBOR poses two risks. One is of market instability, as trillions of dollars-worth of financial contracts that are based on LIBOR are forced, after its discontinuation, to anchor themselves to a new benchmark rate. That shift could have big effects, such as a sudden jump to higher interest rates for borrowers. This is not just a theoretical concern. The Bank of England pointed out in June that in the previous 12 months the stock of LIBOR-linked sterling derivatives stretching beyond 2021 had grown. The answer to this is for contracts to have proper "fallback" clauses which specify what happens when LIBOR disappears. Regulators are applying pressure to get these included, but efforts to amend existing contracts before 2021 could easily end up in the courts.

### The devil you know

The other risk concerns the post-LIBOR world, where the new reference rates may cause banks' assets and liabilities to become disconnected. Flawed though it is, the use of LIBOR offers banks a hedge against sudden moves in their own borrowing costs. The interest rates they charge and the interest rates they pay, whether for one day or one year, are linked by LIBOR.

The alternatives may not move in sync. They refer to the cost of borrowing overnight, not for a range of maturities. The rate being promoted by the Federal Reserve is for borrowing secured against American government securities. In a crisis, it is easy to imagine that demand for such high-quality collateral would go up even as willingness to lend to banks goes down. That would mean banks' income from loans would fall just as their own borrowing costs rose.

Neither of these dangers can be wished away. Finding a rate that is both immune to manipulation and an accurate reflection of banks' borrowing costs is hard. And replacing a number that has become embedded in the financial system risks instability. LIBOR deserves to be buried. It may still be mourned.

*This article appeared in the Leaders section of the print edition under the headline "Tick tock"*

Sex and power  
**#MeToo, one year on**

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*A movement sparked by an alleged rapist could be the most powerful force for equality since women's suffrage*

Print edition | Leaders Sep 27th 2018

A YEAR ago Harvey Weinstein was exposed as a sexual predator. Until then his treatment of women was an open secret among some of the film industry's publicists, lawyers and journalists. Mr Weinstein had been protected by an unspoken assumption that in some situations powerful men can set their own rules. Over the past year that assumption has unravelled with welcome speed. In every walk of life powerful men have been forced out, and not just in America. Now Brett Kavanaugh may be denied a seat on America's highest court following a series of accusations that he committed sexual assaults decades ago as a student. What began on the casting couch has made its way to the Supreme Court bench.

That is progress. And yet the fate of the #MeToo movement still hangs in the balance in America, the country where it began and where it has had the greatest effect. To see why, only look at the case of Mr Kavanaugh—who, as we went to press, was due to give testimony to the Senate Judiciary Committee along with Christine Blasey Ford, his main accuser. The good news is that the appetite for change is profound; the bad news is that men's predation of women risks becoming yet one more battlefield in America's all-consuming culture wars.

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**Anmer's kick**

Thanks to #MeToo, women's testimony is at last being taken more seriously. For too long, when a woman spoke out against a man, the suspicion was turned back on her. In 1991 when Anita Hill accused Clarence Thomas, now a Supreme Court judge, of sexual harassment, his defenders smeared her as "a little bit nutty and a little bit slutty". The machine backing Mr Kavanaugh is equally determined. However, it has refrained from questioning either Ms Blasey Ford's sanity or her morals. In 2018 voters would find that unacceptable.

Abuse by men is being taken more seriously, too. Mr Weinstein allegedly committed dozens of sexual assaults, including rape. The contrast between his brutality and his impunity shook the world out of its complacency. This week Bill Cosby, once America's highest-paid actor, was jailed for being a sexually violent predator. But women in colleges and workplaces all over America are harmed by abuse that falls short of rape. Thanks to #MeToo, this is more likely to be punished. Most defences of Mr Kavanaugh have focused on his presumed innocence; 30 years ago they would have insisted that the drunken fumbblings of a 17-year-old are a fuss about nothing.

These shifts reflect a broad social change. Before the elections of 2016, 920 women sought the advice of EMILY's List, which promotes the candidacy of pro-choice Democratic women. Since Donald Trump was elected president, it has been contacted by 42,000 (see [article](#)). Outside politics, companies are keen for their staff and their customers to think that they buy in to #MeToo.

One worry is that there may be a gap between corporate rhetoric and reality (see [article](#)). Another is uncertainty about what counts as proof. That is largely because evidence of an instance of abuse often consists of something that happened behind a closed door, sometimes long ago.

Striking a balance between accuser and accused is hard. Ms Blasey Ford has the right to be heard, yet so does Mr Kavanaugh. Mr Kavanaugh's reputation is at stake, but so is the Supreme Court's. In weighing these competing claims, the burden of proof must be reasonable. Mr Kavanaugh is not facing a trial that could cost him his liberty, but interviewing for a job. The standard of proof should be correspondingly lower. Neither the court nor natural justice is served by haste.

Also a problem is the grey zone inhabited by men who have not been convicted in court, but are judged guilty by parts of society. Just now, every case is freighted with precedent-setting significance, perhaps because attitudes are in flux. This month Ian Buruma was forced out as editor of the *New York Review of Books* after publishing an essay by an alleged abuser which failed to acknowledge the harm he had done. Mr Buruma did not deserve to go and, were values more settled, his critics might have been content with an angry letter to the editor. #MeToo needs a path towards atonement or absolution.

And #MeToo has become bound up with partisanship. According to polling earlier this year by Pew, 39% of Republican women think it is a problem that men get away with sexual harassment and assault, compared with 66% of Democratic women; 21% of Republican men think it is a problem that women are not believed, compared with 56% of Democratic men. Mr Kavanaugh, however his nomination turns out, is likely to deepen that divide—if only because Republican zeal to rush his confirmation is further evidence that the party puts power first. That was clear when it backed Mr Trump, despite his boasts of forcing himself on women and allegations of sexual misconduct by at least 19 accusers. Under Bill Clinton, who was also accused of sexual assault, the Democrats were not so very different. They now offer less protection.

If #MeToo in America becomes a Democrats-only movement, it will be set back. Some men will excuse their behaviour on the ground that it is hysteria whipped up by the left to get at Republicans. Those questions about proof, fairness and rehabilitation will become even harder to resolve.

## **Think ahead**

It takes a decade or more for patterns of social behaviour to change. #MeToo is just one year old. It is not about sex so much as about power—how power is distributed, and how people are held accountable when power is abused. Inevitably, therefore, #MeToo will morph into discussions about the absence of senior women from companies and gaps in average earnings between male and female workers. One protection against abuse is for junior women to work in an environment that other women help create and sustain.

Conservatives often lament the role Hollywood plays in undermining morality. With #MeToo, Tinseltown has inadvertently fostered a movement for equality. It could turn out to be the most powerful force for a fairer settlement between men and women since women's suffrage.

### On Brazil, the Supreme Court, gender identity, Ludwig von Mises, goodwill, Latin

Letters to the editor

#### Letters

### Letters to the editor

*On Brazil, the Supreme Court, gender identity, Ludwig von Mises, goodwill, Latin*

Print edition | Letters Sep 29th 2018

Letters are welcome and should be addressed to the Editor at [letters@economist.com](mailto:letters@economist.com)

#### Give Bolsonaro a chance

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You made a good case for all that is wrong about Jair Bolsonaro, though you should also have compared him with the alternative that Brazilians face in the forthcoming elections ("Latin America's latest menace", September 22nd ). This election is about choosing the least-worst presidential candidate. If the polls are to be believed, the second-round run-off will be between Mr Bolsonaro and Fernando Haddad, who represents the Workers' Party. Mr Haddad's campaign is being masterminded by Luiz Inácio Lula da Silva, the party's leader, from his prison cell.

For all his faults, and he has many, there is a chance that Mr Bolsonaro will provide Brazil with the right leadership and make badly needed reforms to the pension and tax systems, privatise poorly run state companies and reduce the overall size of government. Based on the record of the Workers' Party there is no chance that it will undertake these vital measures and every chance that it will lead Brazil down the path of Venezuela. That would be a far bigger threat to democracy in Brazil and Latin America.

Under this scenario Mr Bolsonaro becomes a risk worth taking for many Brazilians. They have become completely disillusioned with the political classes of this beautiful and bountiful but badly mismanaged country.

ADRIAN FINCH Rio de Janeiro

#### The court's decisions

You suggested that America's Supreme Court became politicised through exposure to the quarrels in American society, as if a communicable disease had been transmitted ("And Brett makes five", September 15th ). A better analogy is the phenomenon of agency capture. Powerful Republican interests have for years sought judicial nominees who will follow an agenda they constantly present through "friend of the court" filings. When decisions break five-to-four on partisan lines (all Republican appointees voting together as a bloc) on matters important to those interests, their win rate is 100% across more than 70 decisions under Chief Justice John Roberts. This is no statistical fluke. That is capture. Hence the otherwise inexplicable behaviour of Republicans in the Kavanaugh nomination, desperate to keep that five-to-four advantage for their big donors.

SENATOR SHELDON WHITEHOUSE Newport, Rhode Island

Engaging as the article on America's Supreme Court was it could have used more historical perspective. The court was not always so supreme. President Andrew Jackson, on losing a case and being told by the court to give back land stolen from the Cherokee, remarked that John Marshall had made his decision; now let him enforce it. The Cherokee trod the trail of tears and the court could not help them. The court is supreme on sufferance and if it strays too far from what the public will support its power will evaporate.

NEIL GARSTON Emeritus professor of economics  
California State University Los Angeles

#### Treating gender dysphoria

Regarding transgender behaviour during adolescence ("Trans parenting", September 1st ), sometimes teenagers with general identity weakness develop transient symptoms of gender dysphoria. These adolescents sometimes even consider themselves "transgendered" in an effort to improve peer relationships and buttress their sense of identity. If the symptoms are significant they can generally be resolved through psychotherapy.

Patients like these represent a subgroup of adolescents who are different from (although superficially similar to) those who are truly transgendered. The therapeutic stance we advocate is to respect the patient's total "personhood" and understand how identity develops in the context of familial and peer relationships and the sense of the self. We believe that clinicians should



not have preconceived beliefs about reinforcing specific gender-role behaviours or convictions about whether it is desirable for the adolescent patient to “be” male, female or neither.

RICHARD FRIEDMAN Clinical professor of psychiatry

DAVID LOPEZ Clinical instructor in child and adolescent psychiatry

Weill Cornell Medical School, New York

### **More than just a mentor**

The Philosophy brief on Schumpeter, Popper and Hayek referred to Ludwig von Mises as Hayek’s mentor ( August 25th ). The contributions of von Mises to liberal philosophy were far reaching and more influential than you think. In 1922 he published “Socialism: An Economic and Sociological Analysis”, in which he demonstrated the impossibility of socialism as an economic and social system and described how it leads to the destruction of the social fabric.

His book, “Omnipotent Government”, published in 1944, the same year as Hayek’s “The Road to Serfdom”, is a thorough analysis of the collapse of liberal ideas in Germany and the rise of nationalism, which led to Nazism. Von Mises’s works on economics include the first coherent application of the theory of marginal utility (which was developed by Carl Menger) to money (“The Theory of Money and Credit”) and a study of the epistemology of economics (“Epistemological Problems of Economics”).

FRANCISCO NADAL DE SIMONE Luxembourg School of Finance

### **What constitutes goodwill?**

I enjoyed Schumpeter’s column on goodwill, an important topic that requires better accounting on firms’ balance-sheets ( September 1st ). However, goodwill does not represent the difference between the price the acquirer “paid to buy another firm and the target’s original book value”. Before the amount of goodwill arising from an acquisition is determined, the acquirer’s accountants allocate as much of the purchase price to what they can justify as the fair value of the target’s tangible and other intangible assets acquired and liabilities assumed. Only the remaining, unallocated excess purchase price is recorded as goodwill.

It is worth noting that because of the above requirement and the fact that goodwill is not something that can be bought or sold separately, a minority view held by some accountants is that goodwill is not an asset. In the 1950s and 1960s, when accounting was a more principles-based profession, Arthur Andersen proposed showing the non-allocated excess purchase price as a subtraction from the acquirer’s shareholders’ equity. This might trouble those who are fixated on financial ratios, but it also would provide a clearer indication of how much the acquirer has paid for undocumented expectations.

ROBERT STRAHOTA Chevy Chase, Maryland

### **Latin lessons**

I was tickled by Johnson’s column on the use of Latin words in English ( September 8th ). My wife was recently in physical therapy and had difficulty grasping the difference between adductor and abductor muscles. I explained that in Latin *ad* means “toward” and *ab* means “away from”; thus, an adductor muscle is one that pulls a limb toward the central line of the body, an abductor muscle one that pulls a limb away from that line. We explored other examples of *ad* and *ab* words but ran into a bit of trouble with adverse and averse (where *ab* has been replaced by “a” for ease of pronunciation) because their functional meanings (“inimical to” and “feeling repugnance toward”) are much more alike than their etymological meanings (“turning toward/against” and “turning away from”). To my mind such subtleties are one of the infinite charms of language.

ROBERT NICHOLSON Des Moines, Iowa

**Clarification:** The last line in the letter from Richard Friedman and David Lopez differs slightly from the version in the print edition. This was amended on October 10th.



### The Conservative Party

When all about are losing theirs...

The world's oldest political party's new problems

## How Brexit weakens and strengthens Britain's Conservatives

*And how it may yet spell their doom*

Print edition | Briefing Sep 27th 2018

THE Conservative Party has met with triumph and disaster a number of times since the 1830s, and if it has not treated them just the same, it has at least survived them. There were long periods of uninterrupted rule, such as 1951-64 and 1979-97. There were times of marginalisation, even irrelevancy, like that which followed Robert Peel's decision to repeal the Corn Laws in 1846 and the one that was ushered in by the victory of Tony Blair's New Labour in 1997. Today, though, it is experiencing something stranger than either: both. The Tories are weak and strong at the same time.

When the party gathers in Birmingham on September 30th for its annual conference, the evidence of weakness will be plain to see. The party does not have a majority in the House of Commons; Theresa May, the prime minister, is clinging to power through a grubby deal with the ten Northern Irish MPs of the Democratic Unionist Party (DUP). The government's domestic agenda is so threadbare that there will be no Queen's Speech (which traditionally lays out the government's agenda at the beginning of the new parliamentary session) this year.

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The government is getting nothing done because Brexit occupies all its time and most of its considerable capacity for internecine warfare. In the referendum of 2016, called by David Cameron to fulfil a pledge in the Tories' election manifesto the year before, a majority of Tory MPs voted to remain in the EU. The majority of the party's members and voters wanted to leave, as did enough of the voters for other parties to secure that result. Mrs May, who succeeded Mr Cameron when, seeing what he had wrought, he cut and ran, invoked Article 50 of the EU treaty the following spring; this means Britain is set to leave the EU on Friday March 29th 2019.

### Twisted by knaves

Most of the Tory MPs who voted Remain now think that their job is to ensure that Britain stays as close to the EU as it can while still honouring the result of the referendum—the sort of option that has become known as a “soft Brexit”. Some who campaigned for Leave, such as Michael Gove, currently the environment secretary, will accept a moderately soft Brexit as long as it still delivers a decisive break. The “Chequers plan” Mrs May put together in July outlines a softish Brexit in which Britain leaves the EU and its customs union, but seeks to stay in the EU's single market for goods and, with the help of a special customs arrangement, to avert the need for any physical checks at the Irish border.

The other 27 EU countries rejected the main elements of the Chequers plan at a summit in Salzburg on September 20th. And the Conservatives' hard-line Brexiteers are having none of it, either. Jacob Rees-Mogg, the head of the European Research Group, which has the backing of up to 80 Tory MPs, talks in characteristic archaisms of it reducing Britain to vassalage. David Davis and Boris Johnson, previously the cabinet minister in charge of negotiating Brexit and the foreign secretary, respectively, quit their posts days after the plan was agreed on. In Mr Johnson's case opposition to Chequers stems from a desire to be prime minister. For many others it comes from a desire to see no aspect of British life under any sort of EU jurisdiction. A “hard Brexit” of this sort could look something like a free-trade deal, such as the one that the EU has with Canada.

A number of hard Brexiteers are willing to countenance the very hardest option: no deal of any sort, a scenario in which, after the end of March, Britain and the EU treat each other like any other two members of the World Trade Organisation. There have been almost no serious preparations for this, and large businesses, along with most economists, warn that such a sudden rupture would spell doom. But no matter: it would be Britain's doom.

A policy the rest of the EU rejects and that cannot get through Parliament marks the final debasing of what was once the Tories' most valuable asset: a reputation for good government. Labour can always rely on being the party of idealism: even if we make a mess of things, we have pure intentions. The Tories' great selling-point is being the party of competence: even if we do things you'd rather we didn't, we won't make a complete hash of it.

It is not just that the party's Brexit wing contains a lot of people who might politely be described as eccentrics. It is that their presence deprives more sensible Tories of their judgment. Mr Cameron made a fatal error in promising a simple in/out referendum. Mrs May compounded that error first by triggering Article 50 before she needed to, and then by holding an election with a manifesto that went off like a booby-trapped briefcase, thereby losing a modest but quite workable majority.

If that electoral fiasco demonstrated the party's weakness, not to mention lack of nous, it also showed its surprising strength. The Conservatives won 2.3m more votes than they had two years before under Mr Cameron; they secured their highest share

of the vote (42.3%) since Margaret Thatcher's "Falklands victory" in 1983. And they have a better claim to being a national party than they did under Thatcher, when they risked disappearing in Scotland and the north of England. The election of 2017 saw them increasing their number of parliamentary seats in Scotland from one to 13 and making impressive gains in northern Labour strongholds such as Copeland.

This revival, masked by the first-past-the-post electoral system, has the same source as the party's division and hopelessness: Brexit. More Britons voted for Brexit than have ever voted for anything before. The Tory party not only gave them the opportunity to do so; unlike any other party, it boasted many MPs who shared their views. Voting for Brexit was a gateway drug to voting Tory: the party's share of the vote among skilled manual workers, 32% in 2015, was 45% in 2017.

The Tories have also, to some extent, begun to look like the country they seek to govern. More than half the party's MPs are now educated in the state sector (see chart 1); the current cabinet is its first ever to contain no Old Etonians. The elections of 2015 and 2017 brought in 103 new Tory MPs, making up a third of the party in the Commons; they reflect Mr Cameron's modernising attempt to welcome women, ethnic minorities and social liberals. There are 67 female MPs—just over half the number on the Labour benches, but a significant increase on the 49 who had seats when Mr Cameron came to power. When Mrs May became leader in 2016 the other candidate to survive the second round of voting was another woman, Andrea Leadsom. The home secretary, Sajid Javid, is the first British Asian to hold that job, or indeed any of the great offices of state. The party's middle ranks contain several talented members of ethnic minorities, such as Kemi Badenoch, Rishi Sunak, Kwasi Kwarteng, Sam Gyimah and James Cleverly. While in coalition with the Liberal Democrats the Tories introduced gay marriage to Britain (though Mrs May's friends in the DUP are resolutely keeping it out of Northern Ireland). Ruth Davidson, the leader of the Scottish Tories and a self-described "shovel-faced lesbian", is married, pregnant and one of the party's genuine stars.

The Tories can lay claim to some economic successes, as well. The coalition presided over a reasonable accounting with capitalism's demons after the financial crisis. Unemployment has fallen to 4%, a four-decade low. Inflation hovers around 2%. Income inequality appears to have declined over the past decade. The public finances are heading towards balance.

And they have had good fortune in their opposition. The party remains level with Labour in opinion polls despite the turmoil created by Brexit and the drag of incumbency (see chart 2). The one thing that Conservatives of all stripes agree on is that Jeremy Corbyn, a veteran MP on the Labour Party's hard left who became its leader in 2015, is "the best recruiting sergeant we could have". Tories and non-partisan pollsters generally agree that if Labour had a more centrist leader the Conservatives would be a good 15 points behind in the polls. The fact that Mr Corbyn now looks immovable may be bad for the country. But it is certainly good for the Conservatives.

The parliamentary party also has a robust diversity of views, thrown into unhelpful relief by arguments about Brexit, from which to draw when considering its future. It is possible to divide them into three camps: Thatcherites, New Dealers and the One Nation faction.

The Thatcherites, perhaps the largest group, come in two flavours, one socially conservative, one more liberal. Mr Rees-Mogg is the most outspoken member of the socially conservative faction, which overlaps with the Brexiteer faction more than any other does. Liz Truss, the chief secretary of the Treasury, is the champion of the socially liberal faction. She is keen on pushing market solutions into new arenas; but she also wants a party of modern sexual attitudes. Mr Javid straddles the divide between the two groups: he has a picture of Thatcher in his office, but as the child of immigrants was able to weather the recent storm over the "hostile environment" for migration in the Home Office in a way a white Thatcherite would have found much harder.

### **Worn-out tools**

The second group, the New Dealers, are rethinking Thatcherism's bedrock belief in free markets in the light of the global financial crisis, stagnant living standards and the rise of populism on both the left and the right. As Mr Gove puts it, "It's no longer possible to replay the hit records of the 1980s, only louder." New Dealers are open to radical and somewhat interventionist ideas for boosting productivity growth, "rebalancing" the economy by region, sector and class, and preventing rent-seeking. They know that Labour's economic championing of "the many, not the few" resonates, and that if Tories do not reform British capitalism it will suffer a far worse fate in other hands.

Nick Boles, the MP for Thatcher's home town of Grantham, thinks that the Tories should model themselves on Teddy Roosevelt, challenging the new high-tech "trusts" and championing the rights of consumers. Some have a more positive vision of building on Britain's strengths. Mr Gyimah, the minister for higher education, argues that Britain has big advantages when it comes to innovation: impressive fundamental research; a first-rate regulatory regime; a bunch of good high-tech businesses, particularly in fintech; and a flexible economy that puts few barriers in the way of expanding firms. "The north of England has more universities in the world's top 100 than the rest of Europe combined," he says.

One Nation Tories hark back to a philosophy invented by Benjamin Disraeli, one of the great Victorian prime ministers, which dominated the party from the 1950s to the 1970s; basically traditionalist, moderately reforming, friendly to business but at the same time plausibly cast as being on the side of the common man. One Nationers retreated before Thatcher; against the likes of Mr Rees-Mogg or John Redwood, a former Welsh secretary, they fancy their chances a bit more. When Justine Greening, a former education secretary, says that the best way to prevent the country from disintegrating into hostile tribes is to provide people with equal opportunity and social inclusion, she is the voice of the One Nation faction. Chloe Smith, the minister for the constitution, argues that this philosophy applies not just to social and economic problems but also to breaching ideological rifts, such as that over Brexit, and the decline of a common cultural frame of reference into a digital cacophony.

Some of the divisions, exacerbated by Brexit, run deep; there is much that divides a hard-Brexiteer like Mr Redwood from a One Nationer like Anna Soubry, and it is often bitter. But in general this is the sort of pluralist party for which one might hold

out hope; it feels more like a party of ideas than it has for some time. Ms Truss says that Brexit has had a “year zero” effect on the party, forcing it to go back to first principles and think again about how to run the country after Britain leaves the EU.

But that is the party in Westminster. The party in the country is much more Brexit-y, significantly more right-wing, considerably less intellectually adventurous and increasingly elderly. It is also very small. In the 1950s the Conservative Party had 3m members. Its youth wing was the biggest in Europe. Today it has about 124,000 members and “young Tory” is an oxymoron. The Mile End Institute of Queen Mary College, London, calculates that 44% of its members are over 65, compared with 30% of the other main parties.

A shrinking, Blimpish party brings with it various drawbacks. It provides little money: the party got £1m in the form of dues last year compared with Labour’s £16m. This makes the party all the more dependent on the rich. The older membership cannot match the Labour Party’s ground game; the Mile End Institute notes that Tory Party members were responsible for just 262,150 “campaign activities” during the election of 2017 compared with 1,385,520 for the Labour Party. Tory YouTube channels make for sorry watching.

### **The unforgiving minute**

The problem extends beyond Conservative members to Conservative voters. Older voters, who like Brexit more, vote Tory more, too. But they are in sympathy with what they see as the party’s values, not necessarily its policies. Thatcher’s lesson was that the best way to revive ailing British businesses was to subject them to a dose of global competition; Europe was welcome as a vast marketplace, just not as a quasi-state. But the party’s supporters are less interested in such invigorating competition. It is not for nothing that the heart of the Leave campaign was a pledge to spend more on that quintessentially statist British institution, the National Health Service, emblazoned on the side of that quintessentially British vehicle, a big red bus.

As to younger voters: in 2017 the Tories won only 27% of the vote among 18- to 34-year-olds and 33% among 35- to 44-year-olds. Again, this is Brexit at work. Younger voters, who mostly backed Remain, see the Tories as the party of Leave. But the problem goes deeper than that. The life experiences that make people into conservatives in the first place—starting careers, getting married, having children, buying houses and saving for retirement—are either disappearing or being delayed until much later in life. The gig economy is eating away at stable careers. Almost half of the country’s children are born outside marriage. Houses cost seven times annual income, compared with three times a generation ago. Pensions are becoming less generous. Younger professionals are attracted to Corbynism not just because they are idealists. They do not have a stake in the system the Conservatives seek to conserve.

Of the Tory camps, it is the New Dealers who have the best chance of dealing with this deeper issue. But they have to get through Brexit first. Britain appears to be heading for a chaotic autumn of paralysis and panic. It is quite possible that the government will fall and that Mr Corbyn will go into the resultant election campaign as favourite. Britain might have a second referendum that would provide a chance of reversing Brexit, but would also quite probably polarise the country yet further. In either case Mrs May might be deposed. Or she might leave willingly after whatever happens on March 29th. George Freeman, a former head of her policy board, says that at that point the party will badly need a leader who is “liberated from the poisonous politics of the referendum and the ‘shambles’ that followed.”

There are a number of potential leaders including cabinet members, such as Mr Javid and Jeremy Hunt, and some who have not yet attained such heights. Ms Davidson has ruled out running for the leadership on the grounds that it would take too heavy a toll on her emotional and personal life, but politics is full of strange reversals. But there is also Mr Johnson, who uses his column in the *Daily Telegraph* as a platform for his long-nourished leadership ambitions. He is not popular in the parliamentary party, and younger members think his generation’s day is done (he was at school with Mr Cameron); but though MPs winnow the candidates, Conservative leadership elections are, in the end, decided by the members, not the MPs, and among them Mr Johnson seems popular.

A bad Brexit, buyer’s remorse among Leave voters and Mr Johnson as leader could both strip the party of much of its residual strength and exacerbate its weaknesses enough to plunge it into true crisis. If it can keep its head, though, and bring off a Brexit that does not plunge the country into chaos or paupery, then its long habit of exercising power, its ruthlessness with its leaders and its ability to mix firmness with flexibility—qualities which have made the Conservative Party the democratic world’s most successful political machine—may yet see it through. And the intellectual skills of a rising generation—not something it has always been able to count on—may, if exercised to the full, allow not mere survival, but success.

Britain’s biggest post-war political fiasco prior to Brexit was the Suez Crisis of 1956, the unforced error of a Conservative government. In 1959, with a new leader, the party was returned to power with an increased majority.

*This article appeared in the Briefing section of the print edition under the headline “When all about are losing theirs...”*

### #MeToo and politics

Truth and consequences

Truth and consequences

## American politics after a year of #MeToo

*The defining movement of the Trump era is turbocharging existing trends*

Print edition | United States Sep 27th 2018

“THE political nightmare that has faced my colleague,” said Mark Hatfield on September 7th 1995, “is coming to an end.” The colleague was Bob Packwood, his fellow senator from Oregon, who was resigning. The “nightmare” was a Senate Ethics Committee investigation that found Mr Packwood had been sexually harassing subordinates since the 1960s. Mr Packwood battled the committee for three years, destroying evidence and appearing “perplexed or confused...about what actually constituted sexual harassment”. When he resigned, he won praise from senator after senator—not one of whom managed a single word of concern for his many victims.

In one sense, times have changed. Over the past year—ever since the #MeToo hashtag went viral in the wake of gruesome allegations of sexual assault levelled against Harvey Weinstein, a film producer—nine members of Congress have resigned or declined to run for re-election after facing credible charges of sexual misconduct. Two White House officials left after being accused of spousal abuse (they deny the charges) and three congressional candidates lost or quit their campaigns.

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But that change is unevenly distributed across the political spectrum. Republicans remain devoted to President Donald Trump, who has been recorded boasting about sexual assault and whom at least 19 women have accused of sexual misconduct. His second Supreme Court nominee, Brett Kavanaugh, has been accused of sexual misconduct by at least four women. The furore surrounding his nomination has become a partisan referendum on the #MeToo movement, which itself has become the defining cultural phenomenon of the Trump era.

That movement may have begun after the allegations against Mr Weinstein, but those were petrol poured on a fire kindled by Mr Trump's election. On January 21st 2017, one day after his inauguration, millions of people across America (and the world) took to the streets for the Women's March. Many of those who marched said that watching the first major-party female presidential candidate lose was painful; watching her lose to a man who has referred to several women as “dogs” and “piece[s] of ass” was infuriating.

It has also been inspiring. During the previous election cycle, 920 women contacted EMILY's List, a political action committee devoted to electing pro-choice Democratic women, about running for office. Since Mr Trump's election, more than 42,000 have. Half the Democrats' first-time House candidates this year are women, up from 27% in 2016 (and far higher than the Republican share of less than 20%). From a field that includes Senators Elizabeth Warren, Kamala Harris, Kirsten Gillibrand and Amy Klobuchar, the Democratic presidential ticket in 2020 will probably include at least one female candidate.

And as quickly as women are flocking to the Democrats, many appear to be fleeing Republicans. The 2016 gender gap of 24 points (women supported Hillary Clinton by 13; men went for Mr Trump by 11) was already the largest on record. According to an average of three recent polls compiled by National Public Radio, the same gap exists for this year's mid-terms, but with a stronger leftward lean. Women favour Democrats by 21; men favour Republicans by 3.

Since women vote at greater rates than men, that swing should worry Republicans. In 2016, despite his claims to the contrary, Mr Trump won narrowly. For Republicans to prevail this year and in 2020, he needed to expand his coalition. Instead he is driving away marginal supporters. His approval rating seems to have a ceiling in the low 40s, and has fallen even further among women, particularly non-white and educated women.

That is not entirely due to sexual harassment, of course. But because polling shows that voters in both parties care about the issue, the Republican response to #MeToo represents a failure of opportunity. As the movement gathered strength late last year, Democrats pressed Senator Al Franken to resign his seat amid claims of groping and unwanted sexual advances. Republicans backed Roy Moore in a Senate race in Alabama, despite multiple allegations that he had molested teenage girls when he was a grown man.

Mr Trump has loudly defended multiple men accused of sexual misconduct, including Mr Moore; Rob Porter, one of his aides accused of spousal abuse; and Bill O'Reilly, who left Fox News amid sexual-harassment claims. Bill Shine also left Fox News after being accused in multiple lawsuits of abetting sexual harassment; Mr Trump hired him to be White House communications director.

Mr Trump has defended Mr Kavanaugh and cast doubt on his accusers. Unsurprisingly, the rest of his party has followed suit. Mitch McConnell, the Senate majority leader, vowed to “plough right through it”, promising to confirm Mr Kavanaugh “in the very near future”. Several other Republican senators also appear to have made up their minds before hearing from the

judge's accusers, the latest of whom has multiple security clearances and signed an affidavit, under penalty of perjury, that she was gang raped at a party that Mr Kavanaugh attended.

Others seem to think that sexual assault is no big deal. Kevin Cramer, a Senate candidate in North Dakota, called the incident "an attempt or something that never went anywhere". Gina Sosa, who ran for Congress in Florida, wondered, "What boy hasn't done this in high school?"

Some have wondered why Mr Trump does not withdraw Mr Kavanaugh's nomination in favour of an equally conservative judge, such as Amy Coney Barrett. But to ask that is to misunderstand contemporary Republican politics which, under Mr Trump's leadership, has become less about ideals than about power and dominance. Withdrawing Mr Kavanaugh would mean admitting that historical accusations of sexual assault can be disqualifying, which leads back to the president.

In his book about the Trump White House, Bob Woodward quotes the president advising a friend accused of sexual misconduct: "You've got to deny, deny, deny and push back on these women...If you admit to anything and any culpability, then you're dead." If such attitudes lead the Republicans to mid-term losses on the back of energised female turnout (and candidacy), that may start to push the party towards a reckoning with Trumpism.

*This article appeared in the United States section of the print edition under the headline "Truth and consequences"*

Bench-warming

## What to look for in the Supreme Court's 2018-2019 term

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*Frogs, executions, graveyards and a few other things, too*

Print edition | United States Sep 29th 2018

ON OCTOBER 1st, for the second time in three terms, the Supreme Court will begin its term a justice short. In 2016, with Senate Republicans stonewalling Barack Obama's choice to succeed Antonin Scalia, the justices plodded along as a court of eight until Neil Gorsuch took his seat in April 2017. This autumn the court will not remain shorthanded for nearly as long. Allegations of sexual assault have spurred a political firestorm over Brett Kavanaugh, President Donald Trump's second nominee. But with Republicans commanding a 51-to-49 majority in the Senate until at least January, the Supreme Court will probably return to full strength—with a solidly conservative five-justice majority—within days or weeks. The only question is whether the person filling Justice Anthony Kennedy's seat will be his former clerk (Mr Kavanaugh) or somebody else.

The 38 cases awaiting the justices (with more on the way) may not grab headlines quite like last term's tiffs over gay-wedding cakes, gerrymandering and Mr Trump's Muslim travel ban. But important questions loom. In their first week back the justices will hear arguments on the fate of an endangered amphibian, the separation of powers and whether a man with a mental illness can be executed.

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*Weyerhaeuser v United States Fish and Wildlife Service*, the opening argument of the term, pits logging companies against the three-inch-long creature, the dusky gopher frog. With fewer than 200 believed to be still hopping in America, the amphibian is listed as one of the 100 most endangered species in the world. Habitats for the dusky gopher frog are in short supply. They breed in fishless "ephemeral ponds" that dry up in the summer. Other than a single pond in Mississippi, only one area in Louisiana seems suited to the frog. But the owners of those 1,544 acres include two timber companies. The justices will consider whether the Endangered Species Act authorises the federal government to preserve these tracts for the dusky gopher, costing the companies \$34m over 20 years.

Another case probing the limits of executive power, *Gundy v United States*, will be heard on October 2nd. Gundy asks whether an ambiguity in the Sex Offender Registration and Notification Act (SORNA) falls foul of the "non-delegation doctrine", an old, seldom-enforced rule that one branch of government may not hand over its constitutionally prescribed duties to another. When Congress drafted SORNA in 2006, lawmakers remained mum on whether the requirements apply to people convicted of sex offences before the law was passed; the attorney-general, SORNA provided, can sort that out.

Based on previous rulings and a left-right coalition of amicus briefs, there may be interest on both ends of the Supreme Court's ideological spectrum for policing abdication of the legislative role to the executive branch. And the implications may reach beyond sex offenders. Tom Goldstein, a frequent Supreme Court litigator, points out that a judgment reviving the non-delegation doctrine may cast doubt on the feeble legislative hook presidents often cite when imposing tariffs, purportedly to protect America from threats to its national security. Mr Trump's aggressive trade policy, grounded in this pretence, may eventually face resistance.

The first of two death-penalty cases this term will also be heard on October 2nd. *Madison v Alabama* asks whether executing a prisoner whose dementia has erased all memory of the murder he committed in 1985 violates the Eighth Amendment's ban on cruel and unusual punishment. Another case coming up later in the term, *Bucklew v Precythe*, considers the same constitutional standard in light of Russell Bucklew's claim that his rare medical condition, cavernous hemangioma, could make lethal injection monstrously painful. Mr Bucklew says he would prefer to die in a Missouri gas chamber, where his "unstable, blood-filled tumours" would not be at risk of rupturing and choking him.

Capital punishment typically fractures the Supreme Court along ideological lines. A few other cases in the pipeline may do so too, if the justices opt to take them up. One petition asks whether Title VII of the Civil Rights Act, which bars gender discrimination, should be read to prohibit discrimination based on sexual orientation. Another involves a 40-foot-high cross in Maryland that has stood as a first-world-war memorial on public land for 90 years; plaintiffs say the cross violates America's separation of church and state. The most contentious matter the justices are likely to confront this term is whether Mr Trump acted legally when, a year ago, he rescinded DACA, Mr Obama's executive action of 2012 shielding undocumented immigrants who arrived in America as children.

Two other cases look juicy. One asks if federal and state prosecution for the same crime could be a violation of the double-jeopardy clause; this has implications for Paul Manafort, Mr Trump's convicted former campaign chairman. The other involves a rule that owners of land containing old cemeteries must provide public access.

Relatively few cases slated for argument this term seem likely to produce 4-4—or, once the ninth justice arrives, 5-4—splits. This is by design. In the wake of Justice Kennedy's departure, a sordid confirmation battle and a term that saw losses for public-sector unions alongside wins for a gay-wedding-averse Christian baker, gerrymanderers and pro-life pregnancy centres, lowering the temperature is a wise course. The chief justice, John Roberts, encouraged compromise during the court's

shorthanded stint and, according to Justice Elena Kagan, deserves credit for pushing his colleagues to “keep on talking” until, in all but a handful of cases, consensus came.

Chances of civility and modesty may be high in the short run, but Stephen Vladeck of the University of Texas warns that the new conservative majority may soon enjoy ample opportunity to assert itself on the Supreme Court. There will be plenty of time, Mr Vladeck says, and plenty of cases, for the five-justice conservative bloc to flex its muscles.

*This article appeared in the United States section of the print edition under the headline “Bench-warming”*



Diversity implosion

## Anti-discrimination statements by employers...

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*... may result in more discrimination*

Print edition | United States Sep 27th 2018

COMPANIES discriminate. They discriminate against black people, poor people, gay people and fat people—oh yes they do. Using callback studies, in which fictitious CVs for identically qualified candidates are sent to employers, economists have become quite good at measuring the penalty paid for being a woman, a racial minority or lower-class. Identical résumés under Asian-sounding names are 30% less likely to get call-backs from employers; for black-sounding names the penalty is 50%. Unfortunately there appears to be little improvement over time. Estimates of racial discrimination in hiring blacks in America look as bad now as they did in 1990.

Since Lyndon Johnson signed the Civil Rights Act in 1964, employment discrimination on the basis of race, sex and national origin has been illegal. Johnson also began government programmes of affirmative action—what he called “the more profound stage of the battle for civil rights”, which sought “not just equality as a right and a theory but equality as a fact and equality as a result.” In a lesser-known executive order, signed one year later, Johnson ordered government contractors not only to use affirmative action but also to append a non-discrimination statement to their advertisements.

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For more than 50 years, such “equal-opportunity statements” have been dutifully bolted onto job adverts from American employers, including private-sector firms that do so voluntarily. A recent working paper published by two economists, Andreas Leibbrandt of Monash University and John A. List of the University of Chicago, suggests they are actually failing to prevent discrimination and foster diversity.

In their study, the two economists posted advertisements for an administrative assistant job in ten large American cities. Of the 2,300 applicants who expressed interest, half were given a standard job description and the other half were given a description with an equal-opportunity statement promising that “all qualified applicants will receive consideration for employment without regard to sex, colour, age or any other protected characteristics”. For racial minorities, those who received the pro-diversity statement were 30% less likely to apply for the job—and the effect appeared to be worse in cities with white majorities (see chart). In a follow-up survey, the prospective applicants said the statement prompted worries that they would be token diversity hires.

### Equally damaging

A single study rarely provides enough evidence to change public policy. Despite their ubiquity, equal-opportunity statements have received almost no scholarly attention. “The little evidence we have got is not encouraging,” says Iris Bohnet, an economist at Harvard who studies gender disparities in the workplace. A study published in 2016 from Sonia Kang and colleagues found that “whitened” CVs—where black and Asian candidates stripped racial cues from their applications—were twice as likely to get call-backs. Although firms with diversity statements in their ads attracted fewer whitened résumés from minority applicants, they were actually no less discriminatory than other firms. An examination of mid-size and large American firms by Frank Dobbin, a Harvard sociologist, and Alexandra Kaley, a sociologist at Tel Aviv University, found that five years after setting up the most common types of diversity programmes—mandatory training, job tests and grievance systems for biased managers—the share of racial minorities in managerial positions had actually declined.

That does not mean that the entire enterprise is doomed. Although the coercive methods studied by Mr Dobbin and Ms Kaley backfired, their research also found that other initiatives, such as mentoring programmes and dedicated college recruitment teams, seemed to work. Another working paper by Mr Leibbrandt and others finds that when firms show the importance of diversity more convincingly, by including a human-sounding statement from the CEO rather than affixing a perfunctory, legalistic equal-opportunity statement, minority applications increase.

Despite all the racial progress American society has made since the civil-rights era, economic disparities remain stubborn. Some, like the white-black gap in hourly wages, are even getting worse. In 1979 the average black man earned 80% as much as the typical white man. In 2016 that had slipped to 70%. Unemployment gaps look similarly intractable. Undoing these disparities requires firms to surmount their frequently demonstrated tendencies to discriminate, often unconsciously. Equal-opportunity statements are among the easiest, oldest and most frequently used tactics. Unfortunately, they may be doing more harm than good.

*This article appeared in the United States section of the print edition under the headline “Diversity implosion”*



Midwest murder

## How do you police America's most murderous city?

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*The police force in St Louis has what looks like an impossible task*

Print edition | United States Sep 27th 2018

CHARRED beams are all that remain of the top floor of one house. Nearby, a group of young men lounge on the wooden stoop of another once-handsome looking home, its windows boarded up. Many lots, behind chain-link fences, are abandoned. The morning sun dazzles: in the shade of large trees two sex-workers wait for custom. Otherwise the streets appear mostly deserted.

Drive around the downtrodden northern suburbs of St Louis, both in and beyond its city limits, and signs of economic decline and ongoing racial segregation are obvious. Prospects for its predominantly African-American residents look grim. Gangs are not especially a problem, but drug trading and gun violence are. Over two days alone, last weekend, six people were shot dead in St Louis. Police add that non-fatal shootings, "almost homicides", get less attention but are also common, time-consuming and almost as distressing.

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Statistics just released by the FBI show the national rate of violent crime fell by 0.9% last year, and the murder rate crept down too, by 1.4%. That modest improvement confirms a return—after a two-year upturn—to a two-decade trend of America getting slightly less violent. More striking is a recent analysis by the Brennan Centre for Justice, a think-tank, of 29 of the country's biggest cities. Based on reported crime so far, it expects the murder rate in those areas to fall by 7.6% in 2018, led by big improvements in Baltimore, Chicago and San Francisco. Violence is typically worst in warmer months, so the forecast looks robust.

Such trends should be cheered, but offer little for St Louis, a city whose core contains 300,000 and which suffers from a persistently awful rate of violence. Last year it saw 205 homicides, giving St Louis the highest murder rate of any big city in America. (This year has seen some improvement.) Almost all of the city's homicides take place in just a few neighbourhoods. The police plot a heat map of crimes in St Louis: clusters of glowing red dots show that murders typically occur close to each other, in the same distressed streets in the north.

That suggests an opportunity. Police should be able to attack a problem that is densely concentrated. A failure to do so, at first glance, suggests wilful neglect. "We do have a homicide rate we'd love to see smaller", says Major Mary Warnecke, Commander of Investigative Services, which includes the homicide division for the metropolitan area. Then she rattles off reasons—lack of staff, long-running social and economic hardships, use of drugs and overly lax gun laws, criminals who skip over the Mississippi to nearby Illinois—that make improvements intensely difficult.

Her detectives clear only a dismal 52% of their murder cases, a slight gain on the past few years, she says. They rely heavily on co-operation of witnesses, who may not be forthcoming. Couldn't police cultivate better ties with residents? They try, but lack time, she says. By one estimate, a detective succeeds in clearing cases when given five or fewer to handle per year. Ms Warnecke says her overworked 33 homicide detectives officially have 4.8 cases each, but low clearances mean cases, like bodies, pile up. The stats don't capture the true picture: "in reality they each handle more like 11 or 12 cases."

In theory technology can help. Three years ago the headquarters got a "real time crime centre", an Orwellian collection of screens to relay images from cameras all over the city, letting police monitor for trouble. Pictures are matched with reports from Shotspotter—lots of microphones in public places that record sounds of gunshots. These are instantly analysed, letting police know precisely where and what type of weapons are in use. Police also want a drone for better aerial footage, though local regulations forbid it.

Gizmos, however, have limited impact. The cameras, many of which are privately owned, are mostly placed in commercial or prosperous areas, such as downtown, or in whiter parts of the city. The technology thus mostly preserves security in what are already relatively safe places. In the declining northern areas, much remains hollowed out, abandoned and forgotten.

*This article appeared in the United States section of the print edition under the headline "Still piling up"*

Uncivil hands

## Despite the rhetoric, actual political violence is rare

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*Arson, doxing, swatting: a citizen's guide*

Print edition | United States Sep 27th 2018

TO FLOURISH in public life requires a thick skin. Senator Ted Cruz needed one this week, as chanting activists hounded the senator and his wife from dinner in a Washington restaurant. Such disruption of politicians' meals is getting almost as common as online abuse. Ruqaiyah Morris, Vermont's only black state legislator, has said that she is quitting after suffering too many racist, "inflammatory and at times, even dangerous" harangues. Harsh words are tolerable, reckons an ex-politician in Chicago: credible death threats, or thrown rocks and bottles, are not.

Public figures know they must sometimes brace for tough treatment. Brett Kavanaugh expected scrutiny in his bid to be a Supreme Court justice, although he has lamented that he is suffering "character assassination" and death threats. That was after two women accused him of drunken sexual assaults against them (which he denies). His accusers also knew speaking out would stir up a nasty backlash. One, Christine Blasey Ford, says she faced an onslaught of threats of murder and other "vicious harassment" within hours of her name becoming public. She and her family have fled the family home as a result.

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Such intimidation of women who allege assault by the powerful is ugly, but it is not new. In 1991 Anita Hill's reward for testifying that she was sexually harassed by Clarence Thomas, who went on to be a justice of the court, was disbelief and vile abuse. She recalled how she came home to "an answering machine full of messages" from strangers who threatened her with sodomy, rape and murder.

Last year in Alabama several women accused Roy Moore of sexual assaults during a failed run for the Senate. His supporters disparaged them, and then the home of one, Tina Johnson, burned down a few weeks later. Arson was suspected but not proved. Other women who merely campaign against images of sexual exploitation expect to face harassment. Brianna Wu and Anita Sarkeesian were vilified and threatened by some male video-game enthusiasts, a crude episode in 2014 known as Gamergate. A spokeswoman for the National Rifle Association, Dana Loesch, said last year that death threats from supporters of gun control forced her to move house.

Even if such harassment is not new, three developments do suggest incivility has changed in the years since Ms Hill's testimony. Private individuals, as well as figures who volunteer for prominence, are targets for vile confrontations; anonymous attackers employ digital methods that scale-up fast and are hard to block; and the most senior elected official sets an abysmally low standard that others can follow.

The first of these changes is arguably the most damaging: people are attacked even when they are thrust unwillingly into the spotlight. Veronique De La Rosa and Leonard Pozner, parents of a six-year-old boy, Noah, who was murdered in a mass shooting at a school in Sandy Hook, Connecticut, in 2012, have been taunted online and threatened for years by fantasists who deny the massacre and allege the parents are "crisis actors" and part of a government conspiracy, perhaps to limit the public's access to guns. Repeated publication of their address has forced the family to move house seven times since the murder.

### To new mutiny

Survivors of another mass shooting of students in Parkland, Florida, in February have been attacked too. A conservative commentator in St Louis was forced off a television show in April after he threatened a sexual attack with a "hot poker" on David Hogg, a Parkland student who dares to say why he favours gun control. Mr Hogg's mother has reported death threats, as have others at the school.

Second, technology makes threatening people easier. Where once angry television viewers raged only at their screens, internet-users encourage each other, contact targets and issue threats from darker corners online, such as anonymous message-board sites 4chan and 8chan. A favourite activity is doxing—publishing information, such as addresses and phone numbers, of individuals—which becomes an invitation for subsequent threats. "Swatting", when emergency police teams are called to raid victims' homes, has been used against Mr Hogg and politicians.

Ms Blasey Ford's lawyers say her email has been hacked and she has been impersonated online. The broad reach of a deranged, far-right fabulist, Alex Jones of Infowars, long depended on his use of YouTube and other platforms. His broadcasts of conspiracy theories encouraged others to threaten the parents of Noah Pozner, over Sandy Hook. (Several online platforms banned him this summer.)

Third, President Donald Trump sets a remarkably unedifying example. As a candidate he called for supporters at a rally in Iowa to "knock the crap" out of protesters, one of many messages encouraging violence. As president, his repeated allegations of fake news help to whip up conspiracy theorists. He also appears to encourage those harassing the accusers of Mr Kavanaugh. In one tweet he dismissed Ms Blasey Ford for not reporting the alleged assault when she was a teenager. He disparaged a second accuser for having drunk alcohol and for memory lapses.

If all this gives the impression that politics has fallen from a state of grace, that is misleading. Despite the onslaught of death threats, Mr Trump's tirades and online nastiness there is, so far, no obvious sign of more actual violence. Those who saw beatings, shootings and murders of civil-rights activists in the South, in the 1950s and 1960s, recall a time when speaking against the powerful could cost you not only peace of mind but also your life.

*This article appeared in the United States section of the print edition under the headline "Uncivil hands"*

Lexington

## High hopes for Hakeem Jeffries

*The congressman could be the first black Speaker of the House*

Print edition | United States Sep 27th 2018

WITH less than 50 days to go until the mid-terms, Hakeem Jeffries was not pushed for time. On a leisurely stroll through his Brooklyn congressional district, the rising Democratic star pointed out the hospital where he was born and a former crack park where the surrounding brownstones go for \$2m, with a stop at his favourite diner along the way. While political America hyperventilates over the handful of competitive House and Senate races that will determine who controls Congress, Mr Jeffries is among the vast majority of congressmen facing no serious contest in November. In one of the safest Democratic districts in the country, he is running unopposed.

Such congressmen have nothing to fear but a primary challenge, like the one that dislodged another Democratic leader and New Yorker, Joe Crowley. Some veer to the political extreme to mitigate the risk of that. But Mr Jeffries is nearly as moderate as a safe-seat Democrat gets. That might seem surprising, given the plaudits he is winning in a party that is said to be shifting to the left overall. The 48-year-old former corporate lawyer is one of a handful of mid-level Democratic leaders sitting below the party's geriatric supremos. Some predict he will become the first black Speaker of the House of Representatives, perhaps sooner than later. The Democrats look likely to take back the House in November, and at least a significant minority think that would be the moment for their 78-year-old leader, Nancy Pelosi, to step aside.

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Mr Jeffries is not a member of the moderate New Democrats faction, but he often sounds as if he should be. He is a fan of charter schools and fiscal rectitude. Though he supports the principle of universal health-care coverage, he speaks of "the importance of market forces and getting things done in a responsible fashion". Quoting Ronald Reagan approvingly, he suggests this means promoting a flourishing private sector outside the "legitimate functions" of government. The eternal quest to strike the right balance between the two "is the American dream", he muses.

His pragmatism is as striking as his moderation. He praises Jared Kushner as a "tremendous partner" in his support for a bipartisan criminal-justice bill that Mr Jeffries co-sponsored. It was derided from the left as too weak, including by two Democratic senators with presidential ambitions, Cory Booker and Kamala Harris. They probably also minded the fact that President Donald Trump praised the bill. Mr Jeffries gives them short shrift: Democrats should back useful legislation whoever is president, he says, and a stronger bill was impossible under Mr Trump. He also questions their political judgment. Allowing criminal justice to become a partisan issue has handed the Republicans an offensive weapon, he says. "If we can make this a non-partisan issue, that is to Democrats' advantage."

Yet despite his bold attachment to the real world, Mr Jeffries is not merely unchallenged by his party's Utopian wing. He is admired. In an interview with a left-wing radio host, waves of adulation come pulsing through the speakerphone. She congratulates Mr Jeffries for his "unapologetic progressive streak". As the Democrats contemplate advancing from the wilderness, this raises a salient question: how does he get away with it?

There are perhaps two big reasons, which could have a bearing on his party more broadly. First, like Barack Obama (whose birthday he shares), Mr Jeffries's ethnicity helps him head off the left. That is mainly because black Democrats' emphasis on social justice—which, despite its critics, Mr Jeffries's First Step Act clearly illustrates—earns them progressive stripes. It is also because black voters, who dominate Mr Jeffries's district and are an essential portion of any Democratic coalition, are relatively moderate on economic issues. He attributes this to the traditions of the black church, which emphasise ownership and self-reliance, as well as to a centuries-old hunger for opportunity. All things being equal, black voters therefore tend to support moderate candidates, such as Hillary and Bill Clinton, in presidential primaries. If they ended up backing Mr Booker or Ms Harris, it would not be because the senators support Medicare for all.

The second reason Mr Jeffries gets away with it concerns Mr Trump. So long as the congressman attacks the president on points of principle, the left seems to give his moderate views a pass, or fails to notice them. Mr Jeffries's stand on school reform is much less well-known among Democratic activists than a feisty speech he gave after Mr Trump accused the Democrats of treason for failing to applaud his state-of-the-union address. Mr Jeffries's fellow second-tier leaders are also better known for their contributions to the anti-Trump war machine than their views. They include Adam Schiff, a star of the House intelligence committee, and Cheri Bustos and David Cicilline, who share responsibility with Mr Jeffries for messaging.

### Cheri B. and Hakeem

A return to governing, Mr Jeffries acknowledges delicately, "may make it more difficult to hold party unity". But it might not be as hard as all that. Mr Trump will remain a powerful bogeyman. Moreover, Mr Jeffries thinks the Democrats' fulcrum is closer to the centre than many imagine, in part because they have mistaken the Democrats' zeal for resisting the excesses of the Trump administration with an enthusiasm for hard-left ideas. The pragmatic candidates who have emerged from most of

the party's House primaries suggest he may be right. Alexandria Ocasio-Cortez, Mr Crowley's fiery vanquisher, turns out to be unusual.

How endangered Ms Pelosi is will probably depend on the views of some 30-odd new House Democrats, which are yet unknown. Mr Jeffries says he will back her "to the end", which is probably judicious, given her reputation for vindictiveness. But it does not denote a lack of ambition. Mr Jeffries plainly believes it is time Congress had a black Speaker. That would be both principled and tactically astute.

## Chile

Steering the economy away from the middle-income trap

Go on, be a tiger

## Steering Chile away from the middle-income trap

*Sebastián Piñera has an opportunity to enact big reforms. It will not last long*

Print edition | The Americas Sep 29th 2018

OCTOBER 5th 1988 was a good day for Chile. In a plebiscite voters rejected a proposal by Augusto Pinochet, who had taken power 15 years before, to extend his dictatorial rule. That led to free elections a year later and to more than two decades of strong economic growth, underpinned by pro-market policies, social reforms and, from the early 2000s, a commodity boom (see chart). The economy trebled in size and the poverty rate dropped from nearly 40% to less than 10%. Economists dubbed Chile “the tiger of Latin America”.

Recent years have been less tigerish. The price of copper, the biggest export, began falling sharply in 2014. Michelle Bachelet, the president from 2014 to 2018, rewrote the tax code, strengthened labour unions and proposed a new constitution. Her aim was to reduce inequality, but she also unnerved business. Investment contracted for four consecutive years. Economic growth dropped from an average of 5% in the post-Pinochet years to 1.7% in 2013-17.

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Under Sebastián Piñera, who took over from Ms Bachelet in March, the economy has begun to purr again. GDP in the second quarter of this year was 5.3% higher than in the same quarter last year, the fastest rate of growth since his first term as president in 2010-14. Investment grew at 7.1%. The central bank has raised its forecast for growth this year to 4-4.5%.

But this is not yet a return to glory days. Growth has recovered partly because copper prices have. Potential growth—the economy's capacity to grow without inflationary pressure—is only around 3%. In the past 15 months the three big credit-rating agencies have downgraded Chile's sovereign debt. This has grown from 4.9% of GDP in 2008 to 23.5% in March this year. Although that is not high, the agencies fear growth will not be fast enough to justify Chile's strong credit ratings.

The workforce will shrink as the population ages unless more women, young people and immigrants join it. Productivity is “low and stagnant”, according to the OECD, a club of mostly rich countries. This holds back potential growth. Chile's dream of becoming a fully developed economy thus looks elusive. Its biggest challenge “is to avoid falling into the middle-income trap”, says Rodrigo Aravena, the chief economist of Banco de Chile, a commercial bank.

Voters elected Mr Piñera, a billionaire businessman, to guide Chile away from that trap. His critics say he has been slow to seize the steering wheel. He unveiled his first big reform proposal, a shake-up of corporate tax, in August. It faces resistance in congress, where his centre-right coalition lacks a majority. The economy's growth spurt has so far not produced many more jobs. Consumer confidence fell into negative territory in August; business confidence is also down. The pace of reforms and economic recovery have lagged behind expectations, says Jorge Desormeaux, a former vice-president of the central bank.

“Our job is to defeat this pessimism with action,” says José Ramón Valente, the economy minister. He is in charge of three new units—for investment, productivity and “the economy of the future”—which have the task of encouraging entrepreneurs and reducing the economy's dependence on copper. The government wants to keep growth in investment at 6-7% a year. The goal for productivity is growth of 1% a year. If all goes well, the potential growth rate will rise from 3% to 4%.

Achieving that ambition will require advances on several fronts. Some will meet resistance; others will take years to produce results. The plans include a five-year concession programme, under which investors will spend nearly \$15bn, about 6% of this year's GDP, to build roads, airports and hospitals. The government itself will invest \$8bn in the Araucanía region, Chile's poorest. It wants to provide free nursery school for every child, which should bring more women into the labour force and raise productivity in the long run. Employers will pay into a fund for that. The government also plans to reduce regulation of business, which is more complex than in any other member of the OECD. More controversial is a scheme to make rules for employing students more flexible than for other workers.

The government has picked as its first big battle an assault on the confidence-killing tax system introduced by Ms Bachelet. It will be one of the hardest to win. Ms Bachelet's tax reform raised corporate taxes to provide more money for education. It brought in two corporate-tax regimes, which confused both business folk and tax inspectors. It also limits business-owners' scope for deducting from their personal tax bills the tax their company has paid on its profits. Among the angry entrepreneurs are 80,000 owners of small businesses, who previously paid no tax at all.

Mr Piñera's proposed reform would re-establish an “integrated model”, restoring shareholders' ability to deduct taxes paid by the company. It would also exempt from tax the low-income company owners who were caught in Ms Bachelet's tax net. To spur investment, the new scheme would let companies speed up depreciation. With more money in their pockets, owners of businesses, both prosperous and poor, will spend more, the government predicts.

The reform proposal has had mixed reviews. Business-owners cheer the return of the integrated model, but are disappointed that Mr Piñera has not kept a promise to reduce corporate-tax rates (27% for big firms). Large companies will get accelerated depreciation for just two years, which will diminish the boost to investment in the long run, says Claudio Agostini, a tax expert at Adolfo Ibáñez University. The business-friendly intent of the tax reform has stirred suspicions in congress, where the opposition, split among centrist and left-wing parties, has united to fight it. They claim it will increase inequality.

It may also increase debt. The government, which promises to cut the fiscal deficit from 1.8% of GDP this year to 1% by 2022, when Mr Piñera's term ends, claims the tax plan will raise a bit of revenue. It says the scheme will compensate for any shortfall by making electronic sales-tax invoices mandatory. Many observers doubt that. Chile has no independent agency like Britain's Office of Budget Responsibility to estimate revenues and spending, points out Eduardo Engel, a director of Espacio Público, a think-tank. The government missed an opportunity to set the tax on diesel at the same rate as that on petrol and has left open widely used loopholes.

If the tax reform does not pay for itself, the government will have less money to spend on more popular policies, like the investment in Araucanía. Mr Engel worries that the battle over tax reform will use up political capital needed to address the grievances of Chile's middle class, especially crime, poor-quality health care and pension benefits they deem to be too low. Neither Mr Piñera nor his ministers have been astute political managers. The education minister suggested in July that schools should host bingo games to pay for repairs, a gaffe that led to his sacking.

The window for enacting bold policies will not stay open for long. Rising global interest rates and the trade war between the United States and China have not yet hurt the economy, thanks to Chile's relatively solid finances and a floating exchange rate, which has allowed the peso to depreciate. But the economic environment is becoming unfriendlier just as Mr Piñera's honeymoon is coming to an end. If he wants to swerve away from the middle-income trap, he will have to act fast.

*This article appeared in the The Americas section of the print edition under the headline "Steering the economy away from the middle-income trap"*



Those magnificent men and women

# Latin American leaders are embarrassed by their aeroplanes

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*Mexico's president-elect is not the only leader who practises austerity in the air*

Print edition | The Americas Sep 27th 2018

FOR a traveller whose flight had been delayed by five hours, Andrés Manuel López Obrador looked surprisingly cheerful. A video published on social media on September 19th shows Mexico's president-elect preparing to disembark a budget flight from Huatulco to Mexico City. A reporter asked whether the hold-up, caused by rain, had prompted him to reconsider his campaign promise to sell the presidential plane, a Boeing Dreamliner, which cost \$219m and was delivered in 2014. Not at all, replied Mr López Obrador, who will take office on December 1st. "I'd be embarrassed to board a luxurious plane in a country with so much poverty."

Mr López Obrador is the champion of conspicuous non-consumption among Latin American leaders. His chauffeur drives a Volkswagen Jetta. He plans to cut the president's pay by 60% to 108,000 pesos, or \$5,700, a month (and to chop the salaries of other senior officials). But when it comes to using presidential aircraft as a platform for ostentatious austerity, Mr López Obrador has rivals.

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In light of Argentina's economic woes, its president, Mauricio Macri, decided in May to postpone the purchase of a new plane (see [article](#)). The existing one, known as Tango 01, is a 26-year-old Boeing 757. Last year Lenín Moreno, Ecuador's president, announced plans to sell one of two jets purchased by his free-spending left-wing predecessor, Rafael Correa. Ecuador's audit office is looking into the use of presidential planes during Mr Correa's presidency as part of a regular investigation of government accounts. Mr Correa says that the audit will show how hard he worked. He brags that the presidential palace thriftily provided catering services to his flights. "We transported [food] in tubs to save money," he tweeted.

The alternative to such aerial self-denial is to risk political turbulence. In 2016, during the worst recession in Brazil's history, Brazilians were outraged to discover that the government had put out to tender a contract worth 1.7m reais (\$520,000) for a caterer to provision the presidential Airbus ACJ319. The order included 500 tubs of Häagen-Dazs ice cream and one-and-a-half tonnes of chocolate cake. Michel Temer, the president, cancelled the order.

Clever presidents weave their aeroplane politics into larger narratives. Mr López Obrador's vow to flog the Dreamliner is part of a broader campaign against political and business elites. During an election debate he joked that he "had already offered it to Donald Trump".

The plane ordered by Tabaré Vázquez, Uruguay's president, is modest by presidential standards. The eight-seater BAe 125, delivered in February, cost a mere \$1m. But Mr Vázquez has the misfortune of succeeding a notable ascetic, José Mujica. He hitched rides with fellow leftist leaders such as Argentina's Cristina Fernández de Kirchner and Dilma Rousseff of Brazil. So Mr Vázquez's pre-owned business jet looked self-indulgent by comparison. He has prudently ordered that it be modified so that it can double as an air ambulance.

Dictators face less pressure to be abstemious in the air. Miguel Díaz-Canel, Cuba's president, travels aboard a 12-year-old Russian-made Ilyushin Il-96, furnished with a drinks bar and leather seats. It brought him on his maiden trip to the United States (to address the UN General Assembly) this week. Venezuela's Nicolás Maduro, who presides over an economy that is suffering from hyperinflation and shortages of food, would have a hard time flying commercial even if he wanted to. Currency controls have forced most foreign airlines (or "saboteurs", as he calls them) to abandon the country. Domestic planes are grounded because of a lack of spare parts and fuel. But Mr Maduro has generously put the presidential Airbus A319 at the service of Venezuelan athletes when they take part in competitions abroad. "I can easily travel overland, by motorbike or by donkey," he explained.

Pinching pesos on presidential planes may be a false economy. Argentina's security services advised Mr Macri to avoid commercial flights altogether. They make it hard to provide security and medical care and to return home in emergencies. During a meeting with investors in April Mr López Obrador looked uncomfortable when asked what he would do if a delayed flight caused him to arrive late at a UN meeting. If he sells Mexico's presidential Boeing, it will probably fetch just half of what the government paid for it. Once he takes office he might be tempted to keep it.

*This article appeared in the The Americas section of the print edition under the headline "Those magnificent men and women"*



Bello

## Peru's providential president

*Martín Vizcarra attempts to reform his country*

Print edition | The Americas Sep 27th 2018

PERUVIANS take a dim view of their presidents. The past four, after brief honeymoons, were generally despised. So it is all the more notable that Martín Vizcarra, the current holder of the job, is often greeted with spontaneous applause. This is testament to Mr Vizcarra's skill in embracing the cause of fighting corruption. Having raised expectations, he now has to meet them.

Mr Vizcarra took over in March when Pedro Pablo Kuczynski, whom he had served as vice-president, resigned to avoid impeachment over a conflict-of-interest scandal and an attempt by allies to bribe an opposition lawmaker. The auguries were bleak. Although Mr Vizcarra had done well as governor of a small region on the south coast, he was barely known nationally. Like Mr Kuczynski, he faced an obstructive congress controlled by Popular Force (FP), the party of Keiko Fujimori, who never accepted her narrow defeat in the presidential election in 2016.

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But events offered Mr Vizcarra an opportunity. Leaked tapes showed contacts between parts of the judiciary, organised crime and some members of FP. This came as the judiciary was investigating four former presidents for possible corruption, a spillover from the Lava Jato scandals in Brazil. In July Mr Vizcarra proposed four constitutional reforms—one of the judiciary, the others to the political system. He wants these to be approved by congress and then submitted to a referendum on December 9th. When congress tarried, this month he threatened to make approval of the reforms an issue of confidence in his cabinet. Congress last year censured Mr Kuczynski's cabinet; if it censured Mr Vizcarra's, in theory at least, he could call a fresh legislative election.

The threat seemed to work. Congress quickly approved the judicial reform. César Villanueva, Mr Vizcarra's prime minister, says he is "confident" the others will follow. This leaves two questions: whether the reforms will really remedy Peru's institutional weakness, and whether Mr Vizcarra's gambit marks the end of Ms Fujimori's control of the political agenda.

The judicial reform sets up a new board to select and supervise judges and prosecutors. Its predecessor was politicised, poorly designed and penetrated by criminal interests. The new board will be selected on merit in a public contest organised by a committee of authorities, including the head of the supreme court and the chief prosecutor. A similar system has worked fairly well in Peru to appoint the heads of regulatory agencies.

There may be problems. The chief prosecutor featured on the leaked tapes. He faces an investigation in congress. "No way" will he be a member of the committee, says Mr Villanueva. The reform misses an opportunity to adopt a better practice, used increasingly by other countries, in which judicial supervisory bodies are elected by judges rather than judicial authorities, says Diego García Sayan, a former justice minister who now advises the UN on judicial independence.

Other government proposals would recreate a senate, abolished by Ms Fujimori's father, Alberto, who ruled Peru as an autocrat in the 1990s, and give constitutional status to a law banning corporate donations to political parties. These are sensible in principle, though much will depend on the detail. A senate of 30 members and a lower house of 100 look small for a country of 31m people, though officials say those numbers are negotiable.

One measure is retrograde: banning the re-election of legislators. The argument against re-electing presidents—that the incumbent has an unfair advantage—applies less to congress, where experience may serve the public interest. In practice, Peruvians re-elect only a quarter of their legislators anyway. But congress is in disrepute. Many of its members are seen as self-serving or bent. Officials admit this measure is the price of rallying public support for the package as a whole.

What Mr Vizcarra has already gained is the thing that eluded his predecessor: the political initiative. He has done so by mobilising anti-*fujimorismo*, a diffuse but powerful sentiment. It helps that Ms Fujimori has forfeited much of her public support. Having feuded with her brother, thus splitting her party and depriving it of its majority in congress, she is widely seen as vengeful.

The referendum is just "the start of a process of change and reform" to achieve "legal security and political stability", says Mr Villanueva. "It's obvious that none of these things comes magically." Next month's municipal and regional elections show as much. Nearly all of the 100,000 candidates are nonentities. Restoring Peruvians' faith in democracy will take time, but at least it may have started.

*This article appeared in the The Americas section of the print edition under the headline "The providential president"*

## Modicare

**India's government launches a vast health-insurance scheme***But only budgets a tiny sum for it*

Print edition | Asia Sep 27th 2018

THE one thing everyone knows about insurance is, read the fine print. Indians should take heed as Narendra Modi, the prime minister, rolls out what he is trumpeting as the world's biggest health-insurance plan. Ayushman Bharat, meaning Long-Life India, aims to install a safety-net for the poorest half-billion of India's 1.3bn citizens, which is to say, for a big portion of the poorest people in the world. From now on, the government promises, any family that fits broad criteria of need will be eligible to receive nearly \$7,000 a year in hospital expenses without paying a penny themselves. Instead, the state will pay premiums to private insurers; eligible patients can seek treatment at any institution, public or private, that has joined the scheme.

There is no doubt that Ayushman Bharat will bring immense relief to many. Only a third of Indians now have any medical insurance, and government spending on health, equivalent to a measly 1.1% of GDP, accounts for a low 25% of health spending. The government spends far less on health care than its counterparts elsewhere in the developing world (see chart). An analysis by *Mint*, a financial newspaper, suggests that every year some 36m families, or 14% of households, face an unexpected medical bill equal to the entire annual living expenses of one member of the family. All too often such surprise costs are enough to tip families into penury.

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Past government schemes have tried to tackle this problem, but with far lower limits on payouts. They have nonetheless been plagued by administrative troubles, understaffing and wide-scale fraud perpetrated by hospitals, insurance companies and patients themselves. Studies show that families who availed themselves of public insurance ended up spending more of their own funds on health than those with no coverage, partly because of follow-up costs such as medicines, but also because people felt less need to economise, and started treating conditions they would previously have just endured.

Ayushman Bharat is intended to replace and vastly expand previous programmes. Proponents note potential benefits that go beyond reducing misery for the downtrodden. The scheme, they say, aptly reflects the reality that private care now dominates Indian medicine, yet it also seeks to pool risk so as to reduce insurance premiums and use the huge number of patients to drive down the cost of procedures. The creation of a new class of consumers should encourage the building of hospitals where they were previously uneconomic, especially in remote rural areas.

For critics who question the focus on inpatient treatment, rather than primary or preventive care, government boosters point to Ayushman Bharat's commitment to create some 150,000 public "health and wellness centres" across the country. These are supposed to provide initial diagnoses and outpatient services, feeding patients who need hospital care into the insurance scheme.

But detractors have other reasons to detract. For one thing, the initiative looks as woefully underfunded as previous efforts. The insurance scheme's first-year budget amounts to a miserly \$300m (0.01% of GDP), hardly the "world's biggest" and indeed not substantially more than was previously budgeted for health insurance. Indu Bhushan, the CEO of Ayushman Bharat, insists that this will rise rapidly to perhaps \$1.5bn a year.

Public-health experts concur that a measured expansion, with plenty of room for trial and error, makes more sense than a huge initial splurge. But even then, funding would amount to less than what Mr Modi recently doled out to India's ailing, but politically potent sugar industry. If just one in ten of the 36m families facing shock medical bills every year made full use of the scheme, hospitals would be demanding closer to \$25bn in fees.

That may seem an over-estimate, but the experience of previous insurance schemes suggests that once patients do not need to worry any more about the cost, those who might have put up with pains, or turned to informal doctors, eagerly embrace more elaborate treatment. In any case, given the paucity of data that insurers need to set rates, and given the bargain-basement prices that the government is offering to hospitals that sign onto the scheme (\$550 for inserting a cardiac stent, for example), it may take years of bargaining and tinkering to devise a workable financial model. And paying for health care via insurance might prove more expensive to the state than providing it directly.

As for the health centres, these in fact already exist, having been built by previous governments as village clinics. Most are now defunct or woefully under-used. They are simply being renamed, says Jean Dreze, an economist, who notes that the budget earmarked for them would barely cover the cost of fresh paint. Jishnu Das of the Centre for Policy Research, a think-tank in Delhi, is puzzled by the decision to tart up derelict clinics. "Policymakers say that instead of improving the places where

people actually go to seek primary care—community health centres, public district hospitals and informal private providers—we should try to improve the places where they don't go. That is extremely convoluted logic."

What is not convoluted is the politics of announcing a giant, transformational health programme, which may prove a life-giving gift for millions of poor families, six months before a general election. You do not need to read the fine print to figure that out.

*This article appeared in the Asia section of the print edition under the headline "Modicare"*

Banyan

## A deal between China and the Vatican stirs anxiety in Taiwan

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*But Taiwan's ties with the Vatican go beyond diplomatic niceties*

Print edition | Asia Sep 27th 2018

ONCE, the Catholic church in China was not underground. In the 17th century Jesuits were favoured advisers to the emperors of the Qing dynasty. In the 19th and early 20th centuries, abetted by a growing Western presence, the church thrived. But after two years of trying to establish formal ties with the new Communist regime, the Vatican gave up in 1951 and resumed diplomatic relations with the Nationalist government, now in exile in Taiwan. Foreign priests and bishops were expelled from the mainland. Many Chinese priests fled to Taiwan.

In 1957 the Communist Party established the Chinese Patriotic Catholic Association as an official overseer. The outraged Pope Pius XII decreed that all bishops consecrating new bishops under its aegis would be excommunicated. Since then, a schism constantly threatened between China's official Catholic church and the underground one loyal to the Vatican. About half of China's estimated 10m Catholics sit in each camp. In the coastal Mindong region of Fujian province, for centuries a Catholic stronghold, an estimated 70,000 worshippers all belong to the underground church.

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In the hope of healing the rift, on September 22nd the Vatican announced what it said was a breakthrough: China's first recognition of papal authority. Neither side is giving away the details of the "provisional" deal, but its outline can be divined. China will give the Vatican a say in the appointment of bishops in the state-controlled church. In return, Pope Francis has in effect acknowledged its legitimacy, even though his predecessors spent much of the Middle Ages resisting this sort of state interference. He is bringing seven bishops, excommunicated because they were state-appointed, back into communion with the church.

For the pope, the deal promises to open a sixth of the world's population to the church's message. He has long expressed the desire to visit China, where the church has lost ground to Protestantism, the faith of the bulk of China's estimated 60m Christians. It does not help that Catholicism is strongest in rural areas. The number of adherents is slowly declining as youngsters head for the city to find jobs, says Anthony Lam of the Holy Spirit Study Centre in Hong Kong. There, mass may not be in their native language, and so is as unintelligible as Latin: there is no Cantonese service in Shanghai, for instance. Supporters of the pope think that, with more priests and official blessing, this could change.

Yet Pope Francis's move has plenty of critics. Many of the faithful are appalled that he would recognise priests over whose appointment the stridently atheist Communist Party has a veto. And the deal comes at a time when the party is cracking down on religion on several fronts.

Many unofficial (mainly Protestant) churches have been razed and congregations broken up. President Xi Jinping has launched a campaign to "sinicise" religion, ie, to eliminate foreign influence and instil loyalty to the party. Tibetan Buddhists struggle to practise their faith freely. In Xinjiang the state has detained hundreds of thousands of blameless Muslim Uighurs in Mao-style re-education camps. Cardinal Zen, the former bishop of Hong Kong, accuses the Vatican of sending its flock "into the mouths of the wolves". Mindong's underground bishop, Guo Xijin, is being forced to step aside in favour of a state-approved cleric.

Taiwan fears a fate similar to the bishop's. China has long made two demands of the Vatican. The first, now met, was not to deny the authorities any say in the running of the church. The second is withdrawal of diplomatic relations with Taiwan. That has not happened, but "some day, one day" it surely will, Mr Lam says.

There are fewer than 300,000 Catholics in Taiwan, with some congregations made up nearly entirely of Filipino migrant workers. China, meanwhile, has poached five diplomatic allies since Tsai Ing-wen became president in 2016, leaving just 17. The sundering of formal ties with small Pacific and Latin American countries may not do much damage to Taiwan's cause, but losing its most prestigious ally, which claims to speak for 1bn Catholics, would be a much bigger blow.

What should Taiwan do? Michael Reilly, a former British diplomat, argues that instead of its emphasis on protocol—next month Ms Tsai's deputy, Chen Chien-jen, will attend the canonisation of Pope Paul VI in Rome—the government needs to strengthen informal ties with the Vatican. That should include support for Catholic schools and charities in Taiwan which, after all, serve non-Catholics too. Taiwan can also build on its role as a centre for training priests to serve in China. That is worth more than a nunciature.

*This article appeared in the Asia section of the print edition under the headline "Render unto Xi"*

## Identity politics

## A court upholds but curbs India's giant biometric ID system

*Private firms will no longer be able to use it so easily*

Print edition | Asia Sep 27th 2018

RARELY does a verdict allow all sides to claim victory. Yet the Supreme Court of India managed to pull off just such a feat in a 1,448-page judgment upholding the constitutionality of Aadhaar, a vast biometric identification scheme containing the personal details, fingerprints and iris patterns of 1.2bn people—nine out of ten Indians. The ruling Bharatiya Janata Party (BJP) called it a “big victory”. The opposition Congress party described it as a “slap on the face of the BJP”. The Unique Identification Authority of India, which runs the scheme, said that the decision “set the pace of India’s digital destiny”. Apar Gupta, one of the lawyers involved in the case, tweeted that “the legitimacy of its stated purposes is destroyed”.

Aadhaar started life under the previous, Congress government, as way to provide every Indian with a form of identification and thus to plug gushing leaks in government welfare schemes. The BJP, which took power in 2014, massively expanded its scope to encompass nearly all contact with the state. It also allowed private companies to use Aadhaar, which they did with great enthusiasm.

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Although participation is supposedly voluntary, the government’s insistence that Indians use Aadhaar not only to access any government service, but also to open bank accounts or subscribe to a mobile-phone line, in effect made it compulsory. The opposition was fierce and varied. Privacy campaigners worried that it enabled unwarranted government snooping. Cyber-security types said the system was insecure and prone to error. Anti-poverty activists argued that it erected obstacles between the poorest and their rightful benefits. And lawyers were appalled when the BJP used procedural sleight-of-hand to rush through parliament a bill giving Aadhaar legal status. Reports of abuses streamed in: babies being refused birth certificates, children denied admission to school, pregnant women turned away from public hospitals, all for lack of a verified Aadhaar registration.

The court ruled with a majority of 4-1 that Aadhaar was constitutional and could remain obligatory for those wishing to receive public benefits or file taxes. Given that a majority of Indians do one or the other, that in effect makes participation mandatory. To throw out Aadhaar altogether, the court said, “will amount to throwing the baby out of hot water along with the water”.

Yet the court also struck down sections in the law allowing the use of Aadhaar by private companies, giving critics cause for cheer. For months mobile operators and banks had been threatening to disconnect customers’ phones or close their accounts unless they provided their Aadhaar numbers. Airtel, a big mobile network, used customers’ Aadhaar data to open some 2.3m bank accounts without proper consent (it paid a small fine). Fast-growing firms such as Paytm, a mobile-wallet outfit, and Jio, a mobile network, owe their success in part to their ability to sign up customers quickly using Aadhaar data. Proponents of Aadhaar envisioned an entire industry providing services linked to it.

The ruling will hit such companies. But the damage is likely to be temporary. C.V. Madhukar, who runs the identity programme for Omidyar Network, an investment fund, says the decision “will now require parliament to pass laws that allow for specific uses”. Arun Jaitley, the finance minister, has already hinted that this is the government’s likely response.

A scorching dissent from one judge found the whole enterprise unconstitutional. Critics have vowed to carry on the fight, but, as one opponent of Aadhaar puts it, “I don’t know what happens next.” And whether intentionally or not, the ruling will inevitably diminish public interest in the issue.

*This article appeared in the Asia section of the print edition under the headline “Court gestures”*

Adverse selection

## Victims of forced sterilisation in Japan fight for compensation

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*The government is giving them short shrift*

Print edition | Asia Sep 27th 2018

WHEN Junko Iizuka was 16, she was taken on a jaunt to the countryside. Now in her seventies and in failing health, she dimly recalls enjoying a picnic of rice balls before being taken by her foster parents to a hospital and told to lie on a bed. When she woke, she had been sterilised, though she did not know it.

A panel of “experts”, she learned later, had decided she should not be allowed to bear children, after a welfare official had accused her of theft and aggressive behaviour. The procedure was carried out under something called the Eugenic Protection Law, passed in 1948 to prevent the birth of “defective descendants”. Local governments set up review boards of judges, police and doctors to decide who should be sterilised. Most of the targets were disabled people or those with hereditary conditions such as epilepsy. But some, including Ms Iizuka, were operated on just for being “difficult”. In all, around 25,000 people were sterilised under the law, which was repealed in 1996. The youngest were just nine years old.

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Eugenics flourished around the world in the 20th century. Sweden had a policy of “ethnic hygiene” until 1976 (20 years ago it agreed to compensate some of the 63,000 people sterilised as a result). Norway and Denmark ran similar programmes, as did some American states. Forced sterilisation was part of China's one-child policy, introduced in 1980.

In Japan, boards in each prefecture competed to fill quotas. Victims who objected were coerced or tricked. Many were so young they may not even have been aware that they had had surgery, says Osamu Nagase, a disability specialist at Ritsumeikan University in Kyoto.

The victims are starting to seek compensation. One woman filed suit at a local court in March, demanding ¥11m (\$100,000) in damages. Her fallopian tubes were tied in 1972 after she was diagnosed with “hereditary feeble-mindedness”. More lawsuits are on the way. A hotline set up by legal experts has attracted dozens of calls.

The government is resisting the claims. The Ministry of Health, Labour and Welfare argues the policy was legal at the time. It says only that it will look into the matter. Shame may prevent many victims from pursuing redress.

Ms Iizuka never married, fearing that her infertility would put off any suitors. She did not get her hands on her case file until she was 55. Anger—and pain from the operation—kept her going, she says. “I had to know what they did to me.”

*This article appeared in the Asia section of the print edition under the headline “Adverse selection”*



Sun, sea, sand and surprise

## **An amazing upset in elections in the Maldives**

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*A strongman president concedes a poll he was expected to rig*

**Print edition | Asia** Sep 27th 2018

THE last time Abdulla Yameen looked on the verge of losing power, in February, he declared a state of emergency, dismissed the police chief, rejected an order to release political prisoners and locked up two of the Supreme Court justices who had issued it. His preparations for the presidential election on September 23rd were just as thorough. The most prominent leaders of the opposition remained in jail or in exile. The government had showered voters with goodies, such as waiving rent fines and trimming prison sentences. The police even raided the opposition alliance's headquarters the day before the vote.

And yet, when the results came in, to general astonishment, Mr Yameen was declared to have lost, with only 42% of the vote. The winner was the unassuming but unjailed Ibrahim Mohamed Solih, the leader of the diminished opposition in parliament. Mr Yameen, who had appeared determined to cling to power just seven months before, conceded without protest.

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Mr Solih, who is known by his nickname, Ibu, has pledged to overturn the dubious convictions of his fellow opposition leaders, most notably the country's first democratically elected president, Mohamed Nasheed, who is the leader of the Maldivian Democratic Party, to which Mr Solih belongs. "For many of us this has been a difficult journey, a journey that has led to prison cells or exile," Mr Solih said as he claimed victory. "It's been a journey that has ended at the ballot box."

Maldivians can only hope that the journey is indeed at an end. Their country, a string of atolls in the Indian Ocean with a population of just 430,000, was a dictatorship for 30 years under Maumoon Abdul Gayoom, Mr Yameen's half-brother. He allowed a competitive election to be held in 2008, which he lost to Mr Nasheed. But Mr Nasheed was forced from office in murky circumstances in 2012 and Mr Yameen beat him in a disputed election the following year by just 6,000 votes. His government soon began to show an authoritarian streak, prosecuting Mr Nasheed, among others, for plotting to overthrow it.

Some worry that Mr Yameen, whose term ends on November 17th, might still be planning to hold on to power somehow. Rumours have swirled that his party is preparing to challenge the results. But power seems to be ebbing away quickly. Since the election, the courts have ordered the release of four opposition MPs and a deposed police chief. Police have become less fussy about who can enter the heart of Malé, the capital.

Mr Yameen offered Maldivians a diet of nationalism and religiosity, spiced with Chinese- and Saudi-funded development projects. Mr Solih and the opposition are closer to India. Big Chinese investments may now receive the scrutiny parliament was unable to give them before. Strongman policies, such as the reintroduction of the death penalty and the recriminalisation of defamation, could be rolled back. And the corruption scandals and unexplained murders of critics that marred Mr Yameen's rule are likely to be investigated.

Speaking from nearby Sri Lanka, an exultant Mr Nasheed declared that Maldivians had "taken back their country from the brink". On Twitter, he declared, "Democracy is a historical inevitability." In the Maldives at least, until this week, it had seemed anything but.

*This article appeared in the Asia section of the print edition under the headline "Sun, sea, sand and surprise"*

Dokdo's spin doctors

## South Korea craves foreign approval of its claim to two tiny rocks

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*But the world is oddly indifferent*

Print edition | Asia Sep 27th 2018

THE two countries of the Korean peninsula may have many disagreements to resolve, but in one respect, they are in perfect accord. Dokdo, a pair of rocks in the sea that separates the peninsula from Japan, both insist, have been an integral part of Korea for centuries. Consequently Japan's claim to the islands, which it calls Takeshima, is imperialism, plain and simple. At the first of three recent summits between Kim Jong Un, the North's dictator, and Moon Jae-in, the president of the South, the mango mousse was decorated with a chocolate map of the peninsula complete with a tasty Dokdo-shaped dot.

Dokdo-ganda is everywhere—even on the train from the airport into Seoul, South Korea's capital. "History knows the truth," flash the screens above the seats, "Japan knows the truth." To rousing martial music, they go on to display a series of yellowing documents and maps with excerpts highlighted in red. These bits of paper, the bleary-eyed visitor is informed, are proof that Dokdo is inalienable Korean territory.

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South Korea has the upper hand in the dispute, since it controls the islands. But the authorities are leaving nothing to chance. Primary-school children are taught the song "Dokdo is our land", which celebrates the fauna of the islands and surrounding waters ("squid, beka squid, cod, pollock, tortoise, salmon egg, waterfowl egg") and reminds them that Dokdo was mentioned "in the third line on page 50 in the geography records of King Sejong", a 15th-century ruler. High-school students are appointed "Dokdo keepers" and dispatched on trips to the islets to protect their country's territory. In a recent survey, 98% of South Koreans agreed that the specks were Korean.

The government seems keen to instil that thought in foreigners, too. Posters informing passers-by in English that "Dokdo belongs to Korea" are dotted around Seoul. Pay a visit to the city's Dokdo museum, opened "in response to the Korean people's desire for the protection of Dokdo's sovereignty", and you will be handed a booklet of "ten facts about Dokdo which Japan does not know", available in multiple languages. (Not to be outdone, the Japanese government opened a Takeshima museum in Tokyo earlier this year.) A copy of the video played on the airport train has had millions of views online. But 80% were of the Korean-language version, suggesting that locals' interest in the issue continues to outstrip foreigners'.

*This article appeared in the Asia section of the print edition under the headline "Control is not enough"*



## Death

### A burning question

A grave mistake

## Officials in China use strong-arm tactics to curb burials

*To make their point, they seize coffins and smash them*

Print edition | China Sep 27th 2018

WANG TINGYU points sadly towards the space above her bed where her coffin used to lie. It was one of a pair she and her husband bought 20 years ago, when the couple entered their 60s. After he died, hers remained stored in the eaves of their sooty cottage—ready for the day her own body would be buried on a nearby hillside. But a few months ago officials entered the home of the 81-year-old and took the casket away. She says the 1,000 yuan (\$145) they gave her in compensation was one-half to one-third of its value.

The distress of Ms Wang (not her real name) is shared by neighbours in her village bordered by bright-green rice fields in Shangrao, a prefecture in the south-eastern province of Jiangxi. They say that this summer officials went door-to-door collecting the coffins that elderly residents had purchased and put aside, as is often the custom in rural areas—expensive ones are sometimes displayed as status symbols (coffins confiscated in Shangrao are pictured). The officials piled up the caskets and had them crushed with a mechanical digger. They claimed that the pieces would be burned to generate power. State media said that villagers had willingly handed over their coffins. Locals dispute this. “People are outraged,” says one.

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Efforts by the Chinese government to dissuade people from burying the dead have a long history. After the fall of the last imperial dynasty in 1911 reformers advocated cremation, believing that it symbolised modernity. That view was shared by Mao, who argued that coffin-making was a waste of wood and money and that elaborate burials fostered superstition (ironically, his embalmed body now lies in a glass sarcophagus in central Beijing). During the Great Leap Forward of 1958-61 graveyards in Shanghai were turned over to pigs, notes Natacha Aveline-Dubach of the French National Centre for Scientific Research. In the 1960s and 1970s gravestones were fashioned into kitchen counters and floor tiles.

Mao's successors inherited his misgivings about burial. They had another fear, too: that the practice could result in arable land becoming even more scarce and thus impair China's ability to feed its rapidly growing population. The one-child-per-couple policy, introduced in 1979, aimed to reduce the burden of sustaining so many people by curbing the number entering the world. Anti-burial measures, though less nationally co-ordinated, were intended to prevent those departing this world from hogging badly needed land.

Between 1986 and 2005 China's national cremation rate rose steadily, from 26% of corpses to 53% (see chart). In big cities, which grew quickly over that period, cremation is now nearly universal—in cramped urban areas economics, as much as diktat, has helped to determine how to deal with the dead. Since then, however, there has been little further change. Many villagers still bury bodies, not just on hard-to-farm hillsides but on fertile fields.

Since Xi Jinping took over as China's leader in 2012, officials have stepped up their anti-burial efforts. In 2014 the government said it wanted the cremation rate to grow by up to 1% annually for the rest of the decade, with “close to 100%” cremation in selected areas. It has been trying harder to promote “ecoburials”. These can involve ashes being packed into tall columbaria, buried in flower beds or sprinkled into the sea. The confrontations in Jiangxi occurred after several of its counties said they would allow no more burials after the end of August. Videos on social media showed old people lying in their coffins to stop officials from seizing the caskets.

The intensified campaign involves more than the usual worries about the scarcity of farmland. The government believes that lavish spending on coffins and mourning rituals, in order to show off the popularity or status of the deceased, is frustrating its effort to eradicate rural poverty by 2020 (in January the Ministry of Culture announced that it would clamp down more firmly on funeral organisers who hire strippers to boost turnout). Officials also want to “beautify” the countryside to attract tourists. They think, with some justification, that rich city-slickers find graves spooky and unsightly. Villagers allege that local authorities sometimes grab burial land in order to replace fields which officials have sold to developers.

In the past three years there has been a slight uptick in the cremation rate. But anti-burial campaigns have had grim side-effects. In 2014 several pensioners in Anhui province were reported by state media to have killed themselves shortly before a no-burial policy was due to take effect. They wanted to ensure that their remains would not be cremated—keeping the body intact is considered by some Chinese to be a sign of respect for one's ancestors. The same year two officials in the southern province of Guangdong were alleged by police to have hired a grave-robber to exhume more than 20 corpses from a neighbouring province. The officials then had the bodies burned in order to help them meet cremation-rate targets, the attainment of which had been frustrated by surreptitious burials. This was not an isolated incident. Officials' benefits and promotions were sometimes linked

to meeting such targets, encouraging a furtive trade in bodies. The problem was said to be so prevalent that villagers in some areas took to camping by relatives' tombs to protect them.

Urban officials have remained as reluctant as ever to allocate land for funeral use, even for the burial of ashes. So space is at a premium. Bloomberg, a news agency, calculates that last year the price per square metre of an urban burial plot sold by Fu Shou Yuan, a high-end undertaker, was more than 112,000 yuan (\$16,000). It reckons this was double the cost per square metre of an apartment in Shenzhen, an expensive city in Guangdong.

In contrast with the one-child policy, about which the government brooked no criticism when it was in force, state media have attacked the excesses of the anti-burial campaign. Newspapers have variously described the coffin seizures in Jiangxi as “barbaric”, “inhuman” and “unlawful”. The government prefers to highlight more sensitive methods that are being tried in some regions. Wenling, a city in the coastal province of Zhejiang, said this year that it would award monthly stipends of between 100 and 400 yuan (\$15-60) to pensioners who commit to having their ashes scattered at sea. Some other places in Zhejiang and elsewhere promise to cover the cremation and funeral costs of villagers.

Optimists hope that a clause soon to be inserted into China's funeral regulations, emphasising the need to respect the “dignity” of citizens, will discourage abuses. In 2012 the law was tweaked to make it clearer that no force should be used to promote cremation. Officials clearly found that easy to ignore. Having already suffered the loss of their treasured coffins, the villagers in Jiangxi worry that they may now face another big bill if they want to have their ashes buried in their nearest public cemetery. Unlike the traditional hillside plot, it is a long drive away.

*This article appeared in the China section of the print edition under the headline "A burning question"*

A spectre is haunting China

## Officials in Beijing worry about Marx-loving students

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*They remember what happened when a librarian called Mao became inspired by the philosopher*

Print edition | China Sep 27th 2018

IN EARLY May China's leaders pulled out all the stops to mark the 200th anniversary of Karl Marx's birth. That was no surprise. The Communist Party claims to be a champion of the German thinker's revolutionary ideas. Xi Jinping, the party's chief, led fellow leaders in a Marxist study session. Some 300 Marxist scholars attended a grand conference held at Peking University, one of China's most prestigious institutions.

It may seem odd, then, that on September 21st a Marxist society run by students there announced that it was facing closure. A message posted by the club on social media said the group was having trouble finding a faculty member to supervise it (an annual rigmarole faced by student societies in China). It said the club had eventually found a backer who was not a teacher of Marxism, but the authorities had rejected this solution. The following day young Marxists at a university in Nanjing, an eastern city, said they had also been facing hassles. A Marxist society at another university in Beijing said it was struggling, too.

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In recent years the party has tightened controls over journalists, lawyers and others it regards as potential troublemakers. It is now turning its attention to young campaigners who wave the same Marxist flag as the party, but who use it in defence of society's underdogs rather than as a bludgeon against the party's critics. Last November Zhang Yunfun, a 20-something former member of Peking University's club, was arrested during a Marxist study session he had organised at a university in the southern city of Guangzhou. He was given a six-month jail sentence for disturbing public order.

The country's rulers tremble at the thought of a Marxist revival. #MeToo activists have been invoking the philosophy in their efforts to expose professors who demand sex from students. Earlier this year hundreds of students from several universities expressed support for workers who had been fired for trying to set up a union in their factory in the southern city of Shenzhen. Several students, including self-styled Marxists who travelled to the city to help them, were arrested in August (some are pictured before the police raid). In its posting on social media, Peking University's club said officials had hinted that events in Shenzhen were one reason why the society was in difficulty.

In the end supportive responses on social media to the club's posts appeared to persuade the university to soften its stance. On September 26th the society said it had finally completed its registration, and that the head of the university's Marxism department would be its sponsor. But the group, and others like it, will surely be kept on a short leash. The party is not only afraid of genuine Marxists, but also of Peking University's long history at the forefront of anti-establishment movements. When Marxists first started a study group at the university a century ago, those attending included a librarian called Mao Zedong.

*This article appeared in the China section of the print edition under the headline "A spectre is haunting China"*

Chaguan

## An African enclave in China shows the limits of Chinese openness

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*Despite its role as a global trading giant, China has not embraced multiculturalism*

Print edition | China Sep 29th 2018

RICHARD GATHIGI, a Kenyan entrepreneur, has lived in the southern Chinese city of Guangzhou since 2015, oiling the wheels and gears of the low end of globalisation with doses of human trust and acuity. When an African friend had a small but urgent order—450 safety vests bearing the logo of the UN mission to Somalia—Mr Gathigi knew a factory that could help, though he wishes he had asked a higher price. “The UN has a lot of money,” he explains cheerfully, stabbing at a late-night plate of fish and rice in the Xiaobei district of Guangzhou, a hub for African traders. In a world without contracts, confidence is his currency. Near-strangers in Africa trust him to inspect goods ordered online from China. He is an old-timer in Guangzhou’s cramped, fluorescent-lit trading malls. Chinese bosses are cautious about tricking him.

Still, Mr Gathigi is no pioneer of multiculturalism, China-style. He is one of thousands of Africans who work in the city, though their numbers have shrunk since 2014 when officials said 16,000 Africans were living in Guangzhou. He respects his host country. Now 44, he wants his teenage children to study at Chinese universities, after being brought up in Kenya. But in three years he has not learned Chinese, visited the Great Wall or eaten at a local’s home. He first saw China in middle-age, he notes. “Most of my values were formed. Apart from business, I don’t have much interest.”

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Listening to Mr Gathigi, he could be an 18th-century “supercargo” or trade agent, sweltering on the riverfront to which Westerners were confined, back when the city was known as Canton. Non-Chinese then were forbidden even to learn the language. Mr Gathigi thinks that China still prefers foreigners to visit, trade with locals, then leave. America and Europe make it difficult for Africans to obtain visas, he observes, but once in the rich world migrants can easily overstay and live in the shadows, doing work that Westerners shun. “With the Chinese it’s the opposite,” he adds. “They make it easy to enter but very difficult to stay.” After all these years, he lives on a business visitor’s visa that must be reset with a run to Hong Kong or Macau every 30 days.

Many countries are questioning the benefits of globalisation. The nastiest rows occur when immigration enters the equation. Citizens chafe against the free movement of goods and capital, but most of all people. China’s leaders speak as globalisation’s champions. President Xi Jinping declared to African leaders in Beijing this month that “with open arms, we welcome African countries aboard the express train of China’s development.”

Yet if Chinese leaders like the idea of goods and capital rushing at express-train speed (ideally with Chinese drivers at the controls), they have never embraced the idea that people should move freely, let alone dream of acquiring hybrid, part-Chinese identities. Even marriage to a Chinese national brings no special residency rights. A decade ago Guangzhou’s diversity prompted articles and books by Westerners pondering whether this was multiculturalism. After watching African men marrying Chinese women, Gordon Mathews of the Chinese University of Hong Kong wondered whether the world might see a “Chinese Barack Obama” (not soon, he concluded). More recently journalists and scholars have debated whether China is displaying racism with campaigns to build a “clean, safe and orderly” Guangzhou, during which street traders have been swept away, restaurants catering to foreigners ordered to close by 10pm and districts like Xiaobei flooded with police checking passports.

Obtuse or callous views of ethnicity are dismayingly common in China. Racial assumptions run like an electric current through some official vows to clean up Guangzhou. But many Africans take a fatalistic view. Emmanuel Ojukwu, a prominent Nigerian trader, has no issue with the twitchy police. “Some people were taking the opportunity to conduct bad business, trading drugs and other criminality,” he says. Kiema Moussa, from Burkina Faso, describes strict visa rules as a business cost. Muslims attract no special scrutiny, he says, chewing on a street-stall kebab after Friday prayers at Guangzhou’s ancient Huaisheng mosque. Chinese officials know “straight away” if a country suffers terror attacks or an outbreak of disease and may refuse visas as a result. “It’s still worth coming,” he shrugs.

### Building world cities, not melting-pots

Ali Mohamed, a Somali freight forwarder, is a rare African with a Chinese passport, having spent long enough in Hong Kong to earn citizenship. Jaws drop when he joins the domestic immigration line at Chinese airports. He has seen many Africans leave. Officials want a “modern” Guangzhou focused on global finance and commerce, he says. But he insists they are “not targeting Africans”. Mr Mohamed, who is 50, has moved around Asia all his life. Although proud of his new passport, he is keeping an eye on Chinese factories opening in Africa and on businesses moving to Vietnam. “We are Somali nomads. Where it rains, we go.”

Western politicians and CEOs often brag about their countries’ or companies’ long relationships with China, fondly imagining that Communist leaders have a sentimental side. Chinese officials promote schemes offering permanent residence to

a few, exceptionally qualified foreigners. But at the ground level of globalisation, the Africans know that outsiders stay on sufferance.

Your columnist watched a packed evangelical Christian prayer service at a dowdy central business hotel, tolerated because only holders of foreign passports may attend. One worshipper, Velile Sibiya, a medical student from South Africa, thinks Chinese leaders have done “magically well” by persuading so many citizens to work hard, think alike and inhabit a “little cocoon of peace”. She is unsurprised that people are not encouraged to become Chinese by naturalisation. “Citizenship gives you rights, it gives you a voice. I think they are protecting this world that they have created.” Though grateful for her training in China, she is not planning to stay. Good guests know when to leave.

**Correction (September 28th, 2018):** We originally reported that Richard Gathigi had lived in Guangzhou since 2005. In fact he arrived in 2015. The article has been amended to reflect this.

*This article appeared in the China section of the print edition under the headline “China’s one-way globalisation”*

### Iran and the world

Isolated and besieged

99 problems, and Trump's just one

## Iran's troubles are mounting at home and abroad

*The regime has responded with defiance and conspiracy theories*

Print edition | Middle East and Africa Sep 27th 2018

IT IS clear whom President Donald Trump blames for the Middle East's problems. Iran's "corrupt dictatorship", he told the UN General Assembly on September 25th, "sows chaos, death and destruction" in the region. It used the economic benefits of its deal with America and other world powers, which curbed Iran's nuclear programme in return for sanctions relief, to raise military spending and support terrorism, he claimed. So his administration pulled America out of the deal in May and launched "a campaign of economic pressure to deny the regime the funds it needs to advance its bloody agenda".

Iran has responded, as usual, with defiance. Hassan Rouhani, its president (pictured), insisted he would not meet Mr Trump, denounced his "xenophobic tendencies resembling a Nazi disposition" and predicted victory over America. "The end of this war will be sweeter than the end of the eight-year war," said Mr Rouhani, referring to Iran's war with Iraq in the 1980s, which left 600,000 Iranians dead. Though considered a pragmatist, he sounds much like Iran's hardliners, who opposed his nuclear deal and see no room for compromise with America.

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Mr Trump, though, is not the only one challenging the regime. Several gunmen killed at least 25 people, including 12 members of the Islamic Revolutionary Guard Corps (IRGC), the regime's praetorian guard, at a military parade in Ahvaz, a city in the south-western province of Khuzestan, on September 22nd. Two different groups claimed responsibility. The first was a splinter of a local Arab separatist group, the Arab Struggle Movement for the Liberation of Ahvaz. But the Islamic State group, which a year ago stormed Iran's parliament in Tehran, then promptly claimed the attack too, perhaps lying to boost its stature. The regime quickly, and with no hard evidence, blamed America and its regional "puppets"—Saudi Arabia, the United Arab Emirates (UAE) and Israel.

### The usual suspects

Iranian officials are fond of lurid conspiracy theories, but it is not hard to see why they suspect outsiders. Khuzestan is home to some 2m Arabs (most Iranians are Persian). In recent years Arab broadcasters have stoked up coverage of Iranian minorities, keenly supporting Arabs "under occupation by Persian forces". Bahrain has gone as far as to name one of its streets Arabian Ahvaz Avenue. One of the groups that claimed responsibility for the attack did so through Iran International, a television station based in Britain and funded by Saudi investors. Last year Muhammad bin Salman, Saudi Arabia's crown prince and de facto ruler, promised to take his country's fight "inside Iran".

In Iran's eyes this Arab offensive is part of a broader, ominous front. Saudi Arabia and the UAE have set aside their differences with Israel in order to take on Iran, a shared enemy. The White House is now full of officials who have spent much of their careers calling for regime change in Iran. Some senior members of Mr Trump's team have supported the Mujahideen-e-Khalq, a cult-like dissident group that was until recently considered a terrorist organisation in Europe and America, and provokes revulsion even among reform-minded Iranians. John Bolton, Mr Trump's national security adviser, has hailed it as Iran's "viable opposition". On September 23rd an illustrious group of former American officials warned that Iran was being unwisely forced to choose between "capitulation or war".

Iran's sense of siege is likely to grow. On November 4th America will impose new sanctions aimed at Iran's oil industry. As a result, Japan, South Korea, Sri Lanka and European countries plan to slash oil imports from Iran. America might offer cheap oil from its own reserves to induce India to follow. Though European states continue to uphold the nuclear deal, some have left Iran to twist in the wind. A French state-owned bank has dropped plans to finance exports to Iran, while the French government has restricted diplomatic travel to Iran and suspended the appointment of a new ambassador. Iran is seeking help from Russia and China. But Russia has gleefully filled the gap left by Iran in the oil market, while China is focused on its trade war with America.

The government's obsession with foreign plots deflects attention from problems at home. Khuzestan holds the vast majority of the country's oil reserves but is poor and neglected. Arabs say they are kept out of local government and that the IRGC steals the region's water as well as its oil. A plethora of dams has diverted rivers that flowed to the Gulf from central Iran, turning Khuzestan into a dust bowl. Protests have been brutally suppressed. Groups vowing to "liberate" Ahvaz claim to sabotage pipelines and shoot at officials.

The malaise is countrywide. Iran's currency, the rial, has slumped in the past year. The poor, long the regime's base of support, have to hoard tinned food. Officials are stealing and extorting more to make up for their shrinking salaries. Foreign businessmen, who flocked to Iran after the nuclear deal, have left. Of 350 pupils at the French school in Tehran, 150 have left. Many Iranians want out, too. Such is the demand for work visas at the German consulate that applicants have to wait two years for an interview.

Years of sanctions have made Iran develop a "resistance economy", which is diverse and in many areas self-sufficient. Prices of basics have risen, but by far less than they might have if Iran depended on imports. Cynics note that although the falling rial makes people poorer, it makes the government stronger, since Iran earns its oil revenue in foreign currency. Its reserves can survive two more years of Mr Trump, says Mr Rouhani. But suffering Iranians may prove a bigger threat to the regime.

**Correction (November 1st 2018):** We misquoted President Donald Trump as saying Iran sows "disruption" in the Middle East. In fact, he said Iran sows "destruction". This has been corrected.

*This article appeared in the Middle East and Africa section of the print edition under the headline "Isolated and besieged"*



Watch your step

## Egypt's president grows even more intolerant of dissent

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*Abdel-Fattah al-Sisi is creating a lot of enemies*

Print edition | Middle East and Africa Sep 27th 2018

PITY the future historian who tries to decipher the workings of Egyptian courts. On September 15th police unexpectedly arrested Gamal and Alaa Mubarak, the sons of Hosni Mubarak, Egypt's deposed dictator. No one knows why they have been jailed again. Their stock-manipulation case has dragged on since 2012, and they have been free on bail for three years. Some call it a shakedown: the Mubaraks are among the few old-regime figures who have yet to trade wealth for freedom. Others fear a broader campaign against the rich. The news sent Egypt's main stock index tumbling 3.6%, its biggest single-day loss since January last year.

It is hard to discern truth in Egypt these days. President Abdel-Fattah al-Sisi's government is opaque, and there are few independent journalists to question it. Under a new law, even popular social-media accounts can be regulated as if they were newspapers, which are themselves horribly over-regulated. A pro-government television host has been off the air for weeks with no explanation. A rumour on WhatsApp claims that 22 military officers were quietly arrested this month. The facts of these stories are almost irrelevant. What matters is that the rumours circulate.

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Mr Sisi ought to be comfortable. He won a second term in March with 92% of the vote. After years of stagnation, the economy is growing at 5.3% a year. A new capital city is rising in the eastern desert. Energy firms have discovered vast reservoirs of natural gas. Tourists are coming back. Security has improved, even in the restive Sinai peninsula. Though the constitution says Mr Sisi cannot serve another term, his allies in parliament want to remove the limit. They will probably succeed. "There will be a lot of noise, and then nothing," says Anwar Sadat, a former MP.

Yet, for the average Egyptian, all this could be happening on another planet. Millions of them cheered when Mr Sisi seized power in a coup in 2013. All they have known since then is higher prices and unceasing repression. The latest jolt was a new electricity tariff in July, the third big increase in four years. In the hot summer months, prices jumped by up to 43%. Some Cairenes were hit with bills close to 1,000 pounds (\$56), a quarter of the average salary. Weary bill collectors recount being chased out of tenement buildings by angry residents. Shops and restaurants come and go every few months, their owners unable to make a living. "There's a feeling of despair I've never seen before," says a seasoned foreigner visiting for the summer.

Most Egyptians keep their complaints private. In August a retired diplomat, Masoum Marzouk, called for a referendum on Mr Sisi's rule. He was promptly arrested, as were several other dissidents. Police grabbed a geology professor, a critic of the government, at a relative's funeral and hauled him off to jail. The remnants of the opposition held a rare press conference to demand their release. It did not help. Mr Marzouk and the rest are still in jail, their assets reportedly frozen. On September 8th an Egyptian court upheld 75 death sentences in a farcical mass trial of more than 700 mostly Islamist defendants.

No one envies Mr Sisi's position. He inherited a mess and has made unpopular decisions to reverse decades of bad economic policy. You do not have to be popular to run an authoritarian state, but it helps to have the support of the elite. Business leaders are nervous. Some of Mr Sisi's media allies are murmuring. Sami Anan, a former army chief arrested for mounting a brief presidential campaign, now languishes in hospital, his health failing. "For a general to be treated this way, it's unthinkable," says a Western diplomat. "[Sisi] has made a lot of enemies."

*This article appeared in the Middle East and Africa section of the print edition under the headline "No one is secure"*

**Power struggle****A floating electricity plant divides Lebanon**

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*Perhaps the only country where politicians refuse free power***Print edition | Middle East and Africa** Sep 27th 2018

FOR decades Lebanon has failed to produce enough electricity. Some homes endure blackouts for 12 hours a day. The unstable supply makes it hard to do business—and frequently fries appliances. Many people use expensive generators to keep the lights on. So when Karadeniz, a Turkish company, sent Lebanon a floating power plant and offered free electricity from it for the summer, it seemed like a good deal. The firm is hoping that the government will extend a contract for two of its other power barges, which were already in place. The new barge was meant as a sweetener. But far from solving Lebanon's electricity problems, it has highlighted the government's chaos.

As the vessel chugged across the Mediterranean in July, a feud erupted among the country's sectarian leaders. A Shia party, Amal, accused its rival, the Christian Free Patriotic Movement, of using the ship to delay construction of a new power plant in the south, where it was first meant to dock. Critics countered that Amal's leaders feared the barge would eat into the profits they make from their ties to the operators of diesel generators. Changing the vessel's name from *Aisha* (a wife of the Prophet Muhammad who is reviled by many Shias) to the more Ottoman-sounding *Esra Sultan* had little effect. So the ship docked in Druze territory—until locals complained about pollution. It eventually sailed north, docking in a Christian-dominated area.

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That the barge is necessary at all is a result of the government's incompetence. In 2010 the Christian-led energy ministry drew up plans to repair the country's ageing power plants and build new ones. Power ships would make up for the temporary drop in supply. Karadeniz's barges arrived in 2013. But the upgrades never went ahead, so the ships stayed. They have already cost the heavily indebted country \$1.9bn. The government seems unfazed. It wants to double the fleet. Many believe the free barge, which is due to leave in October, will stay indefinitely.

The ruling elite sees more to lose than gain from reforming the energy sector. Over the past 25 years a whopping 9% of public spending has gone to prop up Electricité du Liban, the state power company. Most of the money has bought fuel from firms tied to current and former politicians. "This is really about their interests and those of their cronies, and how they benefit from all this at the expense of the people," says Sami Atallah of the Lebanese Centre for Policy Studies, a think-tank.

The government could save money by raising energy tariffs and reducing theft of its electricity. Solar power is also an option for sunny Lebanon. Hiring two more power barges until 2022, as the government wants, would cost \$2.25bn and supply about 825 megawatts. The same amount could pay for a 3-gigawatt solar plant, which would last 25 years, says Ali Ahmad of the American University of Beirut. "If we could show our politicians how to be green and corrupt at the same time, then maybe things would improve."

*This article appeared in the Middle East and Africa section of the print edition under the headline "Power boat"*

Missiles with a message

## What Russia's upgrade of Syria's air defences means for Israel

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*Israel has hit Syria from the air—and will continue to do so*

Print edition | Middle East and Africa Sep 27th 2018

IT WAS “a chain of tragic circumstances” that led to the downing of a Russian spy plane by Syria on September 17th, said Vladimir Putin, Russia's president. With those words, Mr Putin seemed to accept the episode as an accident and absolve Israel of any blame. Israeli jets had earlier carried out air strikes on Syria's territory and appeared to be the intended target of its air defences. But, as the days passed, Russia grew more belligerent. Its generals claimed that Israeli jets used the Russian plane as a shield (Israel has denied this). Then, on September 24th, Russia announced plans to supply the Syrians with advanced S-300 air-defence batteries, signalling a shift in its regional strategy.

Since Russia intervened in Syria's civil war on the side of Bashar al-Assad, the country's dictator, in 2015, it has sought to avoid clashes with Israel. In the past 18 months Israel has carried out more than 200 air strikes on Iranian-affiliated targets in Syria. A “deconfliction” hot-line connecting Israel's air force headquarters in Tel Aviv with Russia's operations centre at Khmeimim, in western Syria, has prevented mishaps in the air. The military procedures were backed by a tacit agreement between Mr Putin and Binyamin Netanyahu, Israel's prime minister. Israel would not hamper Russia's campaign to save Mr Assad, and Russia would not prevent Israel from attacking Iranian targets in Syria.

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Russia's planned upgrade of Syria's air defences complicates that understanding. The S-300 is a formidable system with a radar capable of tracking more than 100 targets simultaneously, at ranges of up to 300km. It would make Israel's missions riskier, which is why Mr Netanyahu has long opposed transfer of the weapon to the Syrian government. (Russia already operates the S-300 in Syria, but it has not used it against Israel.) Still, Israel says it will continue striking targets in Syria. Its F-35 stealth bombers are capable of evading the S-300 system, and destroying it. But if Russian operators are working alongside ill-trained Syrian ones, there is a risk of escalation.

Russia's defence minister, Sergei Shoigu, said the S-300 would be transferred to the Syrian army within two weeks. Some analysts doubt that will happen. Under pressure from America and Israel, Russia took nine years to send a promised S-300 to Iran. It may see the threat of the transfer as a way to pressure Israel to limit its intervention in Syria.

Russia has sought a balance between Israel and its foes in the Middle East. Mr Putin was the first Russian leader to make an official visit to Israel (twice) and Mr Netanyahu stood shoulder to shoulder with Mr Putin at a Russian military parade this year. But the friendship did not stop Russia inviting Hamas to Moscow, helping Iran with its nuclear programme or arming Syria.

As Russia has become increasingly isolated from the West, the importance of Israel as a source of technology and political support has grown. The Kremlin has been careful to limit anti-Israeli rhetoric in its denunciations of the West. After the downing of its plane in Syria, Russia struck the tone of betrayed trust and regret; Russia did everything to help and accommodate Israel, but was repaid with treachery, its commentators implied. Mr Netanyahu has made two calls to Mr Putin and sent his air force chief to Moscow, but the Kremlin might be looking for more favours from Israel to defuse the situation.

*This article appeared in the Middle East and Africa section of the print edition under the headline “Missiles with a message”*

Long walk to growth

## There are no quick fixes for South Africa's economy

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*The government is struggling to undo years of neglect*

Print edition | Middle East and Africa Sep 27th 2018

IF EMIGRATION is a barometer of confidence in a country's future, then South Africa, where a growing number of people are upping sticks, is in trouble. Private schools complain about losing students as families move abroad. More people are selling their homes in preparation for leaving (see chart). "Emigration sales" are a fixture of neighbourhood Facebook groups, with leavers peddling their patio furniture and braais. But unlike previous waves, this is not just white flight. There has been a big increase in black, coloured (mixed-race) and Indian people who are looking to go. Many cite declining opportunities.

There was a burst of optimism among South Africans when Cyril Ramaphosa (pictured) took over as president seven months ago, after nine ruinous years under Jacob Zuma, who is due to stand trial for corruption. But South Africa's long-term fortunes are looking ever gloomier. The country entered a recession earlier this month—the first since 2009. Weak growth is expected next year. Joblessness is over 37%, if one includes people who have given up looking for work. The murder rate is also rising. The country's sovereign debt has been downgraded to junk by all of the big credit-rating agencies except Moody's, which has it a notch above sub-investment grade and will review it in October. The rand has fallen nearly 20% this year.

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When announcing his recovery plan on September 21st, Mr Ramaphosa admitted that "our economic challenges are huge, and our difficulties are severe." But his solutions are meagre. There will be no fiscal injection—because there is no money for it. Instead, about 3% of the budget, which totals 1.67trn rand (\$120bn), will be reallocated to create jobs and fuel growth. This will include support for black commercial farmers and small entrepreneurs. A 400bn rand infrastructure fund, drawn mainly from the existing budget and spread over three years, hopes to attract private investment. Details will be filled in when Mr Ramaphosa's finance minister, Nhlanhla Nene, delivers the government's mid-term budget statement on October 24th. Fitch, a ratings agency, doubts the plan will do much for growth.

An ill-educated workforce, inflexible labour laws and corruption will continue to hold South Africa back. But Mr Ramaphosa is at least moving ahead with reforms. He has announced a review of electricity, port and rail tariffs to reduce the cost of doing business; and he promised to change confusing visa regulations, which hinder tourism. He will also make it easier for skilled foreigners to work in South Africa. New rules on mining aim to provide more certainty to industry.

Efforts by Mr Ramaphosa's party, the African National Congress, to change the constitution to allow the expropriation of land without compensation have added to the economic uncertainty. A panel to advise the government on land reform includes some sober academics and agriculture experts, but it will take more than that to reassure investors.

The president is stepping up his efforts over the next month, mindful of elections due between May and August next year. A jobs summit in early October will bring together government, labour and business representatives; an investment summit will follow later in the month. Meanwhile, many well-to-do South Africans seek second passports, the first step towards emigration. Whether they stay or go may depend on Mr Ramaphosa's ability to jump-start the economy.

*This article appeared in the Middle East and Africa section of the print edition under the headline "Long walk to growth"*

Restorers required

### Somaliland's inviting Ottoman heritage

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*Who can repair Somaliland's crumbling old architecture?*

Print edition | Middle East and Africa Sep 27th 2018

IMPERIALISTS have long coveted Somaliland's coast. Nowadays visitors to Berbera, its main port, can stroll from an old American air base, pass a clutch of buildings where the British ran the territory from the late 19th century until independence in 1960, then trundle on to Moscow Village, where Russian technicians were billeted in the era when Somaliland was absorbed into Somalia, and the Soviet Union was its key ally.

But imperialists come and go. It was the Ottoman Turks, lording it centuries before the British, who have left the finest architectural mark. Their limestone villas, with arched colonnades and latticed windows, still line Berbera's unkempt streets. Whitewashed mosques and even a synagogue can be glimpsed down its alleys. The port of Zeila, north-west of Berbera, hosts a crumbling seventh-century mosque.

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Africa's eastern coastline, from Sudan to Mozambique, is dotted with architectural gems. Tourists love Zanzibar and Lamu, islands off Tanzania and Kenya. Several coastal towns of Somalia are just as charming, including the old quarter of Mogadishu, the capital. But after decades of devastating civil war, few foreigners risk visiting them. Somaliland, which broke away from Somalia soon after a coup in 1991, should be a better prospect. It is relatively stable. Tour agencies already offer trips. Restoring the Ottoman quarters could pep up its attraction.

Some visit Berbera to follow in the footsteps of Elmi Boodhari, a poet who lived in the old quarter. In the 1930s he rhapsodised in verse over an encounter with a girl called Hodan and was said to have pined to death from unrequited love. Hodan has been immortalised in Somaliland's legend. The statelet's tourism director happens to be Hodan's son.

If Somaliland were recognised as a state, it could ask UNESCO, the UN's cultural agency, to declare Berbera and Zeila World Heritage sites and win foreign funds. Somaliland officials hope that UNESCO may make an exception and let Somaliland join, as the Palestinian Authority was allowed to do in 2011.

Turkey could be asked to help. Today's successor state of the Ottomans has promised to restore old buildings on the Sudanese island of Suakin, farther north up the Red Sea. The snag in Berbera is that the United Arab Emirates, a rival of Turkey, has got there first and is building a military base. Perhaps the Emiratis could spruce up the city while they are at it.

*This article appeared in the Middle East and Africa section of the print edition under the headline "Restorers required"*

## Average Europe

The tenth city

### The tenth city

## Europe's capitals are booming, but most voters don't live there

*We begin an occasional series on countries' tenth-largest cities with Lille in northern France*

Print edition | Europe Sep 27th 2018

A PLATE-GLASS roof connects two former textile factories under a soaring atrium. There are potted palm trees in the entrance and industrial-chic open spaces, where youngsters in jeans huddle over laptops amid low-hanging light bulbs and exposed brickwork. This is EuraTechnologies, a vast startup incubator, which has helped to turn a formerly abandoned site in this northern French city into a humming canal-side neighbourhood. IBM is moving 700 people into a European client-innovation centre here, complete with an in-house yurt. A sleek new gastro-brasserie has opened on the plaza. A bilingual crèche offers its infants English, as well as organic meals.

A city battered by the loss of industry and the closing of the northern French mines is reinventing itself as a techy business hub. "There's a real entrepreneurial culture in Lille," says Charles Christory, a 32-year-old engineer who launched Adictiz, an online marketing-games startup, in 2009. "Many people of my generation have launched their own businesses here." Today he employs 40 people. Among the 4,000 *startupeurs* working on the site at EuraTechnologies, says Mr Christory, "not a single one isn't recruiting."

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Lille's industrial heritage was built on cotton-spinning and fabric-making, in a region that once thrived on wool, steel and coal. But France's industrial heartland became its rustbelt. Between 1975 and 2010, the city alone lost 70,000 industrial jobs. The shock was salutary. Pierre Mauroy, a former French prime minister and the city's Socialist mayor from 1973 to 2001, persuaded the government to direct the new TGV line from Paris and Brussels to the Channel Tunnel via his city—not the shortest route—hoping to give it an advantage. Greater Lille turned itself into a services hub, marketing its proximity to three European capitals within 80 minutes, and to 80m consumers within a 300km (185-mile) radius.

The idea, says Pierre de Saintignon, the deputy mayor, was not only to lean on the city's deep business culture—global retail brands, such as Auchan and Decathlon, were born in or around the city—but to focus on industrial regeneration through innovation. "Something is happening here," says Raouti Chehikh, a former town planner and the director of EuraTechnologies. "We've made the transition between the 19th and the 21st centuries."

Those working on investor pitches and business models in such open spaces belong to the new face of Lille. On a Thursday evening, when the city's big student population traditionally hits the town, these are the people who flock late into the night to the bars and cafés of old Lille. In the Flemish city centre, a place of cobbled streets and carved-stone façades, cafés serve quinoa salads and yoga classes promise spiritual calm. Traffic on the web of ring-roads around the city is often jammed. Lille-born locals and new arrivals alike swear by the city's friendliness. "It's a long way from the image people have of rain and sad people," laughs Vincent Dupied, who studied law in Lille and has returned to launch a food-delivery business there after a spell as a corporate lawyer in Paris.

### Meanwhile, in another part of town

Just four stops on the driverless metro from the centre of Lille, however, lies another world. On the Boulevard de Metz, which some locals nickname the Boulevard de Merde (shit), an abandoned shopping trolley lies by the road and washing hangs from high-rise balconies. Overgrown grass separates tower blocks in a space heroically called "Paul Cézanne Square". This neighbourhood, Concorde, is officially classified as the sixth-poorest in France. Roughly 50% of its young people are out of work, 99% of people live in social housing, and nearly three-quarters of households are poor.

It is neighbourhoods like this that helped to put a far-left candidate, Jean-Luc Mélenchon, at the top of first-round voting at last year's presidential election in Lille. Its current mayor, Martine Aubry, is a Socialist, and the city and its wider region have a long history of voting for the left. Yet that region, Hauts-de-France, is also a place where the far-right's Marine Le Pen has found a powerful way of speaking to disillusioned working-class voters, and so made a lot of political ground. Emmanuel Macron, a former Socialist minister, may have been Lille's final-round choice for president. But it was Ms Le Pen, not Mr Mélenchon, who topped first-round voting in the region as a whole and in Lille's *département*, Le Nord. Mr Macron came third in both of them.

In a ground-floor office on the estate, Perspectives, a voluntary welfare centre, offers help with after-school homework, job-seeking and general administrative paperwork. A row of laptops sits on a desk against the window. A recently released psychiatric patient, in baggy jogging pants, has dropped by to use the lavatories. The original idea, says Fatima Mifak, the centre's director, was to give young people somewhere to go, and thus to keep them off the streets. The only local café is a



McDonald's, over by the motorway. But Perspectives also has its work cut out trying to steer local youngsters towards work or training.

Employers, say counsellors, are wary of applicants with an address on the local estate. Apprenticeships are hard to find. Job-seekers need help too, they explain, with dress codes, haircuts, and what one adviser calls delicately "personal hygiene". Some of the older generation on the estate, particularly the women, have never been to central Lille. "We struggle against failure," is how Ms Mifak puts it.

Over at EuraTechnologies, bridging the gap between those who can embrace the world that digital technology opens up, and those whose horizons are defined by the tower blocks of their estate, is very much on Mr Chehieh's mind. His father was a miner from Algeria who settled in France in the 1950s. His parents arrived on French soil not knowing how to read or write. Using tech as a tool for regeneration, he argues, has to be about training and skills as well as funding rounds, investor pitches and exchanges with Silicon Valley.

Opposite Lille's converted redbrick cotton mill, an education campus called "Wenov" is under construction. It will open in 2020, offering classes in programming and software development to all ages and levels, as well as high-tech research centres. Like all former industrial cities, Lille has a skilled working-class tradition. But retraining, and persuading people that they too can be part of the tech world, is tough. "Digital has to be something that opens opportunities for everyone," argues Mr Chehieh. "We don't want to contribute to the fracture between the two halves of France. But we can't solve all the problems of all the people here, either."

*This article appeared in the Europe section of the print edition under the headline "The tenth city"*



**The perils of cutting tax****A dubious tax cut for Dutch multinationals***It will only help the populists***Print edition | Europe** Sep 29th 2018

THE highlight of the Dutch political calendar is *prinsjesdag* ("prince's day"), when the government presents its spending plans to the king. Female politicians wear whimsical hats, brass bands play the national anthem and the monarch arrives in a gold coach to receive the budget documents. The fiscal festival, which this year fell on September 18th, says something important about the Netherlands: it is a country where people get peculiarly excited about poring over balance-sheets. This is especially true after *prinsjesdag*, when parliament devotes two days to letting the opposition rip the budget to shreds.

The chief target of ire this year was a tax cut. The government plans to scrap a 15% withholding tax on dividends from shares in Dutch companies, starting in 2020. Mark Rutte, the prime minister, says this is needed to attract multinationals, and that two big Anglo-Dutch companies, Shell and Unilever, deem it a key issue in deciding whether to base their headquarters in the Netherlands or London after Brexit.

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Eliminating the dividend tax is unpopular partly because Dutch do not pay it. They can deduct it from their income tax. Rather, it is paid by foreigners who own stock in Dutch companies. The government says this discourages foreigners from buying Dutch firms' shares. But cutting foreigners' taxes turns out not to have much support among voters, who know they will have to make up the shortfall: at least €1.9bn (\$2.2bn) per year, about 0.25% of GDP, the government says. A poll in August found just 11% of Dutch back the move.

Most countries have treaties with the Netherlands that let their citizens, too, deduct withheld Dutch dividend tax. A study by SOMO, a group that monitors multinationals, estimated this covers three-quarters of shareholders. Hence, they say, scrapping the dividend tax will mostly just shift tax revenue from the Netherlands to other governments. The biggest exception is Britain, which does not allow deduction of Dutch dividend taxes for most taxpayers. (This may be why Anglo-Dutch companies find it so irritating.) But few economists think scrapping the tax is an effective way to keep jobs in the Netherlands. Bas Jacobs of Erasmus University calls the notion that firms like Shell or Unilever would quit the country "absurdly exaggerated".

Another reason the proposal is unpopular is its secrecy. Mr Rutte's Liberals did not include it in their platform before the election in March 2017. When it emerged from the coalition agreement last October, the public was blindsided. Other parties emphasised it had all been the Liberals' idea; the centre-right Christian Union called it a "melon [we had] to swallow whole" during the negotiations. The Liberals claimed there were no records showing business associations had lobbied for the change, but later admitted that there were.

The controversy undercuts the government's efforts to show that it is making the Netherlands less hospitable to tax avoidance schemes by multinationals. It is introducing legislation to stop companies from funnelling profits to subsidiaries in Caribbean tax havens by taxing them in the Netherlands instead. But Francis Weyzig, a tax expert at Oxfam, a charity, says the draft law has worrying loopholes. Companies need show only that the subsidiary has an office in the tax-haven country with employees earning at least €100,000 per year to avoid paying Dutch tax.

All this has opposition parties rushing to the barricades. "The Liberals want to get tough on everyone except bankers and multinationals," thundered Lodewijk Asscher of the Labour Party, which itself was accused of pandering to business interests while in coalition with the Liberals in 2012-17. The coalition seems solid, if only because the parties fear they would suffer in new elections. But polls show that the combined support for the country's two far-right parties, Geert Wilders's Freedom Party and the new Forum for Democracy, is now up to about 20%. If Mr Rutte wants to help the populists, passing a secret, economically dubious tax cut to benefit foreign shareholders in multinationals seems an excellent way to go about it.

**Correction (September 28th 2018):** We initially said combined support for far-right parties in the Netherlands had risen to about 30%. In fact they would stand to win about 30 seats in the 150-seat Dutch parliament.

*This article appeared in the Europe section of the print edition under the headline "Who doesn't like a tax cut?"*

Greying Greens

## Germany's Greens are older, wiser and doing well

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*The weak Social Democrats are helping them*

Print edition | Europe Sep 27th 2018

AT AN outdoor organic market in Berlin trendy students, affluent young professionals and shabby grey-haired academic types queue up for pricey local potatoes. There's not an out-of-season vegetable, flown-in fruit or plastic bag in sight. This is the only constituency in Germany with a directly elected Green member of parliament in the Bundestag. The district—which includes the hipster havens of Kreuzberg, Friedrichshain and East Prenzlauer Berg—has a radical past and a bourgeois-bohemian present, popular with alternative oldies and hip youngsters.

The Green Party, which is surging in the polls, is just as gentrified. The students of the 1970s and 1980s who founded the party have stayed loyal. Many are now affluent. As the Greens have gone grey, their anti-capitalist wing has all but vanished. Economically the party is now firmly centrist, making it palatable to property-owning professionals. But on social issues, the environment and feminism, the Greens have stayed on the radical left. So they appeal to younger voters, students and non-political urban types, who see voting Green as part of a virtuous lifestyle.

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The Greens are polling at an average of 15% nationwide, only just behind the right-wing populist Alternative for Germany (AfD), at 16%. In Bavaria, which holds state elections on October 14th, they are in second place, with a record for them in the state of 18%.

"We are profiting from the weaknesses of the other parties," says Anton Hofreiter, co-leader of the Greens in parliament. A series of undignified coalition squabbles in Berlin has undermined the credibility of the main governing parties—the centre-left SPD, the Bavarian conservative CSU and Angela Merkel's centre-right CDU—hitting the support of all three. After years of strife between its radical and pragmatic wings, the Green Party's leadership is suddenly remarkably unified and has managed to rise above the bickering.

All of the mainstream parties are split internally on migration. Conservative parties are torn between pro-refugee churchgoers and nationalists who want more border controls. Left-wing parties are divided between open-border liberals and blue-collar workers fearful of migrants undercutting their wages. Only the unanimously pro-refugee Greens and the anti-migrant AfD are clear on the issue, each standing for opposite sides of the open-versus-closed debate. The Greens have been helped by summer droughts in Germany, which have served to remind voters of the dangers of climate change.

But there is a danger of Green hype. "The Greens tend to do better in polls than in the voting booth," says Oskar Niedermayer, a political scientist. They are seen as a "nice" party, which people like to say they will support. In reality, at October's Bavarian election, many may opt once again for the CSU, which is campaigning as the safe choice. As the summer heat fades, so too will some of the attention on climate change. Green leaders may present a united front, but there are still deep ideological divisions between purists, unwilling to sacrifice ideals, and pragmatists, itching to share in government. In Bavaria the Greens might have a chance to enter into coalition talks with the CSU. If so, expect more Green conflict.

*This article appeared in the Europe section of the print edition under the headline "Greying Greens"*

**A thirst for blue blood**  
**A near-royal wedding in Romania**

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*There is no clear claimant to the throne*

**Print edition | Europe** Sep 27th 2018

NICHOLAS MEDFORTH-MILLS, grandson of the late King Michael of Romania, is getting married on September 30th. To the chagrin of Romanian monarchists, it will not be the royal wedding they have longed for. Their hopes of reinstating a king or queen in Romania have stumbled over the problem of agreeing on an heir.

In recent years there have been growing calls in Romania for a restoration of the monarchy. Earlier this year, the eagle in the national coat of arms again donned its steel crown. Parliament considered (but did not approve) a referendum on restoration last year; a recent poll shows that some 70% of the public want the issue put to a popular vote. Support for the monarchy, some reckon, is tied to falling trust in elected politicians, many of them mired in corruption scandals. Going with the mood, this summer Blue Air, Romania's largest carrier, unveiled a new series of aeroplanes featuring Romania's past kings on their tails. But even if the idea were ever to fly, it is unclear who the new monarch would be.

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Romania has had only four kings (and no queens), having been ruled until 1878 by the Ottomans and before them by various princes. Its last king, Michael (pictured), abdicated in 1947 and spent the next four decades in Switzerland. His citizenship was restored in 1997, but he never reclaimed his throne.

Princess Margareta, Michael's eldest daughter, is the current "custodian of the crown". In a decree in 2015 her late father declared that since she had no children, she would be the last of the royal line. He also explicitly deprived the once-promising Nicholas Medforth-Mills, the son of his younger daughter and of a professor of geography at Durham University in Britain, of his princely title and dynastic rights, after he was accused of fathering a child out of wedlock (he denies it).

An unlikely yet vocal rival is the self-styled Prince Paul of Romania, the grandson of King Carol II by amorganatic marriage (ie, to a woman of lower social rank, preventing the passing on of a title), who tried to sue King Michael to have his claim honoured. After a failed presidential run in 2000, the claimant has supported the restoration of a constitutional monarchy. But given what a tangle the family tree is, Romanians may well hesitate a bit longer.

*This article appeared in the Europe section of the print edition under the headline "Thirsty for blue blood"*

A sea of troubles

## Things are going wrong for Vladimir Putin

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*A burst of electoral and other reverses*

Print edition | Europe Sep 29th 2018

VLADIMIR PUTIN is the world's saviour. So says a weekly prime-time show on state television, "Moscow. Kremlin. Putin." Its latest episode featured the Russian president heroically bringing peace to Syria over a lunch of lamb and raspberries with Turkey's Recep Tayyip Erdogan; Mr Putin being mobbed by women at a forum in St Petersburg; Mr Putin hitting a distant target at a firing range with a new sniper rifle. The aim of the programme is to boost the president's image. But as the past few weeks have shown, Mr Putin is starting to miss his mark.

The foreign adventures that have brought Russia's new tsar a big boost over the past few years are starting to go wrong. The exposure of two military security agents named by the British police as the men who tried to murder Sergei Skripal and his daughter with a nerve agent have brought global embarrassment by revealing the remarkable incompetence of the security agencies. The affair is also soon expected to produce a new round of American sanctions.

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Meanwhile, the wars in Ukraine and Syria are becoming more costly. On September 17th, as Israel bombed Syrian military installations, Syrian forces accidentally shot down a Russian spy plane with 15 crew on board. In response, the Kremlin lashed out at Israel and agreed to supply S-300 missile systems to Bashar al-Assad, despite protests from Israel, thereby risking further escalation. The war in Ukraine, meanwhile, has produced a religious split between Russian and Ukrainian churches, undermining Mr Putin's claim to be the unifier of the Russian world.

But Mr Putin's main problems lie at home. In the past few weeks the Kremlin has suffered the biggest electoral fiasco since large-scale protests broke out over election-rigging in 2011, losing four gubernatorial elections this month. The losses are all the more striking since the elections themselves were neutered. Any serious challenger was barred from standing, so the rivals to the Kremlin's candidates were meant to be no-hopers.

Yet in an atmosphere of economic stagnation and building discontent, even these tame elections turned into a form of protest for voters who have traditionally supported Mr Putin—pensioners, low-paid workers and the young from provincial towns. Moscow, the scene of the largest protests in 2011, has been placated with money, renovation and social projects, but the resentment in the regions has grown.

The alarm bell rang first in the far east of the country, where an incumbent governor installed by Moscow was forced into a run-off. Mr Putin, who was in Vladivostok for an annual pow-wow with China, had personally endorsed him. "I know you have a second round ahead of you. I think everything will be all right," Mr Putin told Andrei Tarasenko, the governor, in a televised meeting. It was not.

Emboldened, voters gleefully turned up for the run-off on September 16th in far greater numbers than they had done in the first round, to vote for the 37-year-old Communist challenger, Andrei Ishchenko. A last-minute attempt to rig the result was so clumsy that the government did not risk upholding it, but instead of awarding the prize to the rightful victor has called for a re-poll. On September 23rd three more governors backed by the Kremlin lost the second round of their elections, in each case on an increased turnout.

### Don't mess with the pensioners

The immediate cause for all this is a proposed hike in the age at which Russians can retire and claim a state pension. Mr Putin had previously vowed that this would never happen. And of course, the security services are exempt. Under the proposal, Russian men can expect to retire at 65 and die at 66; many will never receive a pension at all. Small wonder they are miffed.

In the past six months, Mr Putin's approval rating has fallen by 15 percentage points. Only 48% of Russians trust the president or say they would vote for him today, even though he was re-elected in March with 76% of the vote. The rating of the Kremlin's United Russia party is below 30%. Despite all the propaganda, people no longer see Mr Putin as their saviour, and blame him for spending too much time on making Russia great again rather than helping them get by.

Even the wealthy elite are feeling tetchy and uncomfortable, thanks both to the growing confrontation with the West (which threatens their fortunes) and the unchecked power of the FSB, the secret police (which threatens their liberty and even their lives). A few years ago, an endorsement from Mr Putin was seen as guaranteeing political victory. Today, standing close to Mr Putin carries a risk, both inside and outside the country.

None of this means that Mr Putin's system is about to crumble. But he may try to mitigate its vulnerability with violence at home and abroad. Another sign of that came on September 24th, when Alexei Navalny, an opposition leader who had spent the previous 30 days in jail for organising a protest rally nine months ago, was re-arrested two minutes after being released. With the appetite for protest rising, he and his anti-corruption investigations are becoming a threat.

If that were not enough, Mr Putin's security men have also been threatening extrajudicial acts. Viktor Zolotov, Mr Putin's former bodyguard who now commands a 300,000-strong internal army designed to put down any sign of revolt, on September

11th bizarrely challenged Mr Navalny to a duel and promised to “make a juicy beefsteak” out of him. His threat testified only to the Kremlin’s growing fear of an open and honest contest.

*This article appeared in the Europe section of the print edition under the headline "A sea of troubles"*

Charlemagne

## How the Brexit talks demonstrate the EU's underlying resilience

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*Despite British expectations, EU unity has not cracked*

Print edition | Europe Sep 27th 2018

A PRODUCT of myriad compromises, an amalgam of generations' worth of visions, a form of government without precedent or parallel: the EU is a strange beast. Its uniqueness gives it a certain mystique. No one knows for sure how durable it is. Small wonder, then, that Britain's vote in 2016 to leave gave some in Brussels nightmares. No member state had quit before. The departure process had only been codified in 2009, in Article 50 of the Treaty of Lisbon. Could this falling domino crash into the next: Denmark, perhaps, or even France? Could it create a precedent others might follow? Could it bring down the EU?

Television coverage of the Brexiteers' victory on the morning of the result is said to have transfixed Angela Merkel. EU leaders were particularly worried that Britain would use the differing interests and outlooks of the remaining 27 member states to play them off against each other and thus secure generous terms preserving the benefits of membership without the costs. So they hurried to establish a common front. Donald Tusk, the president of the European Council, had surreptitiously telephoned heads of government before the referendum. Mrs Merkel invited several to Berlin in the days immediately afterwards. "We really feared the consensus would break," says one Brussels official.

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It did not. Leaders approved the guidelines for Michel Barnier, the European Commission's chief negotiator on Brexit, with surprising ease and a round of applause. The line held even when, early this year, the focus of the talks shifted to the future relationship between the EU and Britain—where the scope for discord among the 27 was greater than on the initial divorce agreement. Some small differences have bubbled up. France is firmer than Germany on the need for a detailed declaration on the future relationship, for example. Poland recently suggested, albeit unsuccessfully, downgrading the EU's insistence on an invisible border between Northern Ireland and Ireland. But in the corridors of the EU institutions cautious language about upcoming Brexit summits—a gathering of the European Council on October 18th and an extraordinary summit expected for mid-November—does not quite conceal the mood of satisfaction, or at least relief.

Some of it is justified. The EU moved fast to forge a consensus, and has maintained it. National representatives in Brussels report that Mr Barnier and Mr Tusk, sometimes with Mrs Merkel standing behind them, have deftly bound in the governments throughout the process. Mr Barnier is not always across the details, but Sabine Weyand and Stefaan De Rynck, his deputies, command them. The impression of professionalism and consistency grows when compared with Britain's leadership, which has been characterised by over-confidence (launching the Article 50 process prematurely), vagueness (devising a Brexit proposal only this summer, over a year into the two-year process) and diplomatic missteps (demonising the EU and boasting of plans to divide and conquer it, forgetting that continentals can read British newspapers too). The unflattering contrast hardly encouraged Britain's allies to spend political capital on breaking ranks.

Two factors in particular have curbed European fragmentation when they were expected to hasten it: proximity and populism. Those countries closest to Britain were initially assumed to be voices for emollience among the 27, as they would lose most from a harsh or chaotic Brexit. Yet often the Dutch and Danes are among the toughest in the room, discloses one country's representative to the EU, as they would suffer most from a cherry-picking Brexit conferring unfair advantages on Britain. Meanwhile, the populist wave sweeping Europe has strengthened, not weakened, the resolve of mainstream leaders. The greater the threat from Eurosceptics, the more resolute they become that Brexit cannot be seen as a success for Britain. As debates on associated topics like migration have become more heated, the space and energy available for disputes over Brexit have shrunk.

Most important of all, the EU's underlying cohesion has turned out to be greater than anticipated. Against a backdrop of squabbles over migration quotas or financial risk-sharing in the euro zone, politicians on both sides of the Channel underestimated the strength of the consensus on the EU's basic business model. Membership comes with shared benefits that are founded on common rules and are not available to third countries. Support for the EU in the remaining member states has risen since the Brexit vote. Eurosceptic politicians such as Marine Le Pen in France and Matteo Salvini in Italy have toned down their hostility to remaining in the club.

### Muddling along

This happy revelation must be tempered by thoughts of what might have been. Britain's exit is not a success for the EU. Its second-largest economy, one of its two serious military powers and the progenitor of the single market, is walking out because it felt it could not tolerate one-size-fits-all membership. In August 2016 Bruegel, a think-tank, published a paper proposing a new part-in and part-out "continental partnership" status that could keep Britain bound in but also pave the way to a more multi-tiered Europe. A more dynamic and confident organisation might have seized on the idea and used the opportunity to become more plural and versatile. The EU's rigidity on such matters may help uphold its integrity in the short term, but in the long term it is also a handicap.

The Brexit talks, then, have held up a mirror to the EU. The logic of pooled sovereignty is too strong for Britain's decision to have started a domino effect. But it is not so strong that the club can reinvent itself to accommodate a greater array of forms of integration. It will not fall apart, but only ever creeps forward, entirely satisfying few people yet remaining oddly resilient despite that. If an EU did not exist, someone would have to invent one—then, a few moments later, start grumbling about it.

*This article appeared in the Europe section of the print edition under the headline "A lonely domino"*



## The Labour Party

¿Hasta la victoria?

¿Hasta la victoria?

### A confident Labour is swaggering left in its economic policy

*The party is betting that Britain is ready for a radically new approach to capitalism*

Print edition | Britain Sep 27th 2018

JOHN MCDONNELL has spent much of his time as shadow chancellor playing down expectations of how radical a Labour government would be. This week he came to Liverpool with a mission to raise them. In one fringe event at Labour's annual conference, he pledged an "irreversible shift in the balance of power and wealth in favour of working people." In the main hall, he promised nothing less than a left-wing shock-doctrine. To cheering delegates he declared: "The greater the mess we inherit, the more radical we have to be."

Labour's ambition has gone up a gear. Mr McDonnell and Jeremy Corbyn, the party's leader, hail from the far left of British politics. Yet since taking the reins of Labour in 2015 their proposals have been oddly unambitious. In the run-up to the general election in 2017 the party promised higher taxes and spending, as well as the renationalisation of the railways and utilities. It was a more left-wing manifesto than previous Labour efforts, but hardly extremist. Now, however, the party is developing policies that match up to the men.

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Labour's radicalism is not in its fiscal or monetary policy, which remain fairly conventional, but in its proposed structural reforms. The idea is to "democratise" the economy. The party's leadership compare their plans to the governments of Clement Attlee in 1945-51 and, more surprisingly, Margaret Thatcher in 1979-90. Attlee empowered the state and Thatcher the individual. Mr McDonnell wants to hand power to the collective, with citizens given a say over every part of the economy.

In Liverpool the party launched a battery of economic policies. Workers would make up a third of companies' boards. The Treasury's rulebook on investment would be rewritten to encourage investment in Britain's ailing regions. Most significantly, workers at big firms would be given a stake in their business. Every company with over 250 employees would have to transfer 10% of its shares to an "inclusive ownership fund", managed by workers' representatives. Staff would be entitled to dividends from these shares. Over 10m workers would benefit from the proposal, Labour says.

The policy is motivated by the fact that in recent decades the income accruing to owners of capital has outpaced that accruing to labour. Some research also finds that worker-owned firms are managed more efficiently. Yet the main beneficiary of Labour's plan would be the state. It proposes a limit of £500 (\$660) a year on the dividend that each worker could receive. Anything above this would go straight to the government. At many companies, dividends would far exceed £500 per employee. A back-of-the-envelope calculation suggests that, across the economy, firms would wind up paying some £6bn to the state, far more than would go to workers.

Companies would be likely to respond, quickly. Some would cut dividends. Firms listed in Britain might relist abroad. Others might ask whether, if 10% can be confiscated, could 50%? Foreign investors might avoid Britain, especially as Labour also plans to increase corporation tax.

Previously outlined plans to bring water under public ownership were also filled in. A Labour government would buy out the shareholders of England's nine regional water companies—at a price to be determined by Parliament—and create "regional water authorities" in their place. Their boards would not be filled with faceless mandarins but by "councillors, worker representatives and representatives of community, consumer and environmental interests" (democratising the economy will clearly take a lot of evenings).

To justify the buy-out, Labour points to a court case over the nationalisation of Northern Rock, a bank that collapsed during the financial crisis of 2008, which in effect ruled that the government was justified in buying it at below-market prices because it was in the national interest. That is a thin legal thread from which to hang a nationalisation strategy.

#### No pasarán

Why is Labour moving further left now? One reason is that the Corbynites have completed their takeover of the party. They control its ruling National Executive Committee, which last week proposed rule-changes, later approved by the conference, requiring leadership candidates to obtain grassroots or union support before they can get on to the ballot. This shifts things in favour of left-wingers. The conference also approved rules making it easier for members to deselect their MP. Most MPs now back Mr Corbyn's domestic agenda; recalcitrant ones may face the boot.

If anything, Mr Corbyn now faces greater pressure from the even-farther-left than he does from the centre of his party. Some hardline activists fear that, if elected, Labour might backtrack. They call it "Syrizification", after the Greek left-wingers

who protested but then meekly accepted Brussels' demands during bail-out negotiations with the EU. Mr McDonnell is likely to keep throwing this wing of the party red meat. Further radical ideas are being discussed in Labour circles, such as introducing capital controls and a four-day working week.

As for the public, Labour believes that Britain wants a leftward turn. In opinion polls, support for raising taxes and spending is at its highest since 2002. More than half of Britons like the sound of the new worker-ownership plan, according to YouGov. Nationalising the railways is popular with the public (and perhaps now with journalists, after many of them returning to London after the conference were delayed for hours by a signal failure). Last year Mr Corbyn said Labour's manifesto was a mainstream option. Now, the party is going further, says one senior aide: "We are creating the mainstream."

Such confidence may be misplaced. Labour is at best level with the Tories in most polls. Asked who would make the better prime minister, voters prefer Theresa May to Mr Corbyn, and "don't know" to both. Asked why the Conservatives are still polling decently, one cabinet minister replies: "Fear of Corbyn."

The next post-Brexit election will be won by whichever party voters trust more to improve capitalism. Buzzing between fringe meetings, Mr McDonnell repeated his intention to do just that, and "radicalise" Labour's manifesto. The party's leftward march is not over.

*This article appeared in the Britain section of the print edition under the headline "¿Hasta la victoria?"*

Vote early, vote often

## Labour's creep towards a second referendum creates more uncertainty

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*The party backs a motion that leaves all options on the table*

Print edition | Britain Sep 27th 2018

THE most striking mood-swing at this year's Labour conference was the growing hostility to Brexit. In place of previous ambivalence, badges screaming "Bollox to Brexit" were everywhere. Fringe meetings were thick with members denouncing a Tory Brexit designed to benefit corporate interests at the expense of workers. And when Sir Keir Starmer, the shadow Brexit secretary, declared that parliamentary deadlock might justify a people's vote, adding that nobody could say that Remain would not be an option, he received one of the conference's biggest standing ovations.

Sir Keir claims that the party is united on Brexit, but it is not. A long and much-contested motion, passed at the conference, leaves all options open, including another vote. For all Labour's pretence at being constructive this week, Sir Keir's six tests mean that the party is all but certain to oppose any deal Theresa May brings back from Brussels. The party leadership is more Eurosceptic than the membership. It is also more dubious about the idea of a second referendum. Some big trade unions, as well as quite a few Labour MPs, are unhappy being seen to challenge the democratic decision of June 2016. Although polls show rising support for a fresh vote on a Brexit deal (see chart), party leaders fret that calling for it to include a Remain option could drive Leave voters in Labour seats into the Tories' arms.

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Labour's creep towards a second referendum is driven by Mrs May's own tortuous problems. Tories crowing this week over Labour disunity on Brexit only have to wait for their party conference next week to reveal more gaping splits. The main parts of Mrs May's "Chequers" plan, to stay in a single market for goods alone, with a complex customs arrangement to avert a hard Irish border, were rejected more firmly than expected by her fellow EU leaders in Salzburg on September 20th. But they have also been rubbished by many in her party. This week the hardline European Research Group, which claims the backing of around 60 Tory MPs, declared officially that it would vote against any Chequers-like deal.

Unlike pro-European Tories, hardline Brexiteers have shown themselves willing to rebel. Yet Mrs May's response to this latest attack was, characteristically, to double down. She insists that neither the EU nor the Tory rebels have proposed a plausible alternative to Chequers. And when the Brexiteers this week produced a paper from the Institute of Economic Affairs, a free-market think-tank, that proposes a Canada-style free-trade agreement instead, her response was to suggest that, since it risked dividing Northern Ireland from the British mainland, a Canadian deal would be worse than leaving with no deal at all.

After Salzburg Mrs May made a tetchy statement to say that the Brexit negotiations were at an impasse and it was for the EU, not her, to make the next move. Technically all that is required for a deal this autumn is agreement on a "backstop" plan to prevent a hard border in Ireland, no matter how long it takes to strike a future trade deal. Other details can be left until a 21-month transition period begins after Brexit next March. Yet with Labour and Tory rebels ready to vote against any deal that Mrs May brings back, the risk of its not getting through Parliament is rising.

And this points to a worrying aspect of Brexit. It was kicked off when Mrs May invoked Article 50 of the EU treaty 18 months ago. In most negotiations, the two sides slowly move together and the gaps narrow, making the end-point clearer. Yet with less than two months left until a deal is meant to be struck, the outcome is more uncertain than ever. The odds of a no-deal Brexit or a fresh referendum that reverses it have both risen. It would be a brave pundit who predicted the result. The one near-certainty is that Brexit will cast a shadow over both big political parties for years to come.

*This article appeared in the Britain section of the print edition under the headline "Vote early, vote often"*

**A new chapter****The NHS genomic service could transform medicine**

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*Its size, universal coverage and lifelong health records make it uniquely valuable for research***Print edition | Britain** Sep 27th 2018

FORTY per cent of the babies born in Britain in the week starting on March 3rd 1946 became the first subjects in a project that eventually achieved global scientific renown (and inspired its share of laboratory envy). Along with children from three younger generations, 58,000 in total, those babies have been followed by researchers throughout their lives. Troves of data on everything from child development to ageing have helped to shape health care in Britain and beyond.

Now the National Health Service is launching another big-data programme that could be just as transformative. From October, NHS England will begin to routinely carry out a standard set of genomic tests for some cancers and rare diseases, filling in the patchy use of such tests today. Crucially, for patients who consent, the data from these tests will be held at a national research centre along with their health records. The NHS's size, universal coverage and cradle-to-grave health records promise to make the database uniquely useful.

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Genomics is a powerful technique. About 7% of people in Britain will at some point have a rare disease (one that affects fewer than one in 2,000 people). Such diseases are usually caused by a single genetic mutation and first strike in childhood. Patients go through what doctors call the "diagnostic odyssey", which typically takes three to five years and involves batteries of tests. Genomics sets out to shorten the journey, by comparing their genomes with those of their parents. This can help doctors spot the disease's cause and whether it is hereditary in a matter of weeks. In some rare diseases, such early diagnosis can be life-saving. Familial hypercholesterolaemia, for example, causes dangerously high cholesterol which, if untreated, can cause heart attacks at an early age.

Most rare diseases, however, have no treatment—and this is where the NHS data will be particularly fruitful. Because NHS England covers 55m people, researchers should be able to find several patients with a rare disease, compare its progress in them, and identify any lifestyle, diet or other factor that affects the prognosis.

In cancer, another disease caused by genetic changes, researchers may be able to use the new centre to identify a key mutation and then go on to match the cancer to medicines that can treat it. Data gathered by the testing services can help show which treatment works best with which particular genetic profile.

The giant data centre where all NHS genomic records will be stored is already up and running, with patient files from a project that has been a pilot study for the new service. Its collection of 82,000 genomes from patients with cancers and rare diseases is already mined by nearly 3,000 researchers from more than 20 countries.

As new research becomes available, the NHS's genomic-test menu will change, says Mark Caulfield from Genomics England, which runs the pilot study. Tests for gene variations that may cause adverse reactions to some drugs are one research priority. Some diagnoses that now require sequencing of the entire genome (which takes a powerful computer a day and costs about \$1,000) will be accomplished with a single-gene test (which takes minutes using a machine the size of a shoebox).

Ever-cheaper sequencing will also help. Testing for combinations of gene variants that predispose people to expensive chronic ailments, such as diabetes, say, can help target prevention. By some estimates, 40-70% of drug prescriptions may be useless. As with cancer, the NHS can save money by detecting which combinations of genes and drugs are effective and which not. America and France are to copy bits of the new system. In the world of research, that is the sincerest form of flattery.

*This article appeared in the Britain section of the print edition under the headline "A new chapter"*

**Bloody scandal**

## **An inquiry into infected blood investigates a cover-up**

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*Thousands of people contracted HIV and hepatitis from infected blood products. Did officials bury the evidence?*

**Print edition | Britain** Sep 27th 2018

IN THE 1970s and 1980s, thousands of haemophiliacs were infected with hepatitis and HIV by bad blood products. Many were imported from America, where each batch was created by pooling and concentrating the blood of up to 40,000 paid donors, including prison inmates and drug addicts. Thousands more people contracted hepatitis from transfusions of infected blood, administered after they had suffered accidents or given birth, for instance. In some cases the virus went untreated for decades. More than 2,400 people are known to have died as a result. The true figure could be far higher.

This week an inquiry opened into the scandal, branded the worst in the history of the National Health Service. It is seeking to establish the scale of the disaster and how it happened. The inquiry will also investigate allegations that the scandal was covered up by doctors, civil servants and politicians.

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The scale of the alleged cover-up could be vast. Many victims claim their medical records were altered or destroyed, to hide the fact they were given tainted blood. One haemophiliac says there is a blank space in his file from 1976-92, though he received treatment throughout. Patrick Maguire, a solicitor representing several hundred people at the inquiry, believes there may be "thousands upon thousands" of such cases. Others allege that false information was added to death certificates to suggest that patients died from other causes, such as alcoholism. Papers from the Department of Health mysteriously went missing.

Two previous inquiries failed to get to the bottom of the scandal or bring anybody to book. But unlike its predecessors, this one can haul in witnesses and compel them to testify. Its chairman has urged victims to come forward, whereas a previous inquiry was criticised for dismissing their stories as incidental.

There have recently been broader efforts to improve transparency in the NHS, following a string of hospital scandals. Slowly, the health service is being forced to change its tight-lipped ways.

This time, though, the Department of Health itself is also in the dock, accused of buying products it knew to be unsafe because they were cheap. The Treasury and the Cabinet Office are under the microscope, too. Although hospitals are opening up, the workings of Whitehall are as murky as ever. The inquiry may yet compel the government to live by the standards it demands of others.

*This article appeared in the Britain section of the print edition under the headline "Bloody scandal"*

Lightning strikes

## Britain's first aircraft-carrier landing in eight years

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*The country welcomes a new warplane, but faces difficult strategic choices in future*

Print edition | Britain Sep 29th 2018

THIS week, as *The Economist* went to press, an American F-35 Lightning jet was due to sweep out of the sky over Chesapeake Bay in Maryland and onto the deck of a waiting aircraft-carrier. This is nothing out of the ordinary for Pax River, the nearby air base that has housed the American navy's test-pilot school for over 70 years. But the ship in question is the *HMS Queen Elizabeth*, Britain's largest-ever warship, and this will be the first landing on a British carrier in eight years.

Neither ship nor plane is entirely new. The carrier began sea trials last summer and Britain took delivery of its first F-35 six years ago. But their integration marks an important moment not only for the Royal Navy, which resented gibes that it had built an aircraft-carrier with no aircraft, but also for British air power, which is celebrating the centenary year of the Royal Air Force.

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Though the F-35 has been plagued by cost overruns and technical snags, it is a path-breaking aircraft that comes into its own when dodging enemy air defences. The significance of this feature was underlined on September 24th, when Russia vowed to send powerful new radar and missiles to its Syrian ally. Kaliningrad, the Russian enclave between Poland and Lithuania, bristles with even more advanced anti-air systems. If the 800 British troops deployed to Estonia were to run into trouble, pilots sent to their aid would be grateful for the F-35's stealthy profile. No less important is that the plane can act as a flying intelligence hub, pumping information back and forth between ships and aircraft.

The debut landing is also a reminder of the deep co-operation between British and American armed forces, despite the chaotic state of the wider transatlantic relationship. The American jet landing on the *Queen Elizabeth* was due to be piloted by a Briton, and plucked from a common pool of F-35s being put through their paces by a joint test team. British pilots have flown off American decks throughout the Royal Navy's eight-year carrier hiatus, keeping their skills sharp. Mark Sedwill, Britain's national security adviser, acknowledges that the *Queen Elizabeth* would "inevitably" be deployed alongside allied ships in any serious conflict. This military intimacy explains why British ministers have been more circumspect than their European counterparts in proclaiming the death of the Atlantic alliance.

But the F-35's arrival also raises new questions about Britain's defence budget. Britain originally envisaged a fleet of 150 jets. That number has already fallen to 138. It could be squeezed further. In the summer Gavin Williamson, the defence secretary, set out plans for a new combat aircraft, the Tempest, to replace the 15-year-old Eurofighter Typhoon. These jets have different strengths. The F-35's forte is sneaking past air defences and attacking the ground; the Typhoon, and perhaps the Tempest, are optimised for combat in the air. But the Treasury is interested in trade-offs, not the finer points of aerial warfare.

By around 2035, Britain will be paying for the last F-35 deliveries, the first of the Tempests, and eking life out of an ageing Typhoon fleet. "Something will eventually have to give," says Justin Bronk of the Royal United Services Institute, a London think-tank. He warns that the Tempest is unlikely to be viable unless defence spending is increased significantly, or F-35 orders pruned.

This would not only infuriate President Donald Trump, who views arms purchases as something akin to protection money. It would also stretch Britain's air-power thin. Last year Boris Johnson, then foreign secretary, promised to send "the two new colossal aircraft-carriers that we have just built" straight to Asia. But there will be demands on their time in the Mediterranean, the Gulf and the Indian Ocean. The government must choose between stocking up on F-35s for the air force and navy, lean and hungry after years of cuts, or investing in a new generation of air power, shrouded in the fog of future war.

*This article appeared in the Britain section of the print edition under the headline "Lightning strikes"*



Burn to earn, time to learn

## Northern Ireland's RHI inquiry puts Arlene Foster in the spotlight

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*The former first minister insists that she was “accountable but not responsible” for the scandal*

Print edition | Britain Sep 27th 2018

IT BEGAN as an apparently sensible innovation to help Northern Ireland's farmers and the environment in general. Yet the Renewable Heat Incentive (RHI) scheme wound up as a morass, which may cost almost £500m (\$660m) of public money. It is also likely to make the task of restoring the region's power-sharing government more difficult than ever.

RHI was based on a British scheme to encourage the use of wood-burning heaters on farms. But in Northern Ireland cost controls were omitted and subsidies were over-generous. This triggered a bonanza for claimants, with canny farmers, some connected to the government, christening it “burn to earn” and “cash for ash”. Warnings from whistleblowers and experts were ignored.

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An inquiry into the scandal began in November, and this week heard evidence from Arlene Foster, leader of the Democratic Unionist Party (DUP), who launched the RHI in 2012 as enterprise minister. Mrs Foster has previously admitted not reading the legislation she introduced. This week she told the inquiry she was “accountable but not responsible” for what went on.

The episode has tarnished her party. One DUP official's brother and two cousins acquired 11 boilers under RHI; the official admitted sending a confidential document on the scheme to a cousin. Another official claimed that a DUP minister on an official visit to New York was ejected from a bar after twice falling asleep, and was taken back to his hotel singing “Breakfast at Tiffany's” at the top of his voice. The civil service has not come out of the affair well, either. David Sterling, its boss in Northern Ireland, admitted that some meetings had not been minuted, “on the basis that it is safer sometimes not to have a record” in case of freedom-of-information requests.

The inquiry has made nationalists no keener to revive the power-sharing arrangement with the DUP, which broke down in January 2017. It has also fuelled speculation about Mrs Foster's future. But she has no ambitious rivals within her party. Nor is she likely to face much criticism from Theresa May, whose government is propped up by the DUP's ten Westminster MPs. These factors may help her survive for now. Next year, with Brexit out of the way, Mrs May perhaps gone, and the inquiry due to report, she may come under pressure again.

*This article appeared in the Britain section of the print edition under the headline “Burn to earn, time to learn”*



A new ingredient

## Spice is throwing up problems not seen with other drugs

*Public services grapple with a street drug that is like no other*

Print edition | Britain Sep 27th 2018

ON A busy street corner in Manchester's central shopping area, a young man has just collapsed, unconscious. Judging by his grubby clothes, he is one of the many people sleeping rough in the city centre. There is no need to call an ambulance, says a shop assistant, after assessing the situation. "It's spice," he explains with a shrug, as he walks back inside, adding that it would be best to stay away, because when the man comes round he may become violent.

Spice is the name collectively given to 200-300 synthetic cannabinoids, drugs that hit the same brain receptors as cannabis but are more potent and addictive. The drugs, made mostly in China and illegal in Britain, take the form of chemicals sprayed onto dried plant leaves and smoked.

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In 2017-18 only 0.4% of 16- to 59-year-olds in Britain used the category of drugs that includes spice, according to the Home Office. But spice has become an epidemic among two groups not covered by these statistics: prisoners and rough sleepers. Over 90% of homeless people in Manchester smoke it, according to one survey, as do many in other cities, including Birmingham, Bristol, Leeds and Newcastle. It is "one of the most severe public-health issues we have faced in decades," wrote 20 police commissioners in an open letter to the Home Office last month.

The trouble is that what has been tried and tested for other illegal drugs cannot be readily copied for spice. For a start, its effects on users are unpredictable. One reason is the rapid turnover of the chemicals in the mix. Chinese authorities have been banning individual chemicals found in spice, but the laboratories that make them get round the bans by tweaking the composition of their product.

Another worry with spice is that the spraying of the chemicals is uneven, leading to highly variable potency within the same batch. In April last year the concentration of chemicals in spice in Manchester jumped from 1-2% to nearly 20%—possibly because someone missed a decimal point in a recipe found online, says Robert Ralphs, a criminologist at Manchester Metropolitan University. Ambulance crews were overwhelmed, with nearly 60 call-outs for comatose people on the streets in a single day. Smaller spikes in concentration have turned users into what the tabloids call "spice zombies", for their pale faces, pink eyes and staggering gait.

Doctors and paramedics are having to learn on the fly how to treat severe reactions to the many varieties of spice. Psychosis and paranoia are common, which is why users are often aggressive. One hospital doctor, who sees someone high on spice on almost every shift, says that the effects are wildly varied and that it is impossible to predict how long they may take to wear off. One man on spice walked around the ward naked for three hours. "We didn't know what to do," the doctor says. "We just locked the door, locking ourselves in with him."

A national network set up last year collects clinical reports about spice users brought to hospital emergency departments. The process is similar to that used to track adverse reactions to medicines. Treatment guidelines are updated online.

Prisons are also grappling with new problems caused by spice. Failing a drug test while inside or on parole brings extra time behind bars. But the prisons' drug-testing kits do not detect synthetic cannabinoids, so many drug users switch to spice in order to hide their habit. "You go in as an alcohol, heroin or crack user and come out as a spice user," says Mr Ralphs.

Peter Morgan, who has worked with vulnerable youths in Manchester for 20 years, says spice has been a "horrific thing" for the homeless. He lays out the problems in "The Spice Boys", a book about a group of young homeless people hooked on the drug. By making users limp, spice turns them into targets for theft, rape and assault. Outreach workers can usually catch four or five hours of lucidity a day from a heroin addict. With spice, the brain is foggy all the time. "You need to smoke it constantly," says one former user.

Weaning people off spice is also tougher than getting them off other drugs. Some do not consider themselves addicts, a designation they reserve for heroin junkies. Even as they struggle with withdrawal symptoms and resort to selling sex or stealing to get their next fix, they see spice as not much more harmful than cannabis. So far nothing makes an effective substitute for it, as methadone does for heroin. Treatment therefore targets withdrawal symptoms, using drugs that dull pain, stomach problems and psychosis.

One thing that those who pick up spice tend to have in common is previous drug use. As spice users become more stigmatised, those on other illegal drugs may be less inclined to switch to it. Even some heroin users are now looking down on spice zombies, says Mr Ralphs.

*This article appeared in the Britain section of the print edition under the headline "Scary spice"*

Bagehot

## Jeremy Corbyn, pillar of the establishment

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*Labour's leader isn't the outsider that both his friends and enemies believe him to be*

Print edition | Britain Sep 27th 2018

THE one thing that people of all political persuasions agree on about Jeremy Corbyn is that he is an anti-establishment radical. Tories mock him as a professional protester who wants to take Britain back to the era of three-day weeks and wildcat strikes. Corbynite praise him for sticking to his pure Labour principles, whatever the personal cost. Since becoming leader of the opposition, and a member of the Privy Council, Mr Corbyn has gone out of his way to demonstrate that he hasn't sold out. He refuses to bow to the queen (though he did present her with a pot of home-made jam) and sings the national anthem in a way that makes it clear that he knows it's a farrago of imperialist nonsense.

The problem with this argument is that it ignores a more interesting reality: as well as being an inveterate protester, Mr Corbyn is a pillar of an emerging establishment. As well as being a throwback, he is a harbinger of a new world of high-minded millennials and woke corporations.

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When Henry Fairlie coined the term "the establishment" in 1955, he was referring to a tightly knit group of politicians, civil servants and society ladies who held the fate of the nation in their hands. Since then Britain has added two new establishments to the old one. The most conspicuous is the neo-liberal establishment that celebrates itself every year in Davos. But even as this oligarchy was being forged by Margaret Thatcher and given a face-lift by Tony Blair and David Cameron, a parallel left-wing establishment was in the making. This establishment dominates the public sector, the trade unions, bits of the media and, above all, the universities. Fairlie defined an establishment as an "oligarchy of opinion". The parallel establishment is defined by its commitment to three non-negotiable opinions.

The first is that "the people" and "the powerful" are locked in a perpetual conflict. The "people" in question used to be defined by class—Mr Corbyn delighted the Labour Party conference in Liverpool this week by noting that next year is the 200th anniversary of the Peterloo Massacre, perpetrated by "troops sent in by the Tories"—but is increasingly defined by gender, race and sexual orientation as well. The second opinion is that Western imperialism is the primary cause of most of the emerging world's problems, from poverty to dictatorship. The new establishment regards an overmighty America as the chief source of the world's ills and treats its opponents, such as Hugo Chávez, as latter-day saints. Mr Corbyn's attitude to Israel is driven less by anti-Semitism than by this "West is worst" narrative; he can't help regarding Israel as an exemplar of Western imperialism and the Palestinians as virtuous freedom fighters.

The third opinion of the new establishment is that capitalism is a deeply flawed system, haunted by irrationalities and contradictions that only enlightened members of the new elite can fix. Clever academics and journalists have been thinking up ways of rewiring capitalism for decades, for example by giving more voting power to long-term shareholders or changing the composition of company boards.

The parallel establishment had to content itself with sniping from the sidelines during neo-liberalism's glory days, consolidating its control of the universities and the public sector as it was locked out of Westminster and Whitehall. But then several things happened that profoundly changed what Marxists call the "balance of forces". The Iraq war turned into a debacle. The financial crisis of 2008 shook capitalism to its core, ushering in a prolonged period of stagnation. And the Labour Party changed its system of electing leaders to give more power to party members.

This week's Labour conference was a reminder of the power of the parallel establishment. The old private-sector trade union barons who dominated the party in the 1970s have disappeared. The most powerful groups in the party are now middle-class millennials and public-sector workers. It was also a reminder of how obscure academic ideas can become public policy. John McDonnell, Labour's shadow chancellor, unveiled a plan to force "big" public companies to give 10% of their shares to a fund managed by employees.

Mr Corbyn was trained for his current role in the parallel establishment's equivalent of Eton and Oxford: his Islington North constituency and the Tribune Group of Labour MPs. In the late 1970s and early 1980s he immersed himself in the new politics of race, gender and anti-colonialism, relaxing, after a long day of protests and meetings, by singing Irish protest songs. He forged close ties with the likes of Mr McDonnell and Diane Abbott, which were to prove enormously useful in his chosen career. He even got the equivalent of special tuition, attending a study group, the Corresponding Society, that met every week in Tony Benn's house and included such luminaries as Perry Anderson and Ralph Miliband. (Mr Corbyn invariably arrived late from a demonstration and ended up taking a chair that had belonged to Keir Hardie, Labour's founding father, but was so uncomfortable that nobody wanted to sit on it.)

**The king is dead! Long live the king!**

The Labour conference made clear that the parallel establishment is learning some tricks from the old one. There is the division between the "dignified" and "efficient" branches of government, as originally defined by Walter Bagehot. Mr Corbyn

increasingly plays the role of the monarch, smiling benignly from the party platform, while Mr McDonnell does the real work of creating policies. Labour apparatchiks draw up “composite motions” in late-night conclaves, far from the prying eyes of ordinary mortals. This is Fairlie’s government-over-the-club-table in modern guise. Both Mr Corbyn and Mr McDonnell even claimed the blessing of the Archbishop of Canterbury, Justin Welby, for their policies. The British establishment is forever changing—and yet somehow forever remains the same.

*This article appeared in the Britain section of the print edition under the headline “A pillar of the establishment”*

## Investment migration

A home in the country

A home in the country

## Selling citizenship is big business—and controversial

*It is easy money for small countries, but it also attracts criminals*

Print edition | International Sep 29th 2018

“I BOUGHT an island” is the simple answer given by Thaksin Shinawatra, former prime minister of Thailand, as to how he became a citizen of Montenegro. Deposed in a coup in 2006, Mr Thaksin was stripped of his Thai passport. Hence his need for another one. At one point he seemed to be collecting them. A colleague once claimed he had six. His Nicaraguan one, he says, has lapsed.

If “home”, as Robert Frost, an American poet, put it, is where, when you have to go there, they have to take you in, Mr Thaksin is one of many to find that the home he inherited at birth is not enough. The number of “investment migrants” is growing. Thousands of passports are bought and sold every year, almost always by the wealthy. The number of commercially acquired residence permits runs into the hundreds of thousands. A burgeoning “CRBI” industry (citizenship and residence by investment)—of consultants, lawyers, bankers, accountants and estate agents—is busy advising well-heeled investors, chafing at the constraints of their paltry single citizenship, on how and where they can acquire another, or at least a long-term resident’s visa.

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The industry, however, is under a cloud. It is suspected of commercialising and trifling with rights and privileges that patriots regard as sacred; and of making life easier for crooks and terrorists. For the European Union in particular, the issue is delicate. It touches on one of the most “national” of competences—who lives in a country and bears its passport—yet has Union-wide consequences. An EU-member-country’s passport is also an EU passport; a “Schengen” visa grants access to 22 EU members and four other countries.

### Citizenship as commodity

To meet the demand for long-term visas and passports, more and more countries are flaunting their attractions. About 100 offer a “residence by investment” programme. Over a dozen offer citizenship—including five Caribbean island-states, Vanuatu, Jordan and, within the EU, Austria, Cyprus and Malta. The latest entrants to this market are Moldova, which in July signed a contract with a consortium that will design its citizenship-by-investment scheme, and Montenegro itself, which in the same month announced it would in October launch its own formal programme. The modern business tends not to mention one of its pioneers, the Kingdom of Tonga in the South Pacific, which in 1983 began selling passports for a few thousand dollars with few questions asked. Today the CRBI business traces its ancestry to a law passed in 1984 in tiny St Kitts and Nevis, offering citizenship to foreigners who made a “substantial” investment. Today its population is about 50,000. Half as many outside the country hold passports.

Even more important to the industry’s scale, in 1986 Canada introduced a residence-by-investment programme. It proved a magnet for Hong Kongers nervous at the impending handover to China in 1997. Canada withdrew its federal scheme in 2014, but, at the provincial level, Quebec continues to offer one. These days, mainland China remains the main market for most schemes.

Other countries followed Canada, including, in 1990, America, which introduced EB-5 visas, requiring investment of at least \$1m, or at least \$500,000 if into a “targeted” area of high unemployment. The total size of the CRBI business is unknown. The Investment Migration Council (IMC), a lobby group, estimates that 5,000 people a year acquire a citizenship this way, investing some \$3bn. Far higher numbers are tied up in the “residence” business. America alone, for example, issues about 10,000 EB-5 visas each year. Henley and Partners, a CRBI consultancy that advises both governments (including Malta and Moldova) and migrants, says it has facilitated more than \$7bn in foreign direct investment.

Businesses which took part in the IMC’s annual get-together in Geneva in June reported buoyant demand. But, of the two most popular destinations, Canada’s federal programme is closed, and America’s EB-5 scheme has a waiting list for Chinese applicants estimated at 18 years. Demand is rising in countries such as Brazil, India, Russia and Vietnam. Chad Richard Ellsworth of Fragomen, a New York law firm specialising in immigration, believes that the investment route is becoming more popular, because of the “restrictionist environment” affecting other ways of securing residence abroad, such as asylum and work visas.

That environment, however, also colours views of investment migration. At a time when immigration is controversial, the idea that residence rights and even citizenship can be acquired for cash strikes many as unsavoury. The numbers involved are trivial compared with total migration flows. In 2016, for example, 863,000 non-EU citizens were granted EU citizenship;

every year America naturalises 700,000-750,000. But investment migrants embody the freedoms available to the winners from globalisation. So they are an obvious target of the backlash against it: the kind of people that Theresa May, Britain's prime minister, once dismissed as "citizens of nowhere".

### Shopping for this year's passport

The fact that some of the passport-queue-jumpers are crooks makes the business even more unpopular. "Allowing cheats and criminals to buy residency is a scandal," harrumphed a column in the *Times* of London in June. Nowhere now is as lax as Tonga once was, but the suspicion lingers that this is a business where money helps dodgy people cut corners. Low Taek Jho ("Jho Low"), a Malaysian-born financier wanted in connection with the looting of 1MDB, a Malaysian state investment fund, is now a citizen of St Kitts. Mehul Choksi, an Indian billionaire wanted in connection with a \$2bn fraud at Punjab National Bank, moved in January to Antigua and Barbuda, where he has been a proud citizen since last year.

EU-member schemes have also been controversial. In 2014 the European Parliament passed a (non-binding) resolution that EU citizenship should not have a "price tag". Malta's scheme has attracted the most scrutiny. The assassination in a car-bombing last year of Daphne Caruana Galizia, a campaigning journalist, drew attention to her multifarious allegations of government corruption. Of the many legal actions (including 47 libel suits) she faced at the time of her death, one was a letter from lawyers for Henley and Partners, architects of the citizenship programme.

Both the EU and the OECD, a club of rich countries, are looking leerily at CRBI schemes. Later this year, the European Commission, the EU's executive, is to publish a report on those offered by EU members. The industry fears the worst. In August Vera Jourova, the justice commissioner, told *Die Welt*, a German daily, that the Commission was "extremely concerned". "We don't want any Trojan horses in the EU," she said.

The EU also takes a dim view of other countries that use visa-free access to the EU as an inducement to investment migrants. It has yet to punish any country with the most obvious sanction—withdrawing visa-free access, as Canada has done with St Kitts, Antigua and Barbuda and others. But the EU is introducing online travel-authorisation requirements even for foreigners who do not need visas.

Meanwhile, the OECD is concerned that these schemes can be used to circumvent its efforts to crack down on tax evasion and money-laundering. It argues, for example, that a tax evader can dodge reporting rules by taking citizenship or residency in a second country and opening a bank account in a third, claiming tax residence in the second, without mentioning any connection with the home country. Early this year it conducted a public consultation on what to do about CRBI schemes. The next article describes one such arrangement, in the United Arab Emirates.

Speaking on the margins of the IMC's annual forum, Christian Kälin, Henley's chairman, plausibly argued that the industry saw regulation as both inevitable and welcome. Indeed, the forum itself seemed designed to burnish its credentials as respectable—even virtuous.

This claim rests on a three-pronged argument. The first points to the economic benefits to the countries running CRBI programmes. As Henley's Paddy Blewer puts it, they are boons to "small countries with limited industrial capacity looking to kick-start their economies". Not only do they attract investment directly, they bring in rich people who may well invest more and, more generally, put the country on the global map of the wealthy.

An often-cited example is Dominica, devastated in late 2017 by Hurricane Maria, following the havoc wrought by Tropical Storm Erika two years earlier. The IMF calculates CRBI income in the country at 10% of GDP and 16% of government revenue. Without it, recovery would have been even harder. Another avowed success story is Malta, where the investment-migration industry claims some of the credit for strong recent economic performance. Its Henley-designed scheme is closest to a simple passport-for-sale model, requiring a one-off non-refundable "contribution" of €650,000 (\$765,000).

Requiring investment is a more uncertain way of raising money—it can be taken out, after all. And even Mr Thaksin, for example, says he has "not had the time" to develop his Montenegrin island. But pure sales schemes are politically unpalatable, even in Malta, where other requirements were added—to buy or rent property, for example, and invest €150,000 in approved shares or bonds. Mr Kälin says part of Henley's expertise lies in calibrating the sums involved: "Set it too high, and you only get shady oligarchs." (Like Cyprus, Malta appeals to Russians.)

The second argument is the benefit to the migrants themselves, portrayed as those Bruno Lécuyer, chief executive of the IMC, calls "unlucky in the passport lottery of life". Many CRBI customers simply want the ease of movement some passports offer. Of those actually moving country, many have legitimate reasons to want residency elsewhere—fear of political persecution, for example, or simply wanting to send their children to better schools abroad. Both of these are common motives in the biggest market, China. The industry presents itself as defending liberalism and globalisation at a time when they are under threat.

The third strand of the argument covers those who want passports or residency rights for less pure motives: to dodge taxes or the police, to launder ill-gotten money or, at worst, to engage in terrorism. To counter the perception that these are the clients countries are seeking, the main topic at the Geneva forum was how to weed such applicants out. Delegates spoke of due diligence, "know your customer" and other checks. Jonathan Cardona, the director of Malta's programme, says it has approved more than 900 passports in four years, but rejected 22% of applicants, mainly because of a "lack of clarity" about the source of their wealth. That is a high percentage, suggesting that the bar set for applicants is high, or that they include a large number of the shady; or both.

Clearly, it is not in the interests of the industry to be seen as an accessory after the fact to illegal activity. So there is little reason to doubt that the respectable end of it is serious about its due-diligence procedures—up to a point. Only about half the countries in the world allow their citizens to hold dual nationality. China is not one; and it has strict exchange-control rules.

It seems unlikely that all Chinese investment migrants have alerted the authorities to their plans, or gained permission to take the money out.

So due diligence seems to cover only some countries' rules. If and when more regulation comes, this distinction will be hard to codify. But as ever more countries jump on to the CRBI bandwagon, competition will intensify. Moldova, for example, says one of its advisers, is likely to try to win customers by setting the investment-price lower, and offering speedier processing. The question of how to keep out the undesirable will become more urgent.

*This article appeared in the International section of the print edition under the headline "A home in the country"*



Sweet deserts

## How the United Arab Emirates became an oasis for tax evaders

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*Set up a company, shield your income from prying eyes*

Print edition | International Sep 27th 2018

THE war on cross-border tax evasion, declared by America over a decade ago and since joined by other governments, has made life a lot more uncomfortable for anyone looking to squirrel away undeclared income. More than 100 countries have signed up to the Common Reporting Standard (CRS), which requires them to swap information on account-holders that may be relevant for tax purposes. But the enterprising and tax-shy can still exploit loopholes in the system. A popular one is to procure residence in the United Arab Emirates (UAE), set up a company there and use the tax residence that comes with it to block the flow of information to tax authorities elsewhere.

According to experts with knowledge of the scheme, it works as follows. A foreigner sets up a company in one of the UAE's free-trade zones and rents office space. In return he gets a residence visa with a minimum-stay requirement of just one day every six months. Both the individual and the company, through which he may hold bank accounts, may then claim tax residence in the UAE, a country that levies no income tax.

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Under the CRS, banks must share information with the country where an account-holder is tax-resident. If the account holder is an entity, then the bank must look through it to the "controlling person" and report on that individual. In the UAE, since both the individual and the company have local tax residence, neither need fear having any information passed on to other countries, regardless of whether their money is held in a bank account, a trust or an investment fund. And, of course, there is no local tax to pay.

No other haven works quite like this. Others, even Caribbean islands which have held out against the CRS, say foreign-owned enterprises and the people who control them cannot be tax-resident there. Under CRS rules, the firms are deemed to be resident where they are managed from. In the UAE, however, foreign-owned entities are permitted to be tax-resident, even though the owner would normally be tax-resident elsewhere.

The UAE's documentation system also makes it easier for people to avoid tax inspectors. When dealing with banks, clients need to produce a Tax Identification Number (TIN). This number is particularly important for any company that holds an account because it serves as an identifier for tax-information exchange between governments. Since the UAE levies no income tax, it does not issue TINs. Instead, the experts say, it hands out registration numbers for value-added tax, which it does levy. Clients then try to pass these off as genuine TINs to bolster the claim that they are tax-resident in the UAE. The ruse appears to be working. Whether because they cannot tell the difference or are turning a blind eye, many banks in other countries, when presented with the VAT-linked substitute TINs, accept that the client's tax affairs are a matter for the UAE and therefore do not pass information on to other countries.

Compared with most offshore tax-minimising schemes, this one is cheap. In the UAE, companies can be formed, office space rented and residence acquired for "the price of a decent suit and pair of shoes", says an adviser. Unlike in most other countries that sell residence rights, a donation or property investment in the hundreds of thousands or millions of dollars is not a prerequisite for a visa.

The country's first free-trade zone was established in the mid-1980s. It now has more than 40, with tens, perhaps hundreds, of thousands of companies between them. Ras al-Khaimah, one of the country's seven emirates, has over 14,000. The number of UAE firms being used as vehicles to dodge tax is impossible to determine. "Judging by the talk among tax and wealth advisers, it's many thousands," says a tax expert.

The Organisation for Economic Co-operation and Development (OECD), which oversees the CRS, is worried about the tax-dodging possibilities of residence-for-sale schemes. Pascal Saint-Amans, head of the OECD's tax group, says the UAE is a concern and argues that the country has not been "proactive" in curbing abuse. The UAE finance ministry replies that it is "committed to implementing international economic standards to the highest levels of [tax] transparency" and is "actively working with the international community" on data exchange. Asked to comment, the Ras al-Khaimah free-trade zone did not reply.

The OECD will unveil some new policies this year, says Mr Saint-Amans. These could include making banks ask tougher questions of anyone claiming to be tax-resident in a haven. Banks could be required, for example, to run through a list of questions to establish where a client's personal and economic links are strongest: where he spends most of his time, where his children go to school, where his doctor is and so forth. In cases where banks see evidence of discrepancy, they could be required to send account information to all countries with a possible claim on the client's tax domicile. Until then, the Gulf state will remain a tax-dodgers' oasis.

*This article appeared in the International section of the print edition under the headline "Sweet deserts"*



### A global problem

A load of rubbish

### A load of rubbish

## Emerging economies are rapidly adding to the global pile of garbage

*But solving the problem should be easier than dealing with other environmental harms, says Jan Piotrowski*

Print edition | Special report Sep 27th 2018

THE OFFICES OF Miniwiz in central Taipei display all the trappings of a vibrant startup. The large open space on the 14th floor of an office block overlooking Taiwan's capital is full of hip youngsters huddled around computer screens. A common area downstairs includes a video-game console, a table-tennis table and a basketball hoop. But a hint that this is not just another e-commerce venture comes from neatly sorted sacks packed with old plastic bottles, CDs and cigarette butts.

Rather than peddle brand-new virtual products, Miniwiz derives value from physically repurposing old rubbish. Chairs in the conference room began life as plastic bottles, food packaging, aluminium cans and shoe soles. The translucent walls separating it from executives' dens owe their amber-like quality to recycled plastic mixed with discarded wheat husks. Coffee is served in glasses made of broken iPhone screens. Arthur Huang, the company's 40-year-old founder and chief executive, who holds a masters degree in architecture from Harvard, first tried setting up shop in New York in the mid-2000s. That effort failed when he discovered that few Americans shared his obsession with limiting the world's waste. By contrast, many of his fellow Taiwanese did.

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They still do. The island is a poster child for recycling, recovering 52% of rubbish collected from households and commerce, as well as 77% of industrial waste, rivalling rates achieved by South Korea, Germany and other top recycling nations (America recycles 26% and 44% respectively). Its recycling industry brings in annual revenues of more than \$2bn. Lee Ying-yuan, the environment minister, boasts that 16 of the 32 teams competing at this year's football World Cup in Russia sported shirts made in Taiwan from fibres derived from recycled plastic.

For more than two centuries since the start of the Industrial Revolution, Western economies have been built upon the premise of "take, make, dispose". But the waste this created in 20th-century Europe and America was nothing compared with the rubbish now produced by emerging economies such as China. According to a new World Bank report, in 2016 the world generated 2bn tonnes of municipal solid waste (household and commercial rubbish)—up from 1.8bn tonnes just three years earlier. That equates to 740 grams (1lb 6oz) each day for every man, woman and child on Earth.

That number does not include the much bigger amount produced by industry. Industrial solid refuse contains more valuable materials like scrap metal and has long been better managed by profit-seeking firms. And then there is the biggest waste management problem of all: 30bn tonnes of invisible but dangerous carbon dioxide dumped into the atmosphere every year.

As people grow richer, they consume—and discard—more. Advanced economies make up 16% of the world's population but produce 34% of its rubbish. The developing world is catching up fast. On current trends, the World Bank projects, by mid-century Europeans and North Americans will produce a quarter more waste than they do today. In the same period, volumes will grow by half in East Asia, they will double in South Asia and triple in sub-Saharan Africa (see map). The annual global total will approach 3.4bn tonnes.

This special report will argue that waste generation is increasing too fast and needs to be decoupled from economic growth and rising living standards. That will require people to throw away less and reuse more—to make economies more "circular", as campaigners say. This can only happen if people "equate the circular economy with making money", claims Tom Szaky of Terracycle, which develops technologies to use hard-to-recycle materials. "Take, make, dispose" must now shift to "reduce, reuse, recycle", he says.

### Virtuous recycle

Global waste may not present as apocalyptic a challenge as climate change, but it may be easier to solve. This is because local action to clean it up and recycle it can lead to immediate local effects. That can in turn transform into a virtuous cycle of change. People are more likely to take action if they can quickly see the results of their change in behaviour. All the more so because reducing waste offers two benefits not just one. It not only removes an affliction (solid waste) but, unlike tackling smog, it also creates a tangible benefit at the same time, in the shape of the recycled materials that can be reused. On top of that, solid waste (the only type that this report will discuss) is a visible eyesore. It is hard for anyone to deny that it exists.

That does not mean it will be easy to move to a more circular economy. Currently 37% of solid waste goes to landfill world-wide, 33% to open dumps, 11% to incinerators (see chart). Some goes to compost heaps. Two-thirds of aluminium cans are

currently recycled in America, but only 10% of plastic. All told, only 13% of municipal solid waste is recycled globally. Everyone agrees that this is far too little.

The urgency of the problem is not in dispute. In July India's Supreme Court warned that Delhi, the country's capital, is buried under "mountain loads of garbage". When dumps or landfills catch fire, as more than 70 have in Poland over the sweltering summer, noxious smog smothers their surroundings. Toxic runoff can permeate soils and poison waterways. Some rivers in Indonesia are so blanketed with litter that it completely conceals the water beneath. According to the United Nations, diarrhoea rates are twice as high in areas where waste is not collected regularly, and acute respiratory infections are six times as common.

Discharged into seas, rubbish can return to wreak havoc on land. In August the Arabian Sea spewed 12,000 tonnes of debris and litter onto the shores of Mumbai in two days. Or it can despoil the ocean. Fishermen in the Arabian Sea complain they net four times as much plastic as fish. The "great Pacific garbage patch", an Alaska-sized ocean gyre in the north Pacific Ocean, where currents channel all manner of flotsam, may contain 79,000 tonnes of plastic debris. Greenhouse gases from the waste industry, mainly emitted by a cacophony of chemical reactions in landfills, could account for 8-10% of all climate-cooking emissions by 2025. Left unchecked, this groundswell of garbage risks overwhelming the planet.

The good news is that around the world politicians and the public appear increasingly alert to the economic, ecological and human costs of waste, as well as to the missed opportunities it presents. Many governments in the developing world are grasping that spending less—or nothing—on waste management means paying more for things like health care to treat its effects. In the developing world, only half of all municipal waste is collected. In low-income countries as much as 90% ends up in open dumps. Lowering these proportions requires more investment in waste infrastructure such as managed landfills or low-polluting incinerators. Taiwan's example shows that these can be clean and need not discourage recycling.

Rich countries already have such facilities, and more. They need to improve the recovery of valuable materials from their waste streams. For two decades they have relied on emerging economies, primarily China, to recycle their refuse. Over the past 25 years, the world deposited 106m tonnes of plastic in Chinese ports for recycling. The system ran aground in January when China banned imports of virtually all plastic and unsorted paper, out of concern for its environment. This left Western waste-managers with tonnes of unwanted rubbish—and left policymakers with piles of unanswered questions about how to boost the capacity of domestic recyclers, and ultimately change citizens' carefree approach to waste.

Politicians in Europe and American states and cities—if not Donald Trump, America's distinctly ungreen president—are issuing ambitious recycling targets and trying to revamp the way they manage their rubbish. Techies and entrepreneurs like Mr Huang or Mr Szaky are dreaming up clever—and lucrative—ways to manage and reuse it. Multinationals are toying with resource-light business models based on service contracts rather than product sales. And many consumers are adopting leaner lifestyles.

But municipal budgets are tight everywhere. Trade tiffs can dampen legitimate exchange of scrap (as recycled waste is also known). Regulations for handling waste are necessary but can be obscure. Policymakers have yet to devise a way to boost large-scale investment in recycling, which is discouraged by periodic declines in the cost of primary commodities, with which recyclers compete. And some worry that switching to a more circular economy will harm those built on the old model.

These problems are real. But, as this report will argue, they are not insurmountable. In the 1990s, economic growth, rising living standards and soaring consumption outpaced Taiwan's capacity to clean up its waste, earning it the unflattering moniker of "garbage island". As recently as 1993 nearly a third of Taipei's rubbish was not even formally collected and virtually none was recycled. By 1996 two-thirds of landfills were nearing capacity.

In the face of mounting protests the government undertook to erect 24 incinerator plants to burn the waste instead, at a cost of \$2.9bn. It also incentivised the Taiwanese to produce less rubbish in the first place. Under an "extended producer responsibility" (EPR) scheme, manufacturers and brands began to contribute to the cost of their products' disposal, either through paying a fee into a fund earmarked for waste management or sometimes by managing the waste themselves. The less recyclable the product, the more expensive for the company. The scheme continues today. Households are charged for the amount of general mixed waste they produce but not for paper, glass, aluminium or other recyclables. Those caught dumping their trash illegally face hefty fines and public shaming. A typical Taiwanese person now throws out 850 grams daily, down from 1.15kg 20 years ago.

Half a century after environmentalists first began imploring consumers to reduce, reuse and recycle, similar exhortations are now echoing from San Francisco to Shanghai. And the world, drowning in garbage, has begun to listen.

*This article appeared in the Special report section of the print edition under the headline "A load of rubbish"*

Down in the dumps

## The poor world and the rich world face different problems with their waste

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*Systems in both are improving but all are under strain*

Print edition | Special report Sep 27th 2018

EVERY MORNING, JUST before 8am, a digger stretches out its steel limb from the bank of the Ciliwung river in central Jakarta. It claws load upon load of stinking rubbish from a barrier stretched across the stream and deposits it into the back of an orange lorry. A city employee stands by, one of 5,000 people working in *pasukan oranye* (orange teams), which dredge hundreds of tonnes of waste every day from the filthy waterways of the Indonesian capital. A rag-picker, treading precariously, sniffs for plastic bottles and other recyclables. Once full, the lorry departs for Bekasi landfill. There, amid more stench, dozens of waste-pickers mill around beside the swinging arms of the machines that unload the dripping rubbish. Their bounty is divided meticulously and sold on to scrap dealers or reprocessing facilities. The remaining trash is rearranged into landfill.

In many parts of the developing world formal collection is expanding. There are now some 6,000 community waste banks in Indonesia, where residents deposit recyclables in exchange for cash. Once rubbish makes it to the waste-management site, the systems can be relatively efficient. The problem is getting a nation's refuse to such sites in the first place, when door-to-door collection is still rare, and households and businesses seldom sort their garbage.

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More than 14,000km from Jakarta, in San Jose, California, trash is arriving at the Newby Island waste-management plant. As in most developed nations, getting it there is not the problem. Domestic and commercial waste is collected from homes and offices efficiently. The difficulties start when the rubbish arrives. With labour costs high, there are no rag-pickers to sift through everything and work out what is worth recycling. The problem here is in the sorting. Aluminium cans are easy to deal with because they are all the same. But different types of plastics cannot be recycled together and machines do not have the sophistication to tell one type from another. So a lot goes to landfill or incineration, mixed with the remaining worthless waste. And now, suddenly, China has stopped accepting imports of low-grade plastic and paper, so Newby Island no longer has a place to send the mixed garbage that it lacks the hands to separate.

Both processes—in the developed and the developing world—are part of a global system that has improved substantially in recent decades as patterns of consumption, and therefore waste disposal, have changed. But both are under strain, as the volume of rubbish has increased with economic growth and as the global garbage industry has changed.

The improvements at Bekasi are part of a broader trend of developing-world governments finally grasping that proper rubbish collection is more than just keeping your streets smelling nice. It is a vital part of public health. Stinting on rubbish means paying more for hospitals. Numerous studies have shown that life in areas with patchy collection increases the risk of diseases as well as neurological conditions. In 2016 consultants at McKinsey calculated that burning, dumping or discharging a tonne of rubbish into waterways cost south Asian economies \$375 through pollution and disease, against \$50-100 required for basic systems to dispose of that same tonne properly.

In the poorest countries, especially in Africa, rubbish is still just dumped anywhere, and management is limited. But there is also comparatively little of it. A typical citizen of Lesotho produces 110 grams a day, one-fortieth as much as a typical citizen of Iceland (the country with the highest rubbish-generation rate per person). It is the economies that are booming that present the challenge. Many are now pouring money into dealing with trash. Narendra Modi's government has earmarked \$9.5bn for solid-waste management in its \$30bn Swachh Bharat (Clean India) Mission. Indonesia is ploughing \$1bn into its plastic-clean-up campaign. Authorities in Morocco believe that \$300m they have invested in new sanitary landfills has already averted \$440m in environmental damage. Many projects enjoy backing from the World Bank and other multilateral lenders. Others are promoted by grassroots organisations and entrepreneurs.

They are bearing fruit. Collection rates in low-income countries have nearly doubled to 39% between 2012 and 2016, even as the volume of waste rose by a third. In middle-income countries like China, they rose on average to 51%. Rates for industrial waste are also improving (in places that have industry), though they already tend to be high because factories produce large, predictable volumes of more homogeneous refuse that is often valuable (like metal scrap).

As collection has improved, so has the next stage. China has emulated its rich Asian neighbours and embraced incineration. The Chinese authorities scrapped plans for some plants in the face of protests by local residents worried about air pollution. But they see incinerators as essential to tackling what the World Bank predicts could be a 50% rise in China's solid waste by 2050. They are trying to convince residents that incinerators are clean and safe (as modern ones are, in places like Taiwan) by, for instance, promoting school trips to facilities. The number of incinerators in China has shot up from 57 in 2010 to more than 400. They now consume one-fifth of the 220m tonnes of municipal refuse that the Chinese disgorge each year.

Poorer countries (including Indonesia) continue to rely on landfills, but these have also been getting more sanitary. Bekasi, which receives 7,000 tonnes of rubbish a day, now covers trash heaps with black plastic that captures the methane gas and other pollutants. In 2008-2014 Morocco increased the proportion of rubbish deposited in sanitary landfills rather than open dumps from 10% to 53%. This is expected to rise to 80% once five additional facilities are completed.

Many authorities enlist the private sector, while monitoring how it performs. Istanbul accelerated a switch to private providers in 2003 after discovering they were a third more efficient than the public sector. In Nepal operators are paid based on how many households get daily collection. Five Moroccan cities, home to a quarter of the kingdom's people, use citizen report cards when deciding to renew contracts with providers. Collection rates in Lahore, Pakistan's commercial capital, shot up from 51% to 88% once the city hired a private company to manage its rubbish. Lorries are monitored with GPS trackers to measure performance and ensure that unscrupulous trash collectors do not dump the stuff illegally rather than drive it to formal disposal sites.

Informal workers, or rag-pickers, remain an important part of the system. UN Habitat, the United Nations agency for human settlements, believes that such people can collect 50-100% of rubbish at no cost to municipalities. The World Bank estimates that they pick 20% of China's municipal waste. "Waste-pickers know physics, chemistry, economics," marvels Gonzalo Muñoz, founder and boss of TriCiclos, a Chilean waste-management company. "They don't know they know—but they do." That is just as well, for ordinary citizens lack this knowledge. In China, for instance, a new requirement for big cities to install colour-coded bins in public areas and buildings has shown mixed results, with few citizens knowing what to throw where.

This explains why the Chinese authorities tolerate informal waste-pickers. Local governments in other countries actively embrace the sector, which is thought to include more than 15m people worldwide. A Brazilian law from 2010 recognised co-operatives of such *catadores* as service providers. This granted them access to benefits such as pensions. Their national union won the rights to clean up football stadiums during the 2014 World Cup in Brazil. Technology is making informal collection more efficient. Mobile apps to match scavengers with rubbish producers are proliferating. Last year a free mobile app called Cataki, which links those throwing stuff away with those collecting it, was launched in São Paulo. Indian raddiwallahs in Bengaluru have used a similar app called "I Got Garbage" since 2014.

### Americans talk trash

In rich countries like America, the absence of professional waste-pickers presents a problem. The general public is not very good at sorting rubbish. Households and businesses serviced by municipal waste-management providers may actually have got worse at sorting in the past 20 years, says Peter Keller of Republic Services, America's second-biggest waste-management firm, which runs Newby Island in San Jose.

Citizens of rich countries, where almost 100% of municipal waste gets collected, take such services for granted—unless the collectors go on strike, as happened in the Belgian city of Ghent in early August, leaving streets in a stink for days. In some industrialised nations, increasingly, residents are charged based on volume (known as "pay-as-you-throw"). To encourage sorting, such schemes often exempt recyclables. In Taipei, the binmen will only accept unsorted general waste in official bags, which come in different sizes at different prices. They inspect recyclables to weed out cheats. The recyclables then proceed to materials-recovery facilities (MRFs) for further triage. General waste is whisked to incinerators or (now rarely in Taiwan's case) landfills.

In many parts of Europe and America rubbish collection is generally paid for by municipal taxes and the garbage disappears to huge facilities like Newby Island. The plant's operator, Republic Services, runs 91 MRFs nationwide, next door to landfills (of which it runs 191) or incinerators (of which it owns 114) which burn waste to produce electricity. It receives 156 trucks carrying 1,600 tonnes each day from as far afield as Fresno, 200km to the east. That is down from 2,200 tonnes a day a few years ago. The volume of recyclables has reached 1,400 tonnes a day, a lot by American standards, says Mr Keller.

That should come as no surprise. After all, inhabitants of the San Francisco Bay area pride themselves on their recycling prowess. San Francisco boasts a recycling rate of 80%, one of the highest of any rich-world city. San Franciscans may therefore be shocked to learn that a lot of them, as Mr Keller puts it, "aren't very good at it". "A pair of blue jeans can jam the whole line for an hour," he groans. More than 100 sorters try to pluck such items from the stream before that happens. Even so, a big plant like Newby experiences on average five such stoppages every day. Such disruptions cost the city of Phoenix in Arizona \$1m a year in stalled equipment and repairs.

Scott Smithline, who oversees recycling at California's Environmental Protection Agency, cites two possible reasons. The first is that many people do not know what is recyclable. Beer bottles and soft-drink cans are, he says. Egg cartons and glossy magazines are not, for there is no market for the materials of which they are made. Some things are recyclable on their own, but not when combined, such as "paper" cups lined with plastic film. It is hard to blame consumers for feeling increasingly baffled, he admits.

The other problem is that residents only have to separate recyclables from non-recyclables (though compost bins for organic waste have appeared now, too). Cans, bottles and papers are all thrown into one bin. This mix can, to some degree, be sorted at plants like Newby, enabled by clever technology which uses optical sensors and magnets to separate materials automatically. These were no match for humans when it came to sorting, but were good enough for China's recycling industry, when it took off in the 1990s, to supply the country's growing ranks of manufacturers hungry for all manner of materials. It snapped up tonnes of imperfectly sorted Western waste, preferring it to the even more impure refuse available at home.

As the volume of recyclables swelled in America and Europe, the quality of recycled output declined because everything was mixed in together. This did not trouble MRF operators so long as they could offload their increasingly impure stock abroad. Then China announced it would not accept any plastics or cardboard, and American waste-management companies have been scrambling to find what to do with their poor-quality waste.

Efforts are springing up to teach residents how better to sort their rubbish. Some American and European cities now pick up different materials on alternate days. Reverse-vending machines, which accept empty drinks bottles and return money to users, are appearing in supermarkets. More cities are adopting pay-as-you-throw schemes. Consumer habits will take longer to change. Developing countries need to concentrate on getting binmen to the kerb of every residence and help stop people

throwing trash into rivers. The developed world needs to relearn how to recycle. The Chinese ban has lent all of this a new urgency.

*This article appeared in the Special report section of the print edition under the headline "Down in the dumps"*

Exit the dragon

## A Chinese ban on rubbish imports is shaking up the global junk trade

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*But the ban could help the West improve its recycling systems*

Print edition | Special report Sep 27th 2018

ON THE FIRST day of 2018, a huge shock hit the global recycling industry. China, which is the world's biggest scrap importer, stopped accepting virtually any recycled plastic and unsorted scrap paper from abroad, and severely curbed imports of cardboard. The amount of recovered material that America, the world's biggest exporter of scrap, sent to China was 3m tonnes less than in the first half of 2018 than a year earlier, a drop of 38%. China plans to phase in bans on most other rubbish, of which it imports \$24bn-worth a year. At recycling plants across the Western world, bales of mixed paper and polymers now languish in forecourts awaiting offers.

China used to import a significant portion of the world's scrap. Suddenly, revenues from selling mixed waste to China which waste-management companies used to cross-subsidise collection, dried up, hitting margins for American waste-management companies.

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The Chinese ban removed the third leg of the “collect, sort, export” system on which the West had long relied. Improvements to automation could in time sort some of the surplus rubbish no longer sailing to China, but they have been incremental. High labour costs make hiring enough human sorters to deal with Western waste volumes prohibitively expensive. Because they, too, cannot rely on cheap labour, Western reprocessing firms need cleaner inputs than their Chinese counterparts, so shun a lot of what MRFs currently spit out. Even if they did not, their capacity is insufficient to deal with the glut. Incinerators and landfill will take some of the surplus waste. But the capacity of both is limited. Building a new incinerator costs upwards of \$200m. Landfills are being gradually regulated out of existence, with many places, including California and the European Union, mandating cuts to the volume of waste being landfilled.

The prohibition is not the only way in which China is affecting the scrap trade. The trade spat provoked by American tariffs on imported steel and aluminium (which exempt scrap) has already prompted trading partners to impose retaliatory levies (including on recovered metals). If the current tiffs escalate into a full-blown trade war, scrap—\$109bn of which crosses borders each year—would suffer along with many other products.

The ban is likely to prove more of a long-term headache than the trade spat. It is part of a broader clampdown on polluting industries championed by China's all-powerful president, Xi Jinping. It aims to banish “solid waste with major environmental hazards” and thus prevent “intense public reaction”. That will deprive many countries of the destination of choice for their waste. But, though it has disrupted the whole global scrap trade, many experts are already seeing a silver lining. Activists and advocates of “circularity” say that it is forcing rich countries to rethink what they do with their waste now that a chunk of it can no longer be swept away overseas. It is in that way forcing longer-term change.

### Slow boat or junk?

China came to dominate the global rubbish trade in much the same way it has come to dominate all areas of trade. It has an insatiable appetite for resources, including second-hand ones, to feed its booming economy. China's \$24bn-worth of recycled-materials imports are a quarter of the total traded globally, and up from \$12bn a decade earlier. On the eve of the ban, more than half of the world's used plastic, paper and cardboard—around 32m tonnes each year in all—sailed to China, chiefly from the rich world. Plenty of metal scrap went there too, especially copper to wire cities or manufacture electronics.

It was also helped by the nature of its trade flows. Bulky scrap shipments to Chinese ports were only affordable thanks to “backhauling”. Container vessels had crossed the Pacific laden with Chinese products for North American markets. Rather than let them sail back empty, shipping companies ferried scrap for the return leg at rock-bottom prices. Around half of all westbound trans-Pacific container traffic was rubbish for recycling.

Because of the ban, shipping companies, whose low margins were offset by massive volumes, now risk losing the backhaul trade. Drewry, a shipping consultancy, estimates that the ban could jeopardise 4m-5m containers sailing west across the Pacific annually. That is equivalent to 3% of worldwide container traffic. Port authorities from New York to California are rewriting their long-term strategies to take account of the disruption.

Even China is not immune from the impact. Its operation, dubbed “National Sword”, looks distinctly double-edged, striking at a thriving domestic reprocessing industry—and manufacturing more broadly. Western scrap-industry veterans express astonishment at the Chinese authorities' willingness to sacrifice the needs of its industrial base, parts of which rely heavily on reprocessed materials. China recycled 85% of the 7m tonnes of plastic it imported in 2016 (the rest went to landfills or was incinerated). Many Chinese reprocessing firms are now fearful about the future.

Some also see the benefits. Liu Jianguo, an expert on waste management at Tsinghua University in Beijing, calls the ban “good news for domestic waste recycling”, for the same reason that it will help Western countries. It will force the Chinese industry to change, adapt and be less reliant on imported foreign trash (though there is a danger in the short run that some

Chinese reprocessors, starved suddenly of imported inputs, could fold, resulting in the dumping or burning of even more rubbish than it does already).

The China ban has, however, given a boost to one group of Western entrepreneurs. In 2017 Rashad Abbasov co-founded Scrapo. It is an online marketplace that matches buyers and sellers of second-hand polymers in different countries. Since its inauguration in November, suppliers have posted offers to sell 1.5m tonnes of recovered plastic on Scrapo. It now has more than 10,000 users, 70% outside America. Just 6% are from traditional plastic-waste importers like China, Indonesia or Vietnam.

Other parts of the trade are also moving online. Scrap Monster, a platform for trading recovered metal, has 50,000 registered users. MerQbiz is a digital platform to streamline the \$30bn annual reused-paper market. Another forum, the Materials Marketplace, allows American manufacturers to exchange factory by-products and leftovers more easily. State-level versions exist in Ohio and Tennessee. Two years ago the project spawned an offshoot in Turkey. Another is under development in Vietnam. Advocates of “circularity” welcome such initiatives, which aim to wring the most out of available resources. The Chinese ban has done them all a favour by enabling recovered materials to flow to the highest bidder—and so the highest-value use. But it has also exposed the shortcomings of the recycling industry.

*This article appeared in the Special report section of the print edition under the headline “Exit the dragon”*



Modern-day alchemy

## Businesses are trying to reduce, reuse and recycle

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*Turning the vicious cycle into a virtuous one*

Print edition | Special report Sep 27th 2018

IN 2001, WHILE studying economics at the University of California, Los Angeles, Dan Kurzrock got into beermaking. He soon discovered that for every five-gallon (19-litre) batch of ale, the brewing process yielded up to 22lbs (10kg) of mulch-like spent grains. “It felt like making food,” he recalls. And it didn’t taste all bad, either—after all, it was wholesome fibres and protein left over from a process which extracts sugars from cereals for fermentation. If he was producing kilograms of it, how much goodness was going to waste at breweries?

The answer was a lot. A rough calculation based on the volume of beer brewed in America puts the total spent grain at 1.4m tonnes a year. Large brewers often let local farmers pick up the by-products for livestock feed. But at craft breweries sprouting in cities all over the world, these would often head straight for the landfill. “It would be a commodity if there were a market,” Mr Kurzrock remembers thinking. So he set out to create one.

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In 2012 he and Jordan Schwartz, a college chum, founded ReGrained to commercialise a recipe they developed to turn spent grain, collected free from local craft brewers in San Francisco, into energy bars. In September they inaugurated a new factory near the city to cook up the main ingredient and sell to food producers. Griffith Foods, a big producer of doughs and condiments, has invested in the company. Barilla, an Italian firm, is working with ReGrained on a line of beer-derived pasta.

Recycling—for that is what ReGrained does—is nothing new. The word (at least its English version) dates back to the 1920s but the activity is as old as mankind. As the variety of materials churned out by the modern economy has increased, however, so have attempts to repurpose ever more of them.

In 2009-15 the number of biogas plants in the EU grew from 6,000 to 17,700—heating houses with old banana skins and uneaten porridge

Fans of the “circular economy” relish epiphanies such as that which led Messrs Kurzrock and Schwartz to their idea. They lower the economy’s environmental footprint twice over: reducing the amount both of natural resources (cereals to make a snack) and of refuse. They take something people would pay someone to take off their hands—waste—and convert it into something people are willing to purchase—a resource.

The trick is performing such alchemy profitably and at scale. It is already happening. In most rich countries a third of glass and two-thirds of paper come from recovered materials. Around half of aluminium sold in North America each year is derived from scrap. Each day the United States alone churns out 25 Eiffel towers’ worth of steel and other ferrous scrap. Recycled copper satisfies two-fifths of global demand for the metal. There are reasons to believe that market forces will drive similar developments for other materials. Electronic and electrical devices look particularly ripe for harvesting. But plastics are the biggest problem, with only 10% currently recycled.

### Diamonds on the soles of their shoes

Nearly everything can be recycled, says Tom Szaky of Terracycle. It is not just things like plastic bags or textiles, which a recent survey found one in two Britons incorrectly assumes to be unrecyclable. Mr Szaky’s firm has devised a way to turn cigarette filters, made of a polymer called cellulose acetate, into sturdy plastic boarding. Plastic polymers can be chemically unwound into their original hydrocarbons. In April a Dutch company started selling training shoes with soles made from chewing gum scraped off the streets of Amsterdam.

Some people will pay a premium for products that salve their conscience. The environmental appeal is an inherent part of the brand. For most customers “environmental considerations continue to be ‘nice to have,’” says Gavin McIntyre of Ecovative Design, which uses fungi to turn agricultural waste into high-grade composite materials. Crucially, they are not yet ‘must have’. The central concern is price.

Recycled materials compete with virgin ones, so recyclers are hostage to volatile raw-material prices. Recyclers’ costs depend on the cost of collection, distribution and processing of scrap, which tend to be stable. Commodity prices—which determine the price for recyclers’ output—can swing wildly. When prices of primary resources drop suddenly, recovered materials are no longer competitive. This can drive recyclers out of business. The uncertainty discourages long-term investments, keeping most recycling firms small and inefficient. That in turn constrains the supply of recycled materials. Big manufacturers want a steady supply of materials, which recyclers therefore find it hard to guarantee.

Things such as glass, paper and many metals have broken out of this vicious circle, typically once economies spewed out enough of them to make it worthwhile to recycle. Reprocessing technology had often been around for a while—paper was being recycled in the 19th century—but greater availability of source materials encouraged efficiencies. That in turn spurred demand for these materials and itself encouraged further improvements in recovery. In other words, a vicious cycle turned virtuous.

In some areas, a similar virtuous turn looks not just possible but imminent. Last year scholars at United Nations University in Tokyo calculated that the 45m tonnes of defunct fridges, radios, smartphones and the like discarded annually worldwide contain \$55bn-worth of gold, silver and other valuables. According to research from Tsinghua University in China and Macquarie University in Australia, it costs Chinese recyclers of defunct electronic devices (known as “e-waste”) \$2,000 to extract a kilogram of gold from old television sets; mined from the ground, the metal fetches \$40,000 a kilo. The recyclers outperform miners even after stripping out the \$13 that the Chinese government subsidises them per television. Facts like these help explain how the American e-recycling business went from less than \$1bn in 2002 to more than \$20bn in 2016, and why today’s 20% recycling rate for e-waste looks poised to rise.

Not all materials are as precious as gold and silver. But progress is visible even in areas such as food waste, the world’s most common form (see chart) and construction debris. “Anaerobic digestion”, in which organic matter is broken by microbes in the absence of oxygen, produces biogas which can be burned for energy or heat. In 2009-16 the number of biogas plants in Europe grew from 6,000 to 17,700—heating houses with old banana skins and uneaten porridge. It still produces only 2% of EU electricity but the share looks set to grow as more governments tackle food waste and encourage renewable energy. Meanwhile, Ecovative is an example of a company that turns food waste into durable goods, such as high-grade faux leather. ZEN Robotics of Finland sells smart disassembly lines for construction rubble where computer-vision algorithms identify pieces of metal, cardboard or other valuables for a robotic arm to pluck from the conveyor belt. Companies like Jiangsu LVHE in Changzhou, outside Shanghai, use the system to recover materials for reuse or resale, and bake the remaining debris into bricks, tiles and other building wares.

The problem for plastics is that hundreds of everyday polymers are incredibly cheap to make from petroleum, and comparatively costly to extract from the waste stream compared with less heterogeneous materials like paper, glass or even metals. This has kept plastics stuck in the negative feedback loop of low demand, low investment and low supply. The market will only develop if there is an increase in demand, thinks Jean-Marc Boursier, vice-president of Suez, a giant French waste-management and recycling company.

The Chinese ban may in time provide just such a jolt, by forcing countries used to dispatching their recovered plastics abroad—as Ireland has done with 95% of its total—to reprocess more at home. But even before the prohibition entered into force at the start of the year, rising public angst over plastic pollution had begun to concentrate policymakers’ minds on how to make reused plastic more attractive relative to the virgin kind.

Fiscal incentives are one way. For instance, exempting second-hand polymers from value-added tax is defended on the grounds that the primary material has already been taxed. As well as being desirable to combat climate change, carbon taxes favour less energy-intensive recycled plastic production. More hands-on proposals are also being aired. The EU’s new recycling targets are one example, especially now that poorly recycled plastic can no longer be palmed off on China. Campaigners are also pressing the EU to mandate a minimum recycled content in plastic containers, as California has had since 1991.

“Extended producer responsibility” (EPR) has become a particular favourite among campaigners and policymakers alike. EPR rules make manufacturers and brands contribute to the net cost of their products’ disposal once consumers are done with them. This cost is lower if the products can be sold to recyclers. The number of such policies rose from a few dozen in the early 1990s to nearly 400 worldwide by 2013, according to the OECD. Nearly all of the club’s 34 mostly rich members now have them for different types of product, as does Taiwan. Latin American countries like Brazil, Colombia and Chile have them, too. South-East Asian countries are working on them. Last year China unveiled a plan to draft comprehensive EPR legislation by 2025. Such policies may in time bring the plastics recycling rate from 10-20% today closer to the 60-80% rate currently enjoyed by other materials such as aluminium, steel and paper.

All of this should help boost recycling. But some firms have ambitions to embrace the other two components of the circular-economy triad, by reusing products rather than materials, and even reducing production altogether. Companies like the Renewal Workshop are putting a new spin on second-hand clothing. They take old garments and refashion them into new items, with the approval of the original brands (for the Renewal Workshop these include North Face). Darrel Stickler, Cisco’s head of sustainability, discerns a promising second-hand market for the company’s networking gear, \$3bn-worth of which is bought and sold each year. Cisco’s share of this is tiny but could be much bigger, Mr Stickler thinks.

Meanwhile, some big manufacturers are reorienting from making products to selling services. Martin Stuchtey of SystemIQ, a consultancy, says that nine out of ten boardrooms he visits are debating “how to sell freshness, not fridges; kilometres, not tyres”. Rolls-Royce has sold “power by the hour” rather than aircraft engines for years. Rather than flog LED lamps Philips leases them to some customers—including Britain’s National Union of Students—with a promise to keep buildings illuminated. By 2020 it wants to double to 15% the share of its profits from such contracts, which can lock in customers for 20 years. Safechem, a chemical company, rents out tanks of fresh solvent rather than selling it to manufacturers for cleaning metal parts. It then collects the tanks, purifies the contents and rents them out again.

Business models like these are grist to the mill of circular-economy advocates. They are presented as proof that lower resource intensity need not mean smaller profits. But their widespread adoption would not be painless for everyone.

*This article appeared in the Special report section of the print edition under the headline “Modern-day alchemy”*

Clearing the waves

## Serious efforts are being made to clean up the oceans

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*It should start with better rubbish collection on land*

Print edition | Special report Sep 27th 2018

PLASTIC DEBRIS IN the ocean has surfaced recently as a prominent environmental concern. Other pollution takes a greater toll on the seas—fertiliser run-off can cause damage worth \$200bn-800bn a year, compared with \$13bn for marine plastic litter, according to one estimate. Yet palpable, garish plastics nevertheless attract the most attention. Rich-world television audiences gasp at harrowing images of sea creatures ensnared in disposable bags. Citizens of poor but pretty places worry that rubbish washed up on once-pristine beaches puts off wealthy sun-seekers.

The best solution is better rubbish collection in Asia. Just ten countries, eight of them Asian, spew two-thirds of all marine plastic litter originating on land (ships shed some, too, particularly old nets). Fully 90% of the stuff discharged by waterways comes from ten rivers, two in Africa and the rest in Asia. Around 1.5m tonnes of plastic flows down the Yangzi river in China each year, compared with 18 tonnes from the Thames. Scooping all this up will be hard.

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In Hvaler, a small shrimp port 110km south of the Norwegian capital, Oslo, Hans Olaf, a craggy-faced skipper, remembers when he had to pay the local waste-management company to take away rubbish he caught in his nets. Most people just dumped it overboard instead, he says. Last year Hvaler was chosen as one of a dozen Norwegian harbours piloting a programme to make it simpler to discard trash in port than at sea. The garbage, mainly old fishing gear, is collected free by a Latvian firm which converts it into new nets.

"Fishing for litter" schemes exist in a number of North Sea fishing nations, including Scotland, England and the Netherlands. A government-sponsored one in the Indian state of Kerala has hauled in more than 65 tonnes of plastic waste since its launch last year. The material is shredded into plastic chips, which local construction firms buy to strengthen asphalt.

In March the port authority in Oslo approved a plan to clean up the litter from the Oslo fjord. To pinpoint underwater islands of rubbish, it turned to Blueye, a marine-technology firm based in Trondheim. Blueye has devised an underwater drone, tethered to a battery unit, which can be used for all manner of subsea inspection down to a depth of 150 metres. Its drones are considerably cheaper—and safer—than sending human divers or larger submersibles, so dozens can be deployed. A trial this spring showed promise. Next year an electric-powered ship with a crane will join the drone fleet to salvage the sunken trash.

Another scheme is The Ocean Cleanup, a Dutch charity backed by crowdfunders, deep-pocketed endowments and tech tycoons like Peter Thiel. It has designed a system to trawl for plastic in the vast mid-ocean gyres where currents funnel all manner of flotsam. It is huge: a drifting bow-shaped boom 600 metres long with a three-metre skirt dangling underneath. Because it is propelled by wind and waves, as well as the current, it outpaces the plastic detritus that is driven solely by the ocean. It therefore scoops up the litter as it moves.

After successful trials in the North Sea, the first full-size stage sailed from San Francisco on September 8th towards the Alaska-sized patch of garbage in the middle of the north Pacific. Boyan Slat, The Ocean Cleanup's boss, believes that, once fully deployed in 2020, 60 such contraptions, costing \$6m apiece, can mop up about 40,000 tonnes of plastic, around half of the total, within five years. He thinks that corporate sponsors will help foot the bill. Anchors aweigh.

*This article appeared in the Special report section of the print edition under the headline "Clearing the waves"*

## Introducing a more circular economy will meet with resistance

*Companies must be persuaded sometimes to go against their economic interests*

Print edition | Special report Sep 27th 2018

A SINGLE, BARE lightbulb helps illuminate part of the Livermore-Pleasanton fire department on the eastern edge of the San Francisco Bay area. It does not look out of place, if a little dim. But it is no humdrum piece of electrical equipment. For the Centennial Light, as it is known, has been burning almost continuously since 1901. To proponents of a less resource-intensive, more circular economy, the bulb (pictured) shows that everyday products can be affordable and built to last.

Not everyone has an interest in such longevity, however. In 1924 a cartel of big lightbulb manufacturers, including General Electric, Osram and Philips, agreed to keep lifetimes of their products to 1,000 hours or so, down from an average of 2,500 hours, in order to sell more of them. Many companies still make it difficult, or even illegal, to mend their products. This has provoked push-back from customers demanding a “right to repair”. French prosecutors are investigating whether Apple, which has admitted slowing older iPhones with software upgrades, deliberately intended to shorten the product’s lifetime to make customers replace it—a criminal offence in France. Legal or not, such activities look economically inefficient and environmentally foolish, even though they may make perfect sense for individual companies. The question is how to persuade those firms to go against their apparent self-interest in order to create a more circular economy.

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Forecasts can help focus minds. Last year the International Resource Panel, an independent scientific body under the auspices of the UN Environment Programme, suggested that wiser use of resources could add \$2trn, or roughly the GDP of Italy, to the global economy by 2050. Limiting food waste alone could contribute \$252bn a year by 2030. Analysis by Circle Economy, a consultancy, found that, of the 84bn tonnes of materials consumed each year by the global economy—including biomass, sand, metals and fossil fuels—barely 9% are reused.

Workers need not lose out, either—in their jobs or as shoppers able to snap up more durable smartphones. A series of reports for the Club of Rome, a think-tank, found that, if product lifetimes were doubled and half the virgin materials consumed today replaced with recovered ones, the resulting economic shift would create 200,000 net new jobs in Spain and 300,000 in France. (Improving energy efficiency and replacing half of all fossil fuels used with renewables would add another 565,000 jobs across all the countries studied.) Most new work would come in green industries such as recycling. After reviewing 65 studies on the effects of a more circular economy, academics at the University of Augsburg found that related job creation outweighs job destruction. A report by McKinsey said the global net employment gains would be anywhere between 9m and 25m jobs.

The environment would benefit, with fewer mines, more trees and less need for landfills and incinerators. Recycling aluminium saves 95% of energy compared with smelting new metal. The savings are 88% for plastic, 60% for steel and paper, and 38% for glass. According to Sitra, Finland’s state-run innovation fund, raising recycling rates for aluminium, steel and plastic by 50-80% would cut European industrial emissions, which account for one-tenth of the continent’s total, by a third.

However, what makes sense environmentally may not look good for the bottom line of an individual company or region. The most obvious casualties would be purveyors of fossil fuels, minerals, agricultural produce and other primary materials, the demand for which would suffer. If everything else remained constant, eliminating 1.3bn tonnes of food waste could mean \$750bn less in sales for farmers—the value which the UN’s Food and Agriculture Organisation ascribes to all the food spoiled or lost annually between farm and fridge. More durable consumer products could mean that fewer have to be made, potentially hurting manufacturers’ volumes. More Uber rides may ultimately lead to fewer people buying cars of their own. Less need to ferry merchandise could hit shipping companies, too. The Club of Rome study found that, in Poland, where many people continue to be employed in agriculture, more productive use of resources could potentially destroy jobs overall.

Politicians in most rich countries may calculate that repatriating offshored factory jobs to plants back home where recovered materials are reprocessed is a vote-winner. But it may be less appealing to their counterparts in poorer places where workers found employment in manufacturing. Research by Garth Frazer of the University of Toronto found that clothes donated to Africa harmed African garment-makers. Between 1981 and 2000 second-hand imports explain two-fifths of the decline in African apparel production and half of the fall in garment-industry employment. South Africa has restricted imports of used Western garb. Six countries of the East African Community are considering a ban. China already has one.

### You can’t refuse

This leads to a final concern about “closing the loop” of circularity: that it can ring-fence parts of economy from globalisation. As Mr Abbasov of Scrapo laments, the circular economy rarely crosses borders. Sometimes, as in the case of the Chinese ban on foreign recovered plastic and paper, ring-fencing seems to be the explicit objective. But it can also be an unintended consequence. New repair shops would by their nature be more local. Recyclers often gripe about national and international rules which, by not drawing a clear distinction as to what is hazardous, raise transport costs and hamper trade. For second-hand electronics, which are treated as waste even if they are in perfectly good working order, regulations make it several times

costlier to freight within most countries and almost impossible to send abroad. “Our industry has been in almost constant strife with regulators,” grumbles Ranjit Singh Baxi, president of the Bureau for International Recycling.

Such concerns are real. But they are not insuperable. For a start, other things are never constant. Populations grow; by 2050 Earth will have 2bn more consumers and mouths to feed. As people become richer, they consume more. In poor places like Lesotho, whose citizens waste little, consumption can increase by a lot before it comes close to Western levels—especially if it is accompanied by improvements in rubbish collection. African garment-workers deserve assistance, but shoppers there benefit from cheap, decent-quality foreign wear. And “circular” industries create employment in their own right.

Even if Club of Rome or McKinsey forecasts prove wide of the mark, history teaches that reshaping the economy creates more work than it destroys. Waste disposal generates just 0.1 job per 1,000 tonnes, compared with two jobs recycling the same amount, according to one study. A single Kenyan e-recycling programme is estimated to have generated over 2,000 jobs within four years of its launch. Recycling and repair industries could go global, too. Platforms like Scrapo or MerQbiz lubricate the exchange of recyclables across borders, showing that circular economies are not inherently protectionist.

The right response is therefore to experiment, not eschew resource efficiency. As this report has illustrated, there are signs that this is happening. Cities in the developing world are trying to get better at collecting rubbish and making sure that as little as possible goes to waste. The Chinese import ban is stirring many people in the West to relearn how to recycle. Campaigners and entrepreneurs are chivvying them along. Governments, especially in the West, are crafting “circular” strategies. By 2035 all EU states will be required by law to recover 65% of their rubbish, from an average of 40% today. America under Donald Trump is an exception, but American cities and states are compensating by helping people sort their rubbish and send less to the landfill.

Yet, while rich countries are cleaning up at home, they are only beginning to deal with the fact that (as with carbon emissions) they have exported their throwaway Industrial Revolution model around the world, outsourcing their waste to developing countries. Westerners continue to enjoy products that are made elsewhere, and whose disposal does not affect them personally. Rather than being smug about how well they are doing at home, they need now to encourage the developing world in its quest for a less wasteful growth model.

Some middle-income countries appear willing to listen (see chart). China’s latest five-year plan reaffirms its commitment to a “circular economy” and last year’s party congress called for the creation of a “waste-free society”. Indonesia, Nigeria and other emerging economies are emulating developed ones by making producers help pay for managing the waste created by their own products.

Most have a long way to go before they emulate Taiwan. Poor countries must prepare to cope with an increase in waste as they develop a middle class consuming at Western levels. Only when they see that proper handling of solid waste can aid prosperity will the global tide of rubbish be stemmed.

*This article appeared in the Special report section of the print edition under the headline “What goes around”*



### American business after Weinstein

Behind closed doors

Behind closed doors

## American business and #MeToo

*One year after the Weinstein scandal, not enough has changed in workplaces*

Print edition | Business Sep 27th 2018

“I DIDN’T wait for a pay cheque. I didn’t tell anyone. I was scared, ashamed and just ran,” is how Daniela Contreras recalls sexual harassment—as she now knows to call it—by her employer when working as a nanny in her teens. Twenty years later she feels able to say “This happened to me”, and works with the National Domestic Workers Alliance in New York to ensure others can do so sooner. Over the past year she has seen a big increase in women phoning, almost daily, for legal advice. #MeToo catalysed this rise, she says. “The hashtag helped start the conversation by writing it, saying it and sharing it: ‘This happened to me.’”

It is almost a year since revelations emerged about the behaviour of Harvey Weinstein, a film-studio boss charged with multiple counts of rape and sexual assault. In response Alyssa Milano, an actor, invited anyone who had been harassed or assaulted to tweet #MeToo. The hashtag has since been shared over 15m times. Victims of harassment in workplaces of all sorts, from S&P 500 companies to small-and medium-sized firms to startups, have come forward in unprecedented numbers to share their harrowing experiences.

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Many powerful men have been forced out. Earlier this month one of the most-praised bosses in media, Les Moonves, the chief executive of CBS, was forced to leave following accusations of sexual harassment (which he denies). A handful, including Mr Weinstein, await trial. This week Bill Cosby, an actor once known as America’s Dad, became the first post-MeToo A-listener to be sentenced to prison.

Firms are under growing pressure to change how women are treated at work. Not a week goes by without a fresh example of an organisation finding itself in the spotlight. Earlier this month workers at McDonald’s, one of several firms being sued by workers, protested against a culture of harassment, replacing the “M” on their MeToo banners with the golden arches. In the same week the board of the *New York Review of Books*, under pressure from advertisers, pushed out its editor, Ian Buruma, after he published a controversial essay by Jian Ghomeshi, a Canadian broadcaster and alleged abuser.

Some people worry that the movement has gone too far, warning of a “witch hunt”, “trial by Twitter,” and the end of innocent office romance. Others fret about a backlash for women at work, where senior male executives may no longer want to mentor them or travel or dine with them alone (a code of conduct sometimes referred to as “the Pence rule”).

Some responses have felt knee-jerk: Netflix, a media company, was mocked when in training it reportedly suggested a rule against people gazing into each other’s eyes for more than five seconds on film sets. Yet the occasional overreaction may be part of the messy process of changing norms across society, business and politics. Although the majority of those over 65 say it has become harder for men to interact professionally with women in the wake of MeToo, a minority of those under 30 say the same. Indeed, the real question is not whether the pendulum has swung too far but whether it has swung far enough. The answer to that is clearly “no”.

It is true that some notorious sexual predators are now facing justice; Mr Weinstein’s next court appearance is in November. But most of those accused of harassment or assault have faced the court of public opinion, not the law itself. In America the Equal Employment Opportunity Commission, a federal agency, has noted in preliminary findings just a modest, 3% uptick in sexual-harassment complaints filed by employees this year.

### Their day in court

This is in part because few victims report abuse, let alone press charges. Those who do rarely manage to get their complaints heard in court. In America the Time’s Up movement set up a \$21m legal-defence fund to try to change this. Since January it has had 3,500 applications, two-thirds of them from low-income workers.

Many American states are reviewing their laws. Washington now bars employers from mandatory non-disclosure agreements for employees, which stop workers from speaking out publicly about their experiences. Several are exploring extending or ending statutes of limitations, spurred on by revelations of child abuse in the Catholic church in America. California is in the process of passing several “#MeToo bills”, including banning forced-arbitration clauses in contracts, which require workers to waive the right to take an employer to court in the event of a dispute.

Meanwhile, the number of shareholder class-action lawsuits based on gender claims has risen, says Kathleen McKenna, an employment lawyer at Proskauer in New York. Last November, 21st Century Fox reached a \$90m settlement with shareholders

over losses related to two harassment scandals. Employees are taking firms to court too—including Google, where a plaintiff cites a “bro culture” that allegedly allowed harassment to go unpunished, and Ford, which faces a class action by workers claiming they were sexually harassed and their complaints obstructed. Yet the uptick in workers’ class actions has been modest, partly because in May the Supreme Court upheld employers’ rights to block employees from bringing them.

What the law can do is in any case only part of the picture. Many, if not most, of the accounts of harassment that have emerged in the past year point less to a failure of lawmakers than to one on the part of employers. Big companies in America are keen to be seen to “do something”: the number of public declarations about zero tolerance of harassment has gone up. Yet whether or not their actions are meaningful, or whether they are still dodging deeper problems around power imbalances in the workplace, is very much in question.

Customers, investors, boards, employees, stock analysts and even insurers increasingly ask for information on what a company does for women, including the protection it affords against harassment. Equileap, which ranks firms on gender-equality criteria, now includes sexual-harassment policies. It is seeing strong demand for such data. That is partly because the headline costs of a scandal are clear: shares of several big firms have fallen sharply after executive departures (see chart). But less obvious costs, such as to productivity, turnover and reputation, are also becoming harder to ignore.

In a recent survey by Deloitte, a consultancy, business leaders cited the #MeToo movement as the news story that had most affected what they call “inclusive growth initiatives”. “As with the first cyber-risk incidents, #MeToo is helping make boards realise ‘this could happen to us,’” says Jane Stevenson from Korn Ferry, a consultancy.

Even so, few firms want to talk publicly about what they are doing inside the organisation. Those that do often have reputations sorely in need of burnishing. Uber, a ride-hailing firm, replaced much of its top management and claims to have prioritised culture and safety; it is adding a safety function to its app, has ended forced arbitration for harassment and assault and will start publishing data on assault reports. The Old Vic, a London theatre tainted by a scandal involving Kevin Spacey, its former director, will next week announce a “Guardians network” to better protect workers in the performing arts.

Less visibly, several employers have made efforts to improve internal procedures for reporting harassment. Victims often fear retaliation, both from their harasser and their employer (particularly when they are the same person). Independent, anonymous helplines overcome conflicts of interest and several report growing demand. A non-profit called Callisto, based in San Francisco, has developed software that allows employees to enter a complaint which will be filed only if a second complainant accuses the same person.

But many other firms appear to be shirking the task. Less than a third of Americans surveyed in May said that their employer had done anything new to deal with sexual harassment following #MeToo, according to the American Psychological Association (APA). Of those that had, the commonest approach was to remind employees of existing harassment training or resources. Other favourites include reviewing company policy, revising codes of conduct and refreshing training material.

### **Listening to Everywoman**

Some of the most promising solutions to the problem of harassment come not from S&P 500 companies nor from Hollywood, but from workers in low-wage sectors, who were grappling with this issue well before it became a hot topic. Domestic servants and farm workers face some of the highest levels of harassment and some of the flimsiest protections.

Decades of work by a Florida farmworker-advocacy organisation, the Coalition of Immokalee Workers, has seen its practices copied in other states. As well as training workers, the organisation persuades tomato growers to sign up to a Fair Food programme, binding them to strict conduct rules, including on pay and harassment. In exchange growers can sell to retailers such as Whole Foods or Taco Bell, which will buy only from Fair Food farms. During the 2016-17 growing season, 70% of farms reported no sexual harassment at all.

Away from the fields, nearly six in ten hotel housekeepers have been sexually harassed or assaulted and 65% of casino cocktail-servers have been groped, grabbed or touched in an unwelcome way, according to UNITE-HERE Local 1, a Chicago union. Its campaign, “Hands Off Pants On”, successfully lobbied for a city-wide ordinance that obliges all hotels to issue housekeepers with panic buttons. Although the campaign was under way before #MeToo, the movement undoubtedly played a role in the recent decision by several chains, including the Hilton and Marriott groups, to start issuing such buttons nationwide.

But panic buttons and reporting systems still put the onus on victims rather than abusers. The bigger step is to prevent harassment in the first place. In most companies this requires deeper cultural change. “Organisations struggle most with behaviour that’s unwelcome, unacceptable but not unlawful,” says Pam Jeffords of Mercer, another consultancy.

The worry is that most employers have spent the year since the Weinstein scandal broke carrying out symbolic actions and conducting a sort of phantom reckoning. Lots of companies have done the minimum necessary to reassure compliance departments. Announcing a “zero-tolerance” policy sounds tough but is often empty rhetoric; it can even be counterproductive, by putting victims off reporting if they know that a sacking is bound to result.

Having rid itself of Mr Moonves, and previously of Charlie Rose, a star presenter accused of decades of harassment (which he denies), CBS shows little sign yet of wanting to change its culture. It may still pay a big severance package to Mr Moonves. One of its executives reassured the *Washington Post* that “I’m confident the culture of the entertainment division is very safe, very collaborative and very welcoming.” But Patty Wise, an employment lawyer, questions whether CBS’s culture can recover from the serious damage caused by Mr Moonves’s abuse of power.

A similar question about culture change looms over Nike, which fired 11 senior managers over harassment and discrimination earlier this year. It has at least issued a public apology, and taken some steps—introducing an anonymous hotline and hiring a chief diversity officer. Yet whether this will be enough remains to be seen. Four former executives are suing the sportswear company for alleged gender discrimination in pay and promotion.



Few firms have got to grips with the fact that harassment is often a symptom of bigger, subtler problems: unequal access to power and unaccountable cultures. “All the training, policies and punishments won’t have an impact on harassment if you don’t address power differentials, pay equity and gender equality in organisations,” says David Ballard from the APA. In its survey, employees for organisations that have women in senior leadership said they were more likely to report sexual harassment at work (56% vs 39%) or to confront a co-worker engaging in it (53% vs 34%) than those without. Several studies found that harassment is more prevalent where men outnumber women and where supervisors are mostly male.

A survey carried out by Pew, a research outfit, this week found that the majority of Americans consider men and women equally capable of being leaders in politics and business. Yet in the time that #MeToo has been trending the number of female Fortune 500 CEOs has fallen. Progress in closing the pay gap has stalled in several rich countries. Until the barriers that stop women from having an equal stab at reaching the top are cleared away, #MeToo will struggle to succeed.

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Bartleby

## The annoying habits of highly effective people

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*Be wary of taking life lessons from chief executives*

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ONE of the time-honoured tropes of writing on business is the detailed description of the life of a corporate titan. Readers are expected to marvel at the stamina of Tim Cook, for example. Apple's chief executive rises at 3.45am to deal with emails. Spare a thought for his underlings, whose iPhones buzz at 4am every morning. Some subordinates may have the fortitude to sleep through it all; many will be guilt-tripped into answering the boss. Highly effective people often inflict all their idiosyncrasies upon their hapless juniors.

Perhaps the aim of admiring biographies and articles is to prompt their readers to emulate the work ethic of such leaders. But they will not reach the top of an S&P 500 firm if they do. All this columnist would achieve if he rose at 3.45am every morning is a divorce from Mrs Bartleby.

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A particular danger for executives is that their supposedly inspiring examples make them look out of touch. Jeff Bezos, founder of Amazon, recently told a conference that he likes to "putter" in the morning, read a newspaper, drink a coffee and have breakfast with his kids. He schedules his first meeting for 10am. It all sounds very relaxed. But that option isn't available to workers at many of his warehouses. At Amazon's British ones the two possible shifts are 7.00am-5.30pm or 5.45pm-4.15am, according to the GMB union, both of which make it hard to breakfast with the children.

Richard Branson, founder of Virgin Group, also put his foot in it recently by declaring that "there's very little that annoys me in life, but people turning up late really does irritate me." Frazzled passengers on Virgin's train service swiftly took to social media to note that they too liked to be on time, but that one in five trains had been late over the past 12 months. It is also easier to avoid being late if you don't have to worry about dropping the kids at school or the vicissitudes of public transport. Top executives, both male and female, are surrounded by people whose job it is to help them, from executive assistants and personal drivers at work through to cleaners and cooks at home.

Bosses also vie with each other on early-morning gym routines. Again, a hard-working parent with children to look after may not have the time, or the money, to do the same. A well-paid middle manager might be able to join a gym, only to find that every time they get on the StairMaster they get a call or an email from someone up the hierarchy.

It is easy to confuse correlation with causation. Tim Cook would probably be just as effective if he rose at 6.45am. He will have some qualities other than hard work and an unusual circadian rhythm to explain his rise. If long hours were the key to success, after all, people who hold down two jobs, or nurses on the night shift in emergency rooms, would be rolling in wealth. Ronald Reagan became president despite quipping that "I've heard that hard work never killed anyone, but I say why take the chance?"

Homilies about successful executives involve lots of virtue-signalling. No boss is going to admit that on Friday nights they consume pizza and watch box sets of "Game of Thrones". Instead they claim to meditate or read improving books. Many business profiles resemble medieval "lives of the saints", with the subjects of the hagiographies receiving share options instead of canonisation.

Some executive habits may be harmless, such as the preference of Steve Jobs and Mark Zuckerberg to wear the same outfit every day. But the danger is that a leader's eccentricities and views become so embedded in the culture that they damage the business in the long run. Henry Ford achieved great success with the Model T, but he failed to change it when it became old-fashioned; his dislike of credit also held back Ford when other producers allowed consumers to buy in instalments. Gerald Ratner's fondness for outspokenness (after childhood sales lessons at London's Petticoat Lane Market) turned sour when he described his jewellery chain's products as "crap".

Hobbies can be destructive, too. When Bear Stearns, an investment bank, was in danger of going bust in 2008, Jimmy Cayne, its chief executive, was indulging his passion for bridge in Nashville, and was out of reach by email or phone.

The danger of copying chief executives is that what makes their habits fashionable is usually strong profit growth and share price performance, and those can be ephemeral. Quirks that look daring and groundbreaking in good times seem more of a liability in testing times. Just ask shareholders in Tesla.

**Economist.com/blogs/bartleby**

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Super-connecting

## A tie-up is mooted between Emirates and Etihad

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*The two Gulf carriers could create the world's largest airline*

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AVIATION geeks have few more enjoyable hobbies than speculating which airlines will merge next. But last week brought news of one potential deal worth taking seriously. On September 20th Bloomberg, a news service, reported that Emirates of Dubai is looking into taking over Etihad Airways, the flag carrier of neighbouring Abu Dhabi, a merger which would create the world's largest airline group (see chart). Both carriers denied that talks were under way, but some sort of tie-up may nonetheless be on the cards.

The two have plenty in common. Both have "super-connector" business models, whereby they connect passengers on flights to and from other cities via their hubs in Abu Dhabi and Dubai, which are only 130km apart. They fight over much the same market. Etihad competes directly on the same routes as Emirates on 96% of its capacity, reckons OAG, a data firm.

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In other respects the differences are stark. Etihad's financial woes explain the motive behind a deal. In 2003 Abu Dhabi started trying to copy Emirates, which had grown from a minnow in the 1980s into the world's biggest airline (by international passenger-miles) by luring flyers away from other full-service airlines in Europe and Asia. Abu Dhabi set up its own flag carrier, and to gain scale, spent billions buying stakes in other airlines to funnel traffic through its hub.

The strategy imploded last year with the bankruptcies of two of its investments, Air Berlin and Alitalia, resulting in losses for Etihad of \$1.95bn in 2016 and \$1.52bn in 2017. Fitch, a credit-ratings agency, predicts that the airline will remain in the red until at least 2022. That has made the UAE's government, which is dominated by Abu Dhabi and Dubai, keen on a tie-up. Aviation accounts for 15% of GDP, and is seen as a good source of jobs for local Emiratis.

For Emirates, a deal could eliminate a competitor and increase its economies of scale. But the airline is cautious, says Saj Ahmad of StrategicAero Research, a consultancy. It is nervous that taking on Etihad's liabilities, which include over 160 plane orders worth tens of billions of dollars, will wreck its profits.

Politics might get in the way of any savings to be gleaned from a deal. Abu Dhabi's ruling Al Nahyan family, which used its oil wealth to bail out Dubai in 2009, would not want to lose face, which would probably mean keeping two hubs and brands in both Abu Dhabi and Dubai, forgoing the potential efficiency savings from moving to a single hub airport.

What is likeliest is a merger of operations only, just as Emirates is already doing with flydubai, a low-cost carrier also owned by the Dubai government. This would enable Emirates to reap the benefits of a deal without Etihad's liabilities. The two have already started to co-operate along these lines, notes Mark Martin, a consultant based in Dubai. In January the two began to work together on aviation security and in June they struck a deal on sharing pilots.

For international passengers flying via the Middle East to and from other places, such a tie-up would be no loss. The Europe-to-Asia market would remain highly competitive. But for local Emiratis flying in and out of the UAE, having all the country's airlines on one team would restrict competition. Since the UAE's antitrust watchdogs are under the thumb of the governments that own the airlines, they will get no say in the matter.

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Sky high

## Comcast carries off Sky

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*Brian Roberts wants to use Rupert Murdoch's creation to help battle Netflix*

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EXECUTIVES at Comcast in Philadelphia have grown accustomed to describing their company in a way that exudes angst: it is “cash-rich but future-poor”. The cable-and-entertainment giant generates \$85bn in annual revenues but, unlike its principal rivals, Disney and AT&T, is regarded as poorly equipped to challenge a powerful competitor, Netflix, in global internet video. On September 22nd the company spent extravagantly to change that, outbidding 21st Century Fox (which was backed by Disney) for control of Sky, a European satellite broadcaster. It won the day, in a rare auction of a public company, with an offer of £30.6bn (\$40.3bn).

It may prove a costly victory. Comcast shares have fallen by nearly 7% since the auction, on fears that it overpaid for a company whose core technology, satellite television, is becoming obsolete. Disney, as the “loser” along with Fox in the bidding, makes out like a bandit. The Mouse was to get a 39% stake in Sky as part of its acquisition of Fox. Now Disney will, by way of Fox, flip that stake to Comcast for lots of cash and pay down debt, freeing up more money to invest in its own ambitious Netflix-like service. (Disney probably also wants Comcast to divest its 30% stake in Hulu, which would give the new Disney-Fox combination 90% of the American internet-video company.) Disney's shares have risen by 4%.

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The Panel on Takeovers and Mergers in Britain had set up the unusual auction to resolve a months-long bidding war between Comcast and Fox, which in turn was part of a larger tug-of-war between Comcast and Disney. In December 2016 Fox had agreed to a deal to buy the remaining 61% of Sky it did not own for £10.75 a share, or £11.7bn in total. But in December 2017 Fox agreed to sell much of its business, including its stake in Sky, to Disney (while spurning an offer from Comcast). Brian Roberts, boss of Comcast, then started bidding wars for both Sky and Fox.

Mr Roberts ultimately dropped his pursuit of Fox after Disney increased its original offer by \$19bn (to \$71bn, plus the assumption of Fox's debt) but remained bent on getting Sky. What he has got for his money is a company with £13.6bn in revenues; 23m subscribers in Britain, Ireland, Italy, Germany and Austria; near-term rights to Hollywood studio films (including Disney and Fox films); top-flight sports rights including Premier League football in Britain; and some original programming.

Crucially, Comcast also gets a direct-to-consumer Netflix-like service called Now TV. As with AT&T and DirecTV in America, satellite-pay television is an outdated, high-margin business that is swiftly losing customers to cheaper video options like Netflix and Amazon Prime. Comcast may try to build Now TV into a powerhouse, taking money from the satellite business as it slowly declines.

For Rupert Murdoch, who launched Sky Television (a precursor to Sky) in 1989, it is a bittersweet ending to another chapter. He has sold much of his entertainment empire, leaving Lachlan, one of his sons, to run what remains of Fox after the Disney deal closes in the coming months. He also failed to take full control of Sky for a second time this decade (in 2011 he abandoned another bid because of a phone-hacking scandal at his newspapers).

But Mr Murdoch forced Mr Roberts to pay a hefty premium. Comcast's sealed bid came in at £17.28 a share, compared with Fox's bid of £15.67, a difference of nearly £4bn. Comcast is paying a premium of 125% over what Sky was trading at before Fox initially put Sky in play in December 2016. Craig Moffett of MoffettNathanson, a research firm, concludes that Comcast “grossly overpaid” for Sky. He notes the “winner's curse” in auctions, that the successful bidder is the one willing to pay more than anyone else thinks it is worth. But Comcast is still cash-rich and may be considerably less future-poor.

*This article appeared in the Business section of the print edition under the headline “Sky high”*

After Uber

**A ride-hailing battle in South-East Asia***Go-Jek's first foreign forays aim to challenge Grab's dominance***Print edition | Business** Sep 29th 2018

THE rivalry may have started in the classroom. Anthony Tan and Hooi Ling Tan, unrelated founders of Grab, a Singapore-based ride-hailing platform, and Nadiem Makarim, founder of Go-Jek, an Indonesian scooter-ride startup, all graduated from Harvard Business School in the same year. They returned to South-East Asia with big plans to change local transport systems. Launched a little more than six years ago, Grab's jolly green-and-white logo appears on billboards and driver jackets across eight countries in the region. Go-Jek, founded eight years ago, only launched its first foreign operation, in Vietnam, this month; it will soon enter Thailand, the Philippines and Singapore.

The region's 634m people, often bereft of easy commuting choices, are a rich prize. The main option for those hailing a ride is Grab. Uber once battled it for customers but the American platform withdrew from South-East Asia in March (following heavy losses), selling its business to Grab for a 27.5% stake in the firm. That turned Grab from underdog to overlord. Drivers in Indonesia have rallied to accuse it of exploitation. Many riders grumble about high prices, poor service and technological weaknesses. On September 24th regulators in Singapore fined Grab S\$6.4m (\$4.7m) and Uber S\$6.6m for their merger, saying it harmed competition and led to increases in effective fares.

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Hence Go-Jek's forays abroad. It is betting that people are ready to back a new regional upstart. "There is a craving for a second option," declares Andre Soelistyo, the firm's president. Go-Jek says it grabbed a tenth of the market in Ho Chi Minh City after only three days of operation.

When Uber fought Grab, the battle pitched a foreign titan against a local champion. This time both competitors possess extensive on-the-ground understanding of South-East Asian markets. They also have deep-pocketed backers from the technology industry. Grab, which is valued at around \$11bn, is one of Masayoshi Son's collection of ride-hailing firms: the boss of SoftBank, a Japanese telecoms giant, has invested not just in Grab and Uber, but also in China's Didi and India's Ola. Go-Jek has a broader array of supporters, including heavyweights such as Google, Tencent, a Chinese gaming giant, and JD.com, China's second-largest e-commerce platform. It is worth about \$5bn.

The epicentre of the struggle remains Indonesia. As the single largest market in the region, it is also the most important. "If you lose Indonesia, it's hard to win the rest," says one consultant who knows both firms. Grab claims to control 65% of the country's ride-hailing market. But the competition is so fierce that neither company turns a profit in the country from rides. Go-Jek's expansion plans may be an attempt to force Grab to throw money away in other South-East Asian markets too, reducing its ability to pour money into Indonesia.

As well as spending on promotions for drivers and customers, both firms are wooing customers with other services. Go-Jek's main strength is variety. Shortly after launching its ride-hailing services, it added food delivery. Now its platform offers 17 services—from purchasing cinema tickets to massages. "These models can turn very profitable very fast because the number of orders is in the millions per day," says one of its backers.

Grab is also keen to become a single "super app" with commercial, financial and logistical offerings. Its advantages are its size and reach. In the Philippines it controls 90% of the ride-hailing market; in Singapore its share is 80%. Customers around the region recognise the brand, as do regulators. "No other company has the footprint of licences that we have," says Ming Maa, the company's president. Grab is also battle-tested after its long clash with Uber.

A few speculate that the two firms' bosses might take the companies public sooner rather than later in a bid to line their war chests further as their rivalry deepens. One venture capitalist thinks another settlement in South-East Asia, like that between Uber and Grab, is the likelier scenario. "If it gets bloody, the loser will want to negotiate a peaceful outcome," he says. Until then, customers can enjoy being caught in the crossfire.

*This article appeared in the Business section of the print edition under the headline "After Uber"*

Shopping and nothingness

## Carrefour adds to the intrigue around a rival French grocer

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*A possible bid from the giant retailer distracts from Casino's debt woes*

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IS IT possible to reject a takeover bid that has not been made? Such ontological questions rarely bother mergers-and-acquisitions bankers. France is different. At around midnight on September 23rd Casino, a supermarket chain, said its board of directors had unanimously rejected a hostile takeover attempt by Carrefour, a bigger rival. By sunrise, the supposed bidder insisted it had made no such offer. Investors have been left scratching their heads in the manner of undergraduates grappling with the tenets of existentialism.

Whether a merger is in the works remains unclear. Carrefour might have sniffed an opportunity in the travails of Casino, part of the empire of Jean-Charles Naouri, a well-connected former civil servant and mathematician. His shops, which include the upscale Monoprix chain, are well run. But the firm is heavily indebted, and sits at the bottom of a cascade of listed firms also saddled with loans. Concerns over the health of its balance-sheet have prompted Casino's shares to drop by nearly 30% since the start of the year.

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On September 3rd S&P Global, a ratings agency, cut Casino's credit rating further into junk territory when a key subsidiary was late filing its accounts. Analysts have been struggling for months to make sense of its books. Casino denies impropriety and has blamed the share-price drop on hedge funds betting on the downfall of one of the pillars of the Naouri empire.

Markets have also focused on Rallye, another listed firm run by Mr Naouri, which owns just over half of Casino. A large part of its borrowings, which reached €2.9bn (\$3.4bn) in June, use its shareholding in Casino as collateral. Given the share-price plunge, the collateral available shrank, increasing pressure on Casino to remit money to Rallye lest it default. That in turn would have harmed Casino's prospects, so causing its share price to fall further, and so prompting Rallye to ask for more cash from Casino, and so on.

The doom loop was disrupted when Rallye said on September 16th that its banks had offered it €500m of credit not secured on Casino shares. That has bought the firm some breathing room, though bonds of Casino and Rallye are still trading at levels that suggest some risk of default.

Talk of a merger with Carrefour, the world's biggest bricks-and-mortar retailer after Walmart, may therefore be a welcome distraction. Carrefour has problems too, however. Although its balance-sheet is strong in comparison with Casino's, it slumped to a net loss last year as a result of a restructuring prompted by a prolonged spell in the doldrums. The group has relied for too long on the fading hypermarket model it pioneered in the 1960s. Only under its newish chief executive, Alexandre Bompard, has it made the right kind of noises about trimming its large shops and investing in online ordering, as Casino has already done.

Both sides do agree that their bosses met and even discussed what a tie-up between Casino and Carrefour might look like. But whether a bid exists now, or will exist in future, is as much a question for regulators as for philosophers and investment bankers. Observers note that competition authorities would surely balk at giving a single group around a third of the grocery market and around three-quarters of all convenience stores. In July, France's Autorité de la Concurrence started investigating a series of purchasing alliances between grocers, such as that between Carrefour and Système U. For Carrefour and Casino, too, the real world may intrude.

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Panning out

## Barrick Gold and Randgold join to form a mega-miner

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*All is not glittering in the gold-mining industry*

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“THE gold sector is like a charade,” Mark Bristow proclaimed in 2016, deriding miners for having too much debt and too little discipline. Mr Bristow is nonetheless poised to become the industry’s most powerful man. On September 24th Barrick Gold, a giant miner, said it would pay \$6bn for Randgold Resources, the firm Mr Bristow founded. If shareholders approve the deal, it would be the world’s biggest gold-mining company. Mr Bristow’s task, as chief executive of the combined entity, is to restore its gleam.

The industry as a whole is looking a bit grubby. As gold prices rose in the 2000s, many firms went on a spree, snapping up mediocre mines. When prices fell, they were left with debt and inferior projects. This year share prices for big miners have been stuck in the dirt even as the broader stockmarket has soared (see chart).

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Barrick has struggled, too. Founded in Canada in 1983, it took on more debt as it mined for gold on five continents. John Thornton, its chairman, has in recent years worked to sell mines and strengthen the company’s balance-sheet. But Barrick still had \$5.8bn in debt in July and a BBB credit rating from S&P, a ratings agency. It faces declining production, because reserves are being depleted and some far-flung investments are proving problematic. Work has halted on a large mine in the Andes, for example, in the face of opposition from environmentalists. Production has plunged in Tanzania, as the government demands a greater share of riches from mines in which Barrick has a majority stake.

Enter Mr Bristow, a geologist who likes to traverse Africa by motorbike. Investors widely admire Randgold. It is choosy about its mines, investing only in places with particularly rich deposits, and disciplined about costs, regardless of whether gold prices are high or low. Management is localised in the countries where Randgold operates—Mali, Ivory Coast and the Democratic Republic of Congo (DRC). This has helped it succeed in an industry dogged by volatile prices and volatile governments, or “complex jurisdictions”, as the company calls them.

Barrick’s Mr Thornton, who will remain chairman, hopes Mr Bristow can apply his operational expertise to a global miner. For instance, Randgold excels at underground mining, which will be more important for Barrick but has not been its speciality to date—Barrick has mostly unearthed gold in vast open pits. Randgold also brings hard assets. The combined group would be a mega-miner, with five of the world’s ten biggest mines. Randgold’s cash flow would help service Barrick’s debt and support investments in America and the Dominican Republic.

Notwithstanding such benefits, shareholders may still oppose the deal. Barrick’s investors may balk at risks in Africa—the DRC, for instance, is changing its laws in order to take higher royalties from mining companies. Randgold’s investors may resent that Barrick is paying no premium for Randgold’s shares.

If the companies do combine, Mr Bristow must manage a much larger, more complex business than he has to date. He will have to show that the expertise he displayed in Africa is useful in developing Barrick’s mines in, say, Nevada. Time to test his Midas touch.

*This article appeared in the Business section of the print edition under the headline “Panning out”*



Joining the high revvers

## Makers of very expensive cars want to be luxury-goods firms

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*But they still have many of the trappings of the depressed car industry*

Print edition | Business Sep 27th 2018

SUGGEST to Torsten Müller-Ötvös, the boss of Rolls-Royce, that he runs a carmaker and with a shake of the head, he explains that he is in the luxury-goods business. You are not buying a car but “commissioning a work of art...building a dream”. Whether swathed in leather from pampered cows or stuffed with racing-car technology, ultra-expensive cars are made by firms that have little in common with the rest of the industry. Ferrari, a maker of sleek Italian sports cars (whose chairman, John Elkann, sits on the board of *The Economist's* parent company), saw its valuation soar after it was spun off from Fiat Chrysler in 2016. The investors who own Aston Martin, bought from Ford in 2007 for £500m (\$1bn), hope to reap similar rewards. An initial public offering in the next few weeks is expected to value the firm at around £4bn-5bn.

The numbers alone show how scant a resemblance such firms bear to mass-market auto manufacturers. Six firms dominate the ultra-luxury sector, where prices start at around \$200,000: Ferrari, Aston Martin, Rolls-Royce (owned by BMW), Bentley and Lamborghini (both divisions of the Volkswagen group), and McLaren. Along with a few tiny specialists, such as Italy's Pagani and Sweden's Koenigsegg, which make track-inspired hypercars (whose prices start at \$1.4m), these firms sold 29,600 cars in 2017, compared with sales of 86m by regular carmakers, according to JATO Dynamics, a research firm. As with superyachts, fine watches and the like, sales of high-end cars have boomed along with the numbers of the global rich. Annual growth looks set to stay at around the 10% mark for the next few years, compared with 2-3% for the car industry as a whole.

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Luxury cars are sold for entertainment, not transport, says one executive. Instead of striving to sell as many cars as possible, production is often limited in order to maintain exclusivity. In 2013 Ferrari even elected to cut volumes slightly, from around 7,400 to 7,000 a year. According to Enzo Ferrari, the firm's founder, the ideal is to make one fewer car than the market wants. This means long waiting-lists and vehicles that sell at the advertised price instead of with the discounts common in the mass market.

The relationship with buyers is also unlike the “sell and forget” model of other carmakers. Many customers are collectors, each with a garage-full of fast cars. They are often invited to watch their cars being made. McLaren's factory includes a purpose-built viewing gallery. No ordinary carmakers offer the same range of custom-made accessories, nor do they invite buyers to the factory to select them in person. At Rolls-Royce's in-house “atelier” customers can fondle a range of rare woods and other fine materials before making a choice. Bentley offers a Breitling Mulliner Tourbillon clock that costs almost as much as the car it adorns. It is all rather like being measured for a Savile Row suit, says Andy Palmer, the boss of Aston Martin.

For the chosen few, ownership buys entry to an even more exclusive club. Spend on several regular models and you might be invited to put your name down for a limited-edition hypercar, such as the upcoming McLaren Speedtail—only 106 of these beasts will be made and each will probably be capable of hitting 250mph. Such fire-breathing road-rockets are constructed at a cost of \$2m or more. They are massively profitable and usually in such demand that they can be resold immediately for a big return. To ensure that these cars remain the property of the tech billionaires, Hollywood A-listers and sheikhs who are lucky enough to be chosen to buy one, their manufacturers operate blacklists barring anyone who has previously flipped a vehicle. Other perks include invitations to “track days” where outrageous performance can be properly tested, and the carmakers can find out what their customers want next.

But however much these firms disown the label of carmakers, only Ferrari's margins, at over 30%, are known to put them in the same bracket as luxury-goods firms (for comparison, Germany's premium carmakers notch up margins of around 10% in a good year). That is partly because Ferrari has been unusually successful at mastering the trick of the “diffusion line”. Just as Chanel makes a few thousand \$2,000 handbags but coins it selling lipstick to the masses, Ferrari also sells cheaper branded goods such as watches and clothes, even down to a \$50 baseball cap.

The difficulty of attaining couturier-like margins also stems from the fact that these businesses retain some trappings of the everyday carmaker. A clothing firm needs to worry about changing hemlines; it does not have to bother with emissions regulations. Capital spending is much higher for an ultraluxury carmaker than for a handbag designer. And though most have coped with the growing taste for SUVs, for Ferrari, whose brand is based on hard-core sports models, its plans to make a beefier car, like Bentley's Bentayga or the Lamborghini Urus, may prove difficult.

Selling cars built for driving pleasure should confer some immunity from industry-wide upheavals like the advent of car-sharing or autonomous vehicles, at least for the time being. A bigger problem, especially for sports-car firms, is the trend to electrification. Hybrid engines can make fast cars faster, but they would also silence those throaty exhaust notes that shout “Look at me”.

### Couture or clunker

Aston Martin's IPO will provide further clues to which category ultra-expensive carmakers really belong. It is planning a new

SUV and electric saloon, as well as branching out into other areas such as boats and property. A successful debut might tempt others to do the same. McLaren once considered a flotation and may do so again. VW has bundled Bentley and Lamborghini into a “super-premium” group with Bugatti and Porsche that could potentially stand alone in future. If a series of such brands tap the markets, that would provide a clearer answer to the question of whether luxury cars have more in common with LVMH and Hermès than with Ford and Toyota.

*This article appeared in the Business section of the print edition under the headline “Joining the high revvers”*

### Replacing LIBOR

The price of everything

The price of everything

## A scramble to replace LIBOR is under way

*Scandal and rickety economics have undermined the benchmark interest rate*

Print edition | Finance and economics Sep 27th 2018

SITTING in his office in the Wrigley Building overlooking the Chicago river in 2012, Richard Sandor, who has spent his career inventing financial products, was reading about the scandals surrounding the London Interbank Offered Rate (LIBOR), an array of interest rates set daily by a club of banks in Britain and used to price trillions of dollars' worth of loans, derivatives and more. "This is stupid," Mr Sandor recalls saying to a colleague. "Let's make a bet; LIBOR will lose its pre-eminence."

Two years later the Federal Reserve reached the same conclusion. It formed a group, the Alternative Rate Reference Committee, which has created a new benchmark dollar interest rate, the Secured Overnight Financing Rate (SOFR). Since April, SOFR has been used for a handful of bond offerings by large institutions including the World Bank, MetLife and Fannie Mae. Central banks in Britain, the euro zone, Japan and Switzerland are also constructing new benchmark rates.

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LIBOR is heading for extinction. Its fate was sealed in July 2017 when Andrew Bailey, head of Britain's Financial Conduct Authority, a regulator, said it would be phased out in 2021. It had been undermined by twin scandals. In the first, a product of the crisis, the rate-setting banks tweaked their quotes, possibly with supervisors' implicit support, to limit the chances of market panic. In the second traders manipulated the rates subtly, to gild their profits.

The ruckus cost Bob Diamond, the chief executive of Barclays, his job and Tom Hayes, a trader at UBS and Citigroup who was jailed for 11 years, his liberty. Oversight of LIBOR was transferred from the British Bankers Association, a trade body, to British regulators and then to Intercontinental Exchange, an American stock- and derivatives-exchange group. In June Société Générale agreed to pay American authorities \$750m to settle a charge of manipulation, adding to a list of seven other big banks. (The French bank also agreed to pay a large sum to settle charges related to a bribery scheme in Libya.)

### From fiction to friction

LIBOR also rests on shaky economics. Its roots go back to an informal coalition of London banks in the 1960s. This was formalised into a panel of 20, which submitted daily estimates of their borrowing costs for up to five currencies and seven maturities of up to a year. Yet some quotes are little better than guesses. In July Randal Quarles, the vice-chairman of the Fed in charge of bank supervision, noted that just six or seven transactions a day were used to set one- and three-month dollar LIBOR and an average of one for the 12-month rate, for which on "many days there are no transactions at all". A few banks have dropped out of the panel; some are staying until 2021 only at the FCA's request.

On this flimsy foundation a staggering \$260trn-worth of financial products, from interest-rate swaps to retail mortgages, are priced, estimates Oliver Wyman, a consulting firm. Dollar LIBOR accounts for by far the biggest chunk, not far short of \$200trn; sterling and yen weigh in at \$30trn apiece and Swiss francs at \$5trn. The chief benchmarks for euros, EURIBOR and EONIA, face an even tighter timetable for reform and replacement than LIBOR. (EONIA does not comply with a recent European Union directive and must go by the end of 2019.)

Creating and then switching to truly market-based alternatives is an almighty task. The Fed's approach was to tap into the "repo" (repurchase) market. Banks seeking short-term cash sell securities with little credit risk, such as Treasuries, to other banks with a promise to buy them back the next day at a slightly higher price. The difference is in reality the interest rate on an overnight loan. To ensure repayment, they provide collateral. There are \$700bn-worth of these transactions daily, which are reported to the Fed through the Depository Trust & Clearing Corporation and the Bank of New York Mellon. After ingesting and processing vast quantities of data to produce a weighted average, the Fed publishes the result, SOFR, at 8am.

Take-up has been slow. So far only seven or eight bonds have been sold using SOFR as a reference price. Doubtless this is partly because of investors' unfamiliarity with a new product, compounded by the Fed's inability to explain itself to those who do not understand its jargon. But it may also reflect difficulties with using overnight, near-risk-free rates.

For a start, an overnight rate is exactly that: a term structure has to be constructed for longer maturities, for instance from expected or actual overnight rates. SOFR also reflects the rate on extraordinarily high-quality, essentially risk-free credits, which would default only if America's government failed. Using it as a benchmark may therefore risk creating a mismatch for the average bank. In a crunch, SOFR may fall as investors run for safe assets, pushing down banks' revenues from SOFR-linked loans. Yet banks' own borrowing costs on wholesale markets will increase.

In addition, legal problems loom, and time is short. Contracts continue to be written on LIBOR, of which plenty extend beyond 2021. The Bank of England noted in June that the number of such LIBOR-linked sterling derivatives had risen since the previous year. Many contracts, the bank went on, lack “fallback” clauses setting out which rate applies once LIBOR goes. British regulators wrote to banks on September 19th instructing them to provide by December a summary of their plans for mitigating LIBOR-related risks.

Meanwhile Mr Sandor has developed his own benchmark, which is steadily attracting customers. By 2015 he had convinced a handful of small banks to join his new American Financial Exchange, which now has 99 members and where \$1bn-worth of loans are traded daily. From those transactions, a benchmark overnight interest rate for unsecured loans, Ameribor, has been derived.

This month Ameribor was used for the first time in pricing a loan, by ServisFirst Bank of Birmingham, Alabama, to a car dealer in Tennessee. The bank’s chief executive, Tom Broughton, says that it considered SOFR, but because it does not use Treasury repos and its liabilities are not secured, it needs a rate that can accommodate credit risk. Mr Sandor hopes that in two to three years Ameribor will become a benchmark for many of America’s 5,000 regional and community banks and their customers. Whether or not that happens, the era of LIBOR is ending.

*This article appeared in the Finance and economics section of the print edition under the headline “The price of everything”*

Buttonwood

## American startups have less need to list on the stockmarket

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*Elon Musk revives a familiar critique of public markets*

Print edition | Finance and economics Sep 29th 2018

WHATEVER your view of the recent antics of Elon Musk, one thing seems clear. He rather regrets that Tesla, the electric-car maker of which he is boss, ever became a public company. To recap: in August Mr Musk announced that he had secured the funding to take Tesla private. The gyrating stock price is a distraction to staff, he explained. The obligation to report earnings each quarter fosters short-term fixes that may hurt the firm's long-term health. And being listed makes Tesla prey to short-sellers.

Tesla's share price rallied. The shorts lost money. It then emerged that the money to buy out shareholders was not quite as secure as Mr Musk may have suggested. Before long, the board confirmed that the firm would not be taken private. Its shares sank back. The company is now under investigation for possible securities fraud.

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Whatever these larger consequences, Mr Musk achieved a minor feat. He has drawn fresh attention to some familiar grumbles about public markets. The number of listed firms in America is in long-term decline (see chart). Mr Musk's beefs seem specific, but they are part of a general explanation for this trend. The red tape, the endless disclosures, the ceaseless spotlight—all have made the cost of being a public company too high. Yet that is not the real cause. The main reason why startups do not become public firms is that many of them no longer need to.

In part, this reflects changes to the supply side of capital markets. In the 1990s specialist venture-capital firms were almost the only option for startups seeking money to finance their expansion. Nowadays there are large pools of private money that can be tapped. "There is a level of pre-IPO capital that did not exist before," says Philip Drury, head of capital markets in Europe at Citigroup. Private-equity firms are sitting on piles of cash. Sovereign-wealth funds are willing to tie up capital in new, unlisted ventures. So are hedge funds, family offices and even pension funds.

This shift can be traced back to a piece of deregulation. The National Securities Markets Improvement Act of 1996 made it easier to set up large pools of private investors. A study by Michael Ewens and Joan Farre-Mensa, two academics, finds that the supply of "late-stage" capital (ie, to startups four or more years past their first funding round) accelerated soon after. In the 1990s most young firms seeking \$150m or more had to raise it by an initial public offering. Now such sums are raised privately.

### Capital-light capitalism

The demand side of capital markets has also changed. In the heyday of public markets, the typical listed firm would be capital-intensive—a railway, say, or a large manufacturer or a chain store. Such enterprises needed pots of capital to pay for land, buildings, plant and equipment. Even the very rich could not fund enterprises on this scale. The ventures were either too large or too risky.

These days the value of new firms is in ideas more than fixed assets. New ventures, notably technology firms, need far less capital to start and to grow than they once did. The building blocks for websites or smartphone apps are available free as open-source code. Computing power and digital storage can be leased. And a mini service industry has emerged to help startups refine and market their business ideas. It is also far cheaper to expand a business based on an idea than one that is based on physical capacity. Software can be copied at almost zero cost. That is not true of factories or warehouses.

Startups need less capital and have more options for raising it as they mature. Increasingly they choose private money. That is not only because it is more readily available. It is also because private capital is more suited to ideas-rich firms, say Craig Doidge, Kathleen Kahle, Andrew Karolyi and René Stulz in another recent paper. Listed firms are obliged to make public how they are using their capital. That is fine for a firm with lots of fixed assets. Spending on, say, a new plant may lift the firm's value. But when an ideas-led firm reveals plans for its spending, it gives away details of its business plan to rivals. It would be better off seeking funds from a select group of private investors.

There is still a place for IPOs. Lots of asset-heavy firms still need pots of capital. More of those firms are found outside America, where the number of listed firms is still rising. But for most technology firms, an IPO is a way for founders to cash in their chips or to create shares to use as a currency for acquiring other firms. Bargaining-power is shifting. Suppliers of capital once had the whip hand. Now it is users of capital. Mr Musk, a finance whizz, looks on with envy.

*This article appeared in the Finance and economics section of the print edition under the headline "A private function"*

**A matter of dispute****America is trying to change the way trade rows are settled***Deadlines loom for both NAFTA and the WTO***Print edition | Finance and economics** Sep 27th 2018

ONE of President Donald Trump's more improbable achievements has been to make international trade negotiations into front-page news. Less visibly, his officials have turned the legal systems for settling trade disputes into hotly contested topics. Not only is dispute settlement one of the last obstacles between America and Canada reaching a new North American Free Trade Agreement (NAFTA), it is also central to Mr Trump's assault on the World Trade Organisation (WTO), the guardian of the global rules-based system of trade.

A trade deal is a bit like the rulebook of a game in which the players are of very different sizes and speak a host of different languages, and so may have different ideas of what constitutes fair play. A dispute-settlement system is the referee, deciding whether the rules have been broken. Its very existence may discourage cheating.

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The system Canadian and American negotiators are arguing over dates from 1986, when the two countries first started negotiating a trade deal. The Americans wanted a simple, tariff-slashing agreement, but the Canadians wanted to go further, harmonising defensive tariffs, known as anti-dumping and countervailing duties, which are levied on imports supposedly unfairly priced at below the cost of production. The Canadians hoped thereby to protect their exporters from American fire. American negotiators at first declared that Congress would never agree to this; the Canadians threatened to walk out.

In what—at least among trade diplomats—became a legend of dealmaking, at 9pm on the day of the deadline the Americans compromised. They offered what became known as “chapter 19”. Rather than curbing America's use of defensive duties directly, it set up a system of judicial review. If either country imposed an anti-dumping duty on the other's exports, the injured exporter could appeal to a panel of five judges, who would assess whether the duties were consistent with the applying country's domestic law. Chapter 19 was incorporated into NAFTA when the broader agreement was created in 1993.

Today American and Canadian negotiators are locked in battle once more, this time over chapter 19 itself. Robert Lighthizer, the United States Trade Representative (USTR), wants to scrap it. Unless Canada accepts his demands by September 30th, he has said that he will sign a deal with Mexico alone, which is the other member of NAFTA and has already agreed to scrap the offending chapter.

Mr Lighthizer's opposition to chapter 19 appears to be based on principle more than on economic interest. American exporters have used chapter 19 successfully, for example to dispute Mexican tariffs on beef, chicken and corn syrup. Gary Horlick, a lawyer who has argued in front of chapter 19 panels, says that for farmers and ranchers, going through Mexican courts is “not a realistic option”. He adds that although they could fight the Mexican government at the WTO, if they win under chapter 19 any illegal charges are refunded. At the WTO, they are not. But Mr Lighthizer seems to regard chapter 19 as an affront to America's right of self-defence. The USTR has described himself as a “sovereignist”, and resents the idea that foreigners would be able to challenge American law anywhere other than in an American court.

The Canadians may well decide that chapter 19 is not worth sacrificing the entire deal for. Its panels presided over only 23 decisions between 2007 and 2017 (although its mere presence may have deterred other misbehaviour). And Canada has more to lose this time if the talks fall apart, especially if Mr Trump carries out his threat to levy tariffs on Canadian cars in retribution.

If Canada caves in, the Trump administration will have won a battle in a bigger war. September 30th is also the last day of Shree Baboo Chekitan Servansing's term on the WTO's appellate body. Ordinarily, Mr Servansing, a Mauritian judge, would have been reappointed. But the administration has been blocking his renewal, having also stopped the appointment of three other judges. The number of appellate-body judges will drop from four to three, the minimum required to hear a case. If any of the three has a conflict of interest, the case in question cannot be heard.

American officials complain that the WTO's appellate body has chipped away at their country's sovereignty and has strayed beyond its remit. In effect, they accuse it of hobbling America's ability to defend itself against, for example, surges in imports or subsidies doled out to Chinese state-owned enterprises.

On September 24th Canada circulated a proposal to assuage America's concerns to other WTO members. The European Union has also made suggestions. But it is unclear that either of the disputes over disputes can be settled in this way. As the most powerful player on the field, America may simply prefer to be the referee as well. The rules will be what it says they are.

*This article appeared in the Finance and economics section of the print edition under the headline “A matter of dispute”*



Familiar KORUS

## The trade deal between America and South Korea has barely changed

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*What does that mean for Donald Trump's other trade targets?*

Print edition | Finance and economics Sep 27th 2018

"IT'S a horrible deal. It was a Hillary Clinton disaster, a deal that should've never been made," said America's president in April 2017. Donald Trump was threatening to scrap his country's free-trade agreement with South Korea, known as KORUS, claiming that it had left America "destroyed". On September 24th, after he and Moon Jae-in, his South Korean counterpart, had signed a revised deal on the sidelines of the UN General Assembly in New York, Mr Trump sounded much more emollient. "This is a great day for the United States and a great day for South Korea," he said, having hailed a "basic redoing" of the old, "unfair" version.

In fact, KORUS has undergone something well short of a full overhaul. Most of the original 24 chapters were untouched. KORUS is just the first of many pacts Mr Trump has said he wants to negotiate; on September 26th, for example, Mr Trump announced his intention to start formal talks with Japan. The Japanese may hope the results are similarly shallow.

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Even the most notable changes to KORUS are likely to have little immediate impact on America's \$23.1bn goods-trade deficit with South Korea (see chart), which has been bothering Mr Trump. Most of these changes concern cars, which account for most of the gap. American manufacturers will each be able to export 50,000 cars a year that comply only with American, rather than South Korean, safety standards. That is twice the old limit. But American carmakers have filled barely half their quotas for years. America's 25% tariff on imported light trucks, which was due to go by 2021, will now remain until 2041. But South Korean firms currently sell scarcely any trucks to America, and nothing in the deal will diminish Americans' appetite for Hyundai and Kia cars.

The revamped agreement is a modest improvement for American exporters, says Wendy Cutler, who led America's negotiators in the first revision of KORUS in 2010. For instance, it reduces red tape in clearing South Korean customs. "But the changes build on provisions already contained in the original agreement," she says. A cap on steel imports from South Korea, of 70% of the average in 2015-17, which is not part of the new deal but to which South Korea has agreed in return for exemption from tariffs, may also have a modest impact, reckons Brad Setser of the Council on Foreign Relations, a think-tank.

Contrary to the Trump administration's earlier claims, the deal does not come with a side-agreement on currencies, an area in which Mr Setser believes America could have extracted more. "The fact that the original agreement didn't tackle the South Korean government's currency interventions was the biggest legitimate complaint about it," he says. "If this was about getting a better deal for America, that would have been an obvious thing to address."

After the signing, Mr Moon expressed relief that the "uncertainty" surrounding KORUS had been resolved. That is not quite true. The revised agreement contains no explicit guarantee that America will not use national security as an excuse for increasing tariffs on South Korean cars. South Korean parliamentarians, who have to ratify the modified deal, have said they may block it without such an assurance. It may be a while before the new, old KORUS comes into force.

*This article appeared in the Finance and economics section of the print edition under the headline "Familiar KORUS"*



Building it up

## The beleaguered BRICS can be proud of their bank

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*Despite their troubles the five countries have built something solid*

Print edition | Finance and economics Sep 29th 2018

AS STORM clouds gather over emerging markets, the BRICS countries that were supposed to be the building blocks of a new globalised economy are instead in various degrees of trouble. Brazil and Russia are recovering only slowly from downturns. A sharp fall in the rupee reflects jitters about India. China is mired in a trade war with America. South Africa has slipped into a recession. Those who dismissed the BRICS as little more than a marketing acronym might feel justified in their cynicism. But at this moment of weakness, their most tangible creation—a bank that aims to reshape the world of development finance—is making surprising headway.

The New Development Bank (NDB), which is based in Shanghai, was founded just over three years ago. It has received far less attention than another multilateral lender launched a short time later, the Asian Infrastructure Investment Bank (AIIB) in Beijing. Take *The Economist's* own coverage: a dozen articles have mentioned the NDB, whereas the AIIB has cropped up in roughly 60.

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This is understandable. The AIIB, with 87 members, is seen as a vehicle for China to project its power. China has an effective veto over it, its chief is a veteran Chinese official and America has refused to join. The NDB has only five members. All have equal stakes; none has a veto. They have also been the bank's only borrowers so far. For those minded to view the BRICS as a joke, it is easy to dismiss.

But a closer look at the two banks shows that this would be unwise. They are roughly as busy as each other. The NDB has approved \$5.7bn in loans, a touch more than AIIB's \$5.3bn. The AIIB has more full-time employees—180 to NDB's 120—but both are adding to their ranks by the week. They both now have international credit ratings, making it easier for them to issue bonds. The three big rating agencies awarded the AIIB triple-A scores last year. In August the NDB received AA+ ratings, just a notch lower, from S&P and Fitch.

More striking, though, are their differences. Under intense scrutiny, the China-led AIIB has been at pains to get off to a smooth start. It is teaming up with incumbents more than challenging them: two-thirds of its loans have been co-financed by other big development organisations such as the World Bank. The AIIB has refrained from making any loans to Russia or Iran, which are under American sanctions. And it has denominated its loans in dollars, the normal practice for development lenders.

The NDB has taken on slightly more risk. Almost all its loans have been its own projects; just 2% are co-financed with other multilateral lenders. K.V. Kamath, the NDB's president, says its goal has been to build its own expertise quickly. A fifth of its loans have gone to Russia. One of its biggest was a \$460m deal to make the Russian judicial system more efficient—something almost designed to raise hackles in America. The bank has also vowed to lend in local currencies, in order to shelter borrowers from a stronger dollar. To manage its own balance-sheet, the NDB will do this only if it can raise local-currency financing, which it has done for just a few loans in China so far. But Mr Kamath says it hopes to issue rand bonds in South Africa later this year.

The NDB is even managing to win some admirers. "Why do we need another World Bank? The AIIB looks a lot like what's out there. The NDB is looking more innovative," says Gregory Chin, a specialist in economic diplomacy at York University in Canada. The BRICS' walls are shaky these days. Their bank looks more solid.

*This article appeared in the Finance and economics section of the print edition under the headline "Building it up"*

#### A timeless argument

## American creditors say China should honour pre-Communist debts

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*A row over historical sovereign bonds*

**Print edition | Finance and economics** Sep 27th 2018

LIKE many Americans, Jonna Bianco believes President Donald Trump to be “a tireless defender of the American people against Chinese economic aggression”. Ms Bianco, a Tennessee cattle-rancher, is president of the American Bondholders Foundation (ABF), which represents more than 20,000 owners of bonds issued by Chinese governments before the Communist revolution in 1949—and which claims that American citizens are owed more than \$750bn. Having met Mr Trump at his golf resort in New Jersey last month, Ms Bianco hopes he will press their case.

The ABF’s claim is built on the widely accepted doctrine that governments inherit their predecessors’ debts. Pre-Communist Chinese governments flooded international markets with debt, such as a £25m (then \$122m) issue of “gold loan” bonds in 1913. “As a legal matter, those debts still exist,” notes Mitu Gulati of Duke University. “But so too does the statute of limitations.”

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Sovereign debtors are usually keen to repay or restructure debt rather than repudiate it, in order to retain access to capital markets. Last year Russia repaid the last of its outstanding \$70bn Soviet-era debt. In 2010 even North Korea attempted to settle part of a debt to the Czech Republic—with \$500,000-worth of ginseng root.

But some governments do repudiate debt in a symbolic rupture with their predecessors: the young Soviet Union shocked the world when it disavowed Tsarist debt in 1918. (The debt was mostly written off in 1996.) They might also disown the “odious debt” of despotic regimes, although this concept is hazy. Its proponents argue that, just as individuals are not liable for fraudulent borrowing in their name, entire populations should not have to repay debts run up by deposed tyrants. When he was America’s president, George W. Bush supported writing off Iraqi debt incurred by Saddam Hussein (America cancelled all of the \$4.1bn it was owed). Such write-offs, says Lee Buchheit of Cleary Gottlieb, a law firm, usually rely on creditors’ goodwill.

Diplomacy is the usual route to settling the debts of past regimes. China and Britain struck a deal in 1987 for a payment to British holders of imperial bonds. An absence of diplomatic relations helps to explain why the ABF has not pursued Taiwan with the same vigour as it has China. (In 1990 Taiwan’s finance ministry said that repayment “shall be held in abeyance pending the recovery of mainland China”.)

A settlement with China through Trumpian diplomacy looks unlikely. The ABF is nonetheless demanding a hefty payout—although it realises it may have to accept some discount from its outlandish estimate of its due, which is based on assumptions about decades of unpaid interest and forgone capital gains. Meanwhile, a Chinese gold bond of 1913 with a face value of £100 sells for around \$250 on eBay. The certificates seemingly appeal more to investors in antiques than to investors in debt.

*This article appeared in the Finance and economics section of the print edition under the headline “A timeless argument”*

Second time lucky

## The IMF agrees to beef up Argentina's bail-out

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*An extra \$7bn, paid out faster*

Print edition | Finance and economics Sep 27th 2018

THE three-year, \$50bn credit line agreed on with the IMF on June 7th was intended to halt Argentina's currency crisis. The peso had lost a quarter of its value against the dollar since the start of the year as investors fled to safe havens. It kept sliding. On August 29th Mauricio Macri, Argentina's president, asked the IMF to bulk up the package. On September 26th, after three weeks of negotiations, the fund's managing director, Christine Lagarde, agreed to increase Argentina's credit line from \$50bn to \$57.1bn and accelerate its disbursal.

Argentina is on the brink of its second recession since Mr Macri took office in 2015. The peso has now fallen by more than half in 2018, pushing inflation to 34% in August. The central bank has raised interest rates to 60%. Investors worry that a further slide in the peso would leave Argentina unable to service its large pile of foreign-currency debt. Mr Macri's approval ratings have slumped.

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In recent weeks the government has striven to reassure investors. On September 3rd Nicolás Dujovne, the finance minister, promised to eliminate the primary fiscal deficit (ie, before interest payments) in 2019, a year sooner than agreed on with the IMF, by levying a tax on exports and cutting subsidies for public transport and electricity. The next day Mr Dujovne arrived in Washington to begin negotiations with the fund.

Under the new deal the fund has agreed to provide Argentina with \$36.2bn by the end of 2019, \$18.7bn more than under the June agreement. The extra cash and speedier hand-out should help Argentina to meet its external financing needs next year, which Mr Dujovne puts at \$28bn.

In return Argentina has agreed to a new exchange-rate regime. The central bank has burned through \$16bn in reserves since the start of the year in a futile attempt to defend the peso. Now it will intervene only if the peso falls outside a band of 34-44 to the dollar. (On September 26th a dollar bought 38.83 pesos.) Intervention is limited to \$150m per day and the band will be allowed to depreciate by 3% a month.

In anticipation of the change, the central bank's president, Luis Caputo, resigned on September 25th. Mr Macri's aides had touted the former Wall Street trader as a Lionel Messi of the markets. But his frequent attempts to prop up the peso caused conflict with Mr Dujovne and were thought to irritate the fund. The appointment of Guido Sandleris, Mr Dujovne's deputy, as his successor should repair relations between the finance ministry and central bank.

Mr Macri had hoped for a vigorous economic recovery in 2019 to propel him to a second term in presidential elections next October. That recovery now looks impossible. Mr Macri has no choice but to "stay the course and deliver on the fiscal commitments," says Alberto Ramos of Goldman Sachs. It is good advice, but hardly the campaign slogan Mr Macri would have wished for.

*This article appeared in the Finance and economics section of the print edition under the headline "Second time lucky?"*

## Rising oil prices catch emerging economies at a vulnerable moment

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*A crude awakening*

Print edition | Finance and economics Sep 29th 2018

OIL prices have a knack of jumping at the most inconvenient times. As in 2007, for instance, when the price of a barrel soared into triple digits, destabilising a world economy already heading for a financial crisis. Or, for that matter, now. At more than \$80 per barrel, Brent crude is nearly twice as costly as in the summer of 2017 and three times as pricey as in early 2016 (see chart, left panel). Dear oil does not yet mean a crisis. But it is putting emerging markets, already labouring, under further stress.

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That oil should once again be causing trouble is a bit of a surprise. Half a decade ago prices in excess of \$100 per barrel seemed to be a permanent feature of the economic landscape. But in 2014 prices crashed, as America's shale boom turned the market on its head. The world quickly embraced the idea of a "new normal" for oil: in which large-scale, flexible shale production in America promised to keep prices stable and moderate. Americans scarcely had an opportunity to swap their Priuses for gas-guzzling SUVs before the market turned again.

Not all oil shocks are the same. When robust global growth boosts the demand for oil and pushes up prices, the effect on the world economy is largely benign. In such cases, the rising cost of oil to countries that must import it is offset, to some degree, by increased demand for their exports. In contrast, a jump in prices resulting from an interruption to supply is more unsettling. Rising prices in the mid-2000s were clearly a result of soaring demand. Most economies weathered rising costs tolerably well until prices climbed vertiginously in 2007. But the cause of today's run-up is murkier. Demand growth is a factor. Oil consumption in advanced economies recovered as post-crisis doldrums receded and as lower prices reduced the incentive to conserve. But global growth is poised to slow in 2019, according to new forecasts by the OECD. Growth in China, which added most to oil demand in the 2000s, is ebbing and becoming less energy-intensive.

Meanwhile, supply constraints loom larger (see chart, right panel). Economic and political crises have sapped Venezuela's productive capacity. Prices are rising in anticipation of tighter American sanctions on Iran, scheduled to take effect in November. At a recent meeting members of OPEC, joined by other leading oil exporters such as Russia, chose not to respond to higher prices by increasing supply. And importantly, inventories have been falling. Markets will have very little cushion against further price increases should any new supply disruption occur.

In the past, soaring oil prices could threaten the global economy by squeezing household budgets and depressing spending in petrol-thirsty countries like America. In a paper examining the spike of 2007-08, James Hamilton, an economist, concluded that dear oil was responsible for driving America into recession in late 2007. But America's place in oil markets has changed as a result of the shale revolution. The price collapse of 2014 might have been expected to deliver a substantial stimulus to the American economy, wrote Christiane Baumeister and Lutz Kilian in a paper published in 2016. Yet the blow that lower prices dealt to America's petroleum industry offset the benefits of cheap oil to consumers, resulting in a wash for the economy as a whole. Similarly, rising prices now irk consumers but provide relief to the oil industry.

Other economies are less hedged, however. The big emerging markets most at risk account for a far larger share of global GDP than in the past. For the oil-importing economies of the emerging world, both the nature and the timing of the present run-up in prices are worrying.

When oil prices rise, oil-importing economies' terms of trade deteriorate: the price of their imports rises relative to that of their exports. Because their exports pay for fewer imports, the importers' current-account deficits widen. During a more propitious moment, this would not be cause for great concern. The importers' exchange rates would depreciate, facilitating an adjustment: they would buy a bit less from the rest of the world than before, and sell the rest of the world a bit more. Whatever current-account deficits remained would be easy enough to finance, given bullish investors' eagerness to lend to the fast-growing emerging world.

### That's oil, folks

This is not that sort of moment. Growth in world trade is slowing. Manufacturing export orders flipped from growth to contraction over the summer. As trade growth slows, the adjustment that oil importers must make to higher oil prices becomes more severe. India's current-account deficit continues to swell, for instance, even as the rupee plumbs record lows against the dollar. Falling currencies exacerbate the burden of dollar-denominated debt. In recent years, companies in emerging economies embarked on a dollar borrowing spree, lured by low interest rates. For companies that earn in their domestic currencies but owe in dollars, the depreciations which ease the adjustment to dearer oil prices mean a financial squeeze. Indebted corporate borrowers may curtail investment and hiring, or even default. One economic drag reinforces another.

Unluckily, oil prices are rising just as global financial conditions are also becoming less forgiving. Rich-world central banks, on high alert for signs of accelerating inflation, are moving towards a tighter monetary stance. When America's Federal Reserve

raised its benchmark interest rate by another 25 basis points, to 2-2.25%, on September 26th, it reiterated that further rises were on the way. Rising rates in America act as a magnet for global capital, buoying the dollar and sponging up money which previously sought out high returns in emerging markets.

In the early 2010s the Fed stayed doveish despite high oil prices, recognising that high unemployment would keep inflation in check. With joblessness now below 4%, the hawks are poised. Higher energy prices may well mean faster interest-rate increases and more pressure still on the current accounts of beleaguered emerging economies. Dearer oil is more an ill-mannered guest than a harbinger of doom. But its arrival is nonetheless impressively ill-timed.

*This article appeared in the Finance and economics section of the print edition under the headline "Crude awakening"*

### Pandemic disease

A deadly touch of flu

#### Influenza

## The centenary of the 20th century's worst catastrophe

*"Spanish flu" probably killed more people than both world wars combined*

Print edition | Science and technology Sep 29th 2018

ON JUNE 29th 1918 Martín Salazar, Spain's inspector-general of health, stood up in front of the Royal Academy of Medicine in Madrid. He declared, not without embarrassment, that the disease which was ravaging his country was to be found nowhere else in Europe.

In fact, that was not true. The illness in question, influenza, had been sowing misery in France and Britain for weeks, and in America for longer, but Salazar did not know this because the governments of those countries, a group then at war with Germany and its allies, had made strenuous efforts to suppress such potentially morale-damaging news. Spain, by contrast, was neutral, and the press had freely reported on the epidemic since the first cases had appeared in the capital in May. Before the summer was out, the disease Spaniards knew as the "Naples Soldier"—after a tune from a popular operetta—had been dubbed the "Spanish illness" abroad, and that, somewhat unfairly, was the name which stuck.

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Spanish flu was probably the worst catastrophe of the 20th century. The current estimate is that it killed at least 50m people and perhaps as many as 100m. At minimum, therefore, it ended the lives of three times as many as died in the first world war (in the region of 17m). It was probably also more lethal than the second world war (60m), and may well have outstripped the effects of both wars put together. The death toll was so high partly because Spanish flu was truly pandemic (some 500m people, more than a quarter of those then alive, are believed to have been infected), and partly because of its high mortality rate (5-10%, compared with 0.1% for subsequent influenza epidemics).

Understanding what happened is therefore important. Two questions in particular need answering. One is: what made this outbreak of influenza so much more lethal than both previous and subsequent ones? The other is: given that knowledge, what defences need to be put in place to nip any similar outbreak in the bud?

### Origin of a species

The first cases of the 1918 flu to be recorded officially as such were at Camp Funston, a military base in Kansas, on March 4th 1918. That morning, Albert Gitchell, a mess cook, reported sick. By lunchtime the camp infirmary was dealing with dozens of similar incidents. The highly contagious nature of the Camp Funston outbreak suggests, however, that Gitchell was not the real "patient zero". An emerging flu strain tends not to infect people very well at first. Researchers hunting for the individual Gitchell caught it from have therefore scoured records for an earlier, more localised outbreak of respiratory disease that quickly petered out.

At the moment, there are three theories as to where the 1918 flu first manifested itself. John Oxford, a British virologist, has long argued that it was in a British army camp at Étaples on the northern French coast, not far from the Western Front. Here, an outbreak of "purulent bronchitis", characterised by a dusky blue hue to the face, was reported as early as 1916. Such blue faces were also characteristic of fatal cases of Spanish flu.

In 2004 John Barry, an American journalist, put forward a rival theory. He claimed that a small but severe outbreak of flu-like disease in Haskell County, Kansas, in January 1918, could have seeded the later one at Camp Funston. The camp's catchment area for recruits included Haskell.

In 2013 a third hypothesis joined these two—or rather was revived, since it was fleetingly popular in the years immediately following the pandemic. According to Mark Humphries, a historian at Wilfrid Laurier University in Waterloo, Ontario, the 1918 flu began in Shanxi province, China, where an epidemic of severe respiratory disease in December 1917 had doctors squabbling over its identity. Some thought it was pneumonic plague, a respiratory variant of bubonic plague to which China was distressingly prone. Others suspected a form of influenza.

Since they could not agree, and since it was also difficult to explain how the flu might have travelled from that remote and poorly connected region to the rest of the world, the theory fell by the wayside. Dr Humphries gave it new life when he pointed out that China, though neutral in the war until 1917, nevertheless played a role earlier than this date by providing Allied forces with a body of workers—the Chinese Labour Corps—who were recruited from provinces, including Shanxi, and shipped via Canada to Europe.

Dr Humphries's hypothesis is weakened by work published the year following his proposal, by Michael Worobey, an evolutionary anthropologist at the University of Arizona, Tucson. Dr Worobey suggests that the 1918 human flu virus was genetically



related to a virus circulating in North American birds at the time. The truth, though, is unlikely to be known unless and until a comparison can be made between the genetic sequence of the 1918 virus (which was determined in 2005, by Jeffery Taubenberger and Ann Reid of the Armed Forces Institute of Pathology in Washington, DC) and the sequences of each of the putative ancestors, of which, at the moment, no known samples exist.

### **The Blue Death**

Whatever its origin, once Spanish flu got going it spread rapidly. It traversed the world in three waves, of which the second—that of the northern-hemisphere autumn of 1918—was the most severe. For that reason, the autumn of 2018 is marked by many as the epidemic's centenary.

That second wave was preceded by a milder one in the spring of 1918 and succeeded by a final wave, intermediate in severity between the other two, in the early months of 1919. The disease lingered on, though, until at least March 1920, with cases being reported that month in Peru and Japan. Indeed, Dennis Shanks, an epidemiologist at the Australian Army Malaria Institute, in Queensland, recently reported that the epidemic continued on some Pacific islands for another year, with cases still being reported in New Caledonia as late as July 1921.

In the mind of Paul Ewald, an evolutionary biologist at the University of Louisville, in Kentucky, the 1918 virus's global reach and its particular virulence were shaped by a common factor. Both were a consequence of the trench warfare of the Western Front.

Its virulence, in Dr Ewald's view, was a result of the abnormal evolutionary environment that the trenches provided. Normally, natural selection causes a virus that is transmitted directly from host to host to moderate its virulence. The longer the host stays alive, the more new hosts that initial victim is likely to come into contact with. Less virulent strains are thus favoured, and so spread. Observation shows that such drops in virulence do, indeed, happen in most influenza epidemics.

Dr Ewald, however, suggests that the war forced the 1918 virus down a different evolutionary path. The large numbers of young men packed into trenches in eastern France for days or weeks on end were, first of all, living cheek by jowl, making contagion easy, and, second, quite likely to die of causes other than influenza before they could pass it on. In these circumstances the strategy favoured by selection would be to breed rapidly in a new host's body, shedding lots of virus particles as this happens, even if that risks killing a host—for the host may soon be unavailable anyway.

Historians confirm that the virus did indeed race through the trenches, killing as it went. Those soldiers who survived then took it home with them when they went on leave. This process was exacerbated by the demobilisation which followed the armistice of November 1918 that ended the fighting, with American, Australian, Canadian and New Zealand troops returning home, and also soldiers from the European combatants' colonies in Africa and Asia.

Most of those who fell ill from Spanish flu experienced nothing more than the symptoms of ordinary flu—a sore throat, fever and a headache. The unlucky, however, began to have difficulty breathing. Their faces took on a mahogany hue and they bled from their noses and mouths. Mahogany deepened to blue, an effect doctors dubbed “heliotrope cyanosis”, and before long their entire bodies turned black.

The actual cause of death in most cases was pneumonia brought on by opportunistic bacteria. This made diagnosis complicated—for in 1918 the concept of a “virus” was a newish one. Most of the world's doctors therefore thought they were dealing with a bacterial infection. The 1918 influenza thus appears in historical records under a kaleidoscope of labels ranging from the common cold to pneumonic plague. That is one reason why estimating the death toll accurately is hard.

At the molecular level, the explanation for the virulence of the Spanish flu remains unknown. But there are clues. Shortly after Dr Taubenberger and Dr Reid had worked out its genetic sequence, a group led by Terrence Tumpey, a virologist at the Centres for Disease Control and Prevention in Atlanta, Georgia, reconstructed the virus by feeding its genes to cultured human kidney cells in a dish, and forcing them to churn out viral particles in the way that human lung cells do during the normal process of infection. This reconstructed virus is now being studied at high-security biocontainment facilities in America.

One promising line of inquiry is the 1918 strain's version of haemagglutinin, a surface protein that helps the virus break into a target cell (see [article](#)). When this is swapped into a strain of virus normally almost harmless to mice, it makes that strain deadly.

Such work is controversial. Some critics point to possible military applications. Those working in the area, such as Dr Tumpey, prefer to emphasise its potential help to the job of creating better flu vaccines.

### **Never again?**

The glittering prize of such work would be a universal vaccine—something that protects recipients against all possible versions of the virus. One approach to creating such a vaccine exploits the observation that, although the convoluted head of the haemagglutinin molecule (which is the target of most existing vaccines), is highly variable in its composition, the stem that anchors it to the rest of the virus is not. A vaccine aimed at the stem might thus be universally effective.

Vaccines which employ this principle are already in clinical trials. But even if they do work, they might not be as universal as their supporters hope. Sceptics point to a phenomenon called imprinting, that might cause a “universal” vaccine's efficacy to vary between individuals who have had different histories of exposure to flu.

Imprinting is the name given to the observation that an immune system mounts its most effective response to the first flu strain it ever encounters. A memory of this first response is retained by the system and subsequent responses are therefore likely to be poor matches for new and different strains, whether caught from someone else or introduced by inoculation as vaccines. To the extent that haemagglutinin's molecular stems really are the same in different strains, the effects of imprinting should be diminished. But they may not be abolished entirely.

Imprinting probably shaped the 1918 pandemic. One of its surprises was that people in their twenties and thirties were particularly vulnerable, while the elderly—normally a high-risk group for flu—were actually more likely to survive than they had been in flu seasons throughout the previous decade. The first flu virus that most of those who were young adults in 1918 were exposed to as children was the one that caused the pandemic of the 1890s. This belonged to viral subtype H3N8 (subtypes are named after particular versions of haemagglutinin and a second surface protein, neuraminidase, that they contain), and was thus a different beast from the H1N1 strain with which they were confronted in 1918, so imprinting would have harmed their response.

By contrast, there is evidence that those who were elderly in 1918 had often been exposed when young to viruses circulating earlier in the 19th century which contained H1 or N1. In their cases, imprinting would have helped their resistance mechanisms.

Understanding imprinting could assist efforts to predict who will come off worst in a future pandemic, and to build a better universal vaccine. The imprinting story is unlikely to be simple, though. For example, there seems to be cross-reactivity between some subtypes of influenza, meaning that exposure to one offers protection against another. America's National Institute of Allergy and Infectious Diseases is planning a large study of imprinting in infants, to explore these effects.

The better vaccines promised by this sort of research are one arm of an effective response to a new pandemic. The other is early detection. The world has, thankfully, moved on from the point where a high-ranking health official can stand up four months into a flu pandemic and be ignorant of the situation in countries beyond his own. But the ability of a virus to spread around the world has increased hugely.

Troops demobilised after the first world war went home by railway and ship. Now, passenger airliners mean that a virus in one part of the planet could cross to that place's antipodes in a day. Moreover, though humanity at large is not as crowded together as were the troops in the trenches, the world's population has quadrupled since 1918. About half of it now lives in cities, with a proximity between neighbours unknown to the far more rural world of a century ago. Monitoring systems are much better than they were in 1918, so the chances are that a threatening influenza outbreak would be picked up quickly. But the conditions needed for a pandemic to happen do exist. As with liberty, so with health: the price of retaining it is eternal vigilance.

*This article appeared in the Science and technology section of the print edition under the headline "A deadly touch of flu"*

### How influenza evolves

## Flu's success owes much to its genetic mutability

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*It is all a question of haemagglutinin and neuraminidase*

**Print edition | Science and technology** Sep 27th 2018

BOTH “mini-epidemics” of seasonal flu, which happen most years, and much larger pandemics, of which 1918's was the worst example, are the result of an arms race between the influenza virus and the immune systems of the animals it infects. Here's how it works.

Type A flu viruses—those which cause pandemics, and also most seasonal flu, have two important surface proteins, haemagglutinin (H) and neuraminidase (N). Haemagglutinin helps the virus invade a target cell. Neuraminidase helps new virus particles break out of that cell. These two proteins are also antigens, meaning that they are parts of a virus that may be recognised and reacted to by the immune system.

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But the process by which a flu virus hijacks a host cell's molecular machinery in order to reproduce itself cuts out of the loop what are known as proofreading enzymes. The virus's genetic material is thus copied with low fidelity, meaning proteins derived from it vary considerably in detail. That variability generates antigens which immune systems do not always recognise and react to immediately. Each year's seasonal virus is therefore slightly different, and thus requires an updated vaccine—which is not true for most antiviral vaccinations.

Pandemic viruses represent bigger shifts in this process. These create antigens sufficiently novel that have been given numbers by virologists (eg, N1, H3). Many hosts' defences are unprepared for such big shifts, which happen, on average, three or four times a century. The 1918 pandemic was caused by a strain with a version of haemagglutinin called H1 and a version of neuraminidase called N1. The two subsequent flu pandemics of the 20th century, in 1957 and 1968, were caused by viruses carrying H2 and H3 antigens respectively, in combination with N2.

Much of this mutating goes on outside human beings. Influenza is primarily an infection of birds, especially waterfowl. In these animals the virus infects the digestive system rather than the respiratory tract, usually without producing signs of malaise. Occasionally a bird-flu strain arises with molecular tools that enable it to infect people—the H5N1 and H7N9 strains are currently worrying disease-surveillance experts.

The virus sometimes jumps directly from a bird (often a chicken) to a person, but more usually passes via a pig. The cells lining bird guts and human lungs are built differently, meaning that the virus needs different sets of tools to invade them. Pig-lung cells, sharing properties of both, act as intermediaries in which the virus can adapt from one to the other. Even after it has infected a human being, though, a virus cannot go on to cause a pandemic unless it also acquires the ability to pass easily between people. Fortunately, this is something H5N1 and H7N9 have yet to do.

*This article appeared in the Science and technology section of the print edition under the headline “Mind your H's and N's”*

### Artificial intelligence

The gladiator's edge

The gladiator's edge

## In the struggle for AI supremacy, China will prevail

*Or so reckons Kai-Fu Lee, a tech insider, in "AI Superpowers"*

Print edition | Books and arts Sep 27th 2018

**AI Superpowers: China, Silicon Valley and the New World Order.** By Kai-Fu Lee. Houghton Mifflin Harcourt; 272 pages; \$28.

CHINA'S "Sputnik moment" came on May 27th 2017. On that day an algorithm thrashed Ke Jie, the world's best player of Go, an ancient and demanding Chinese board game. Mr Ke's defeat by AlphaGo, an artificial intelligence (AI) system developed by DeepMind, a British firm that had been bought by Google, was as much a blow to China's psyche as the Soviet satellite was to America's self-esteem in 1957. Within months, China announced ambitious plans to dominate AI by 2030.

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Kai-Fu Lee thinks it will succeed. He is well placed to judge. He moved from Taiwan to America at 11, earned a PhD in AI in the 1980s and has been a senior manager at America's mightiest tech firms, including Apple, Microsoft and Google. Now he runs a Chinese venture-capital fund, which gives him a ringside seat for the contest between what he calls the two "AI superpowers", China and America.

He thinks China will win because it has the edge in the four determinants of AI success: brains, capital, regulation and data. His verdict on the last three criteria is largely persuasive. For example, China's internet economy generates vastly more data than any other, particularly in the area of payments—many Chinese merchants eschew coins and currency in favour of digital money. Meanwhile, whereas American cities are restricting self-driving cars, the district of Xiong'an, 60 miles south of Beijing, is being built from scratch to accommodate them (along with 2.5m people). The mayors of Chinese cities are splashing cash on AI startups.

Mr Lee's analysis of brainpower is more nuanced. The West has the best researchers, he acknowledges, and they still offer benefits. But, he argues, they are no longer paramount. The era of AI breakthroughs has been superseded by an age of implementation—getting the algorithms to work on everyday problems. Now the main advantage lies in having millions of "tinkerers". And China does.

His observations will unsettle his erstwhile colleagues in Silicon Valley. Compared with Chinese entrepreneurs—who are street-smart, hungry and ruthless—"the valley's companies look lethargic and its engineers lazy." One group grew up amid poverty and upheaval, Mr Lee notes; the other are children of suburban accountants and dentists. In his view, Chinese entrepreneurs are "gladiators", who have assimilated "the lessons learned in the coliseum", namely "kill or be killed". He recounts dirty tricks and anticompetitive ruses. "The only recourse when an opponent strikes a low blow is to launch a more damaging counterattack, one that can take the form of copying products, smearing opponents, or even legal detention"—that is, getting the police to arrest a rival.

By contrast, American firms are complacent, sticking comfortably to their distinct corners of the web—Facebook in social media, Amazon in e-commerce, and so on—with little real rivalry among them. He mocks them for their "mission statements" and "core values" that blind them to market opportunities.

Values are the missing character in Mr Lee's narrative; or rather, he thinks they are a distraction. The West is enamoured of the idea that innovation and creativity require free speech, Mr Lee says. Yet China's growth debunks that platitude. Though the free-flow of ideas may be necessary in the social sciences, in apolitical technologies the Chinese system has already proved to be innovative.

As for the troves of data that make AI systems work, Mr Lee believes that Chinese consumers' willingness to give up privacy for convenience is a huge boon to its companies in the AI race. "It's up to each country to make its own decisions on how to balance personal privacy and public data," he writes. "There's no right answer."

### The ghost in the machine

These are controversial claims. For example, Mr Lee fails to consider how consumer interests may change, especially as people become wealthier and more demanding of government. He ducks the urgent question of state surveillance, which (for instance) is being used in Xinjiang province to repress individual freedom. The reticence is understandable; there is a lot of money at stake, after all.

His long-term vision is stark. By his reckoning, as many as half of all jobs in America will be vulnerable to automation within 20 years; he expects something similar to happen in China eventually. Again, he predicts China will cope better, since its economy is at an earlier stage of evolution and its workers will adjust more flexibly. At the same time the existing economic

model of developing countries, based on low-cost labour, will collapse, with no obvious alternative. The world will devolve into a neo-imperial order, in which, if they are to tap into vital applications, other countries will have to become vassal states of one of the AI superpowers.

Is he right? For the most part, probably not. True, AI represents the new space race, and China and America are set to lead it. But Mr Lee's comparative analysis of Chinese and Western capitalism suffers (ironically) from a lack of data. China has had only 30 years' experience of capitalism since Deng Xiaoping's reforms took hold: not enough to discover whether its no-holds-barred approach is indeed more efficient than a rules-based system of competition. It took several nasty financial disasters in the late 19th and early 20th centuries for the West to constrain its own worst business practices, the better to let its animal spirits flourish. A financial crash may yet temper Chinese hubris.

Despite its futuristic theme, Mr Lee's book fits into a familiar genre of business scare stories. In the 1960s the French were aflutter about "Le Défi Américain" by Jean-Jacques Servan-Schreiber; in the 1980s Americans were paralysed by Ezra Vogel's "Japan as Number One". "AI Superpowers" should be taken seriously. But it is not the final word.

*This article appeared in the Books and arts section of the print edition under the headline "The gladiator's edge"*

## The real victims of campus activism are the students

*“The Coddling of the American Mind” chronicles an alarming turn in intellectual life in America*

Print edition | Books and arts Sep 27th 2018

**The Coddling of the American Mind: How Good Intentions and Bad Ideas are Setting Up a Generation for Failure.** By Greg Lukianoff and Jonathan Haidt. Penguin Press; 352 pages; \$28. Allen Lane; £20.

AFTER John McCain died, a clip from his run for the presidency in 2008 resurfaced on social media. “No, ma’am,” he tells a woman at a rally who describes Barack Obama as “an Arab” who can’t be trusted; “he’s a decent family man, a citizen.” To many observers, the incident epitomised McCain’s integrity. A few heard something different—an implication, in that “No, ma’am”, that Arabs and good family men were mutually exclusive categories. Rather than exhibiting a now-antiquated bipartisan civility, McCain had betrayed his unconscious prejudice.

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That response encapsulates some of the disturbing intellectual trends chronicled in “The Coddling of the American Mind”: a willingness, even eagerness, to take offence; a determination to interpret other people’s words as bleakly as possible, regardless of intent; and a Manichean world view in which a political opponent must always be wrong. On the contrary, plead Jonathan Haidt and Greg Lukianoff, “*A faux pas* does not make someone an evil person.” Along with other shibboleths that have taken root in American universities—and spread beyond them, and beyond America—this kind of hypersensitivity closes down debate, the authors say. It also leaves young people ill-equipped for life’s inevitable frictions.

Their book grew out of an article in the *Atlantic* in 2015. As they point out, the sort of shenanigans that concerned them then, such as the rise of “trigger warnings” and “micro-aggressions” and the hounding of teachers for imaginary thought-crimes, have multiplied and worsened. In “The Coddling” they narrate a few of these rumpuses, such as the riot over a visiting speaker at the University of California at Berkeley in 2017, and what, in effect, was a student coup at Evergreen State College in Washington in the same year. Staff who should have known better have sometimes been complicit in the mayhem.

For all these lurid episodes, though, the big problem on many campuses is less vigilantism than self-censorship. As the authors note, “students at many colleges today are walking on eggshells”. The main victims, they emphasise, are not disinvited speakers but the agitators themselves, whom they see as worryingly fragile and confused. Just as many Americans describe commercial wants as needs (“I need a Coke”), so too many students mix up the concepts of safety (which it is the authorities’ job to ensure) with emotional comfort (which is nobody’s look-out). They construe objectionable opinions as invalid, even as a form of violence. They are prone to “catastrophising”, or interpreting as disastrous what is merely undesirable.

Three basic misconceptions underpin this hypochondriacal outlook, Mr Haidt and Mr Lukianoff write. First, that a person’s feelings, such as over whether a remark is racist, are always right. Second, that humankind can be split into good and bad people, whereas, as Solzhenitsyn put it, “the line dividing good and evil cuts through the heart of every human being”. Finally, that risk is best avoided, or “What doesn’t kill you makes you weaker”.

A further dispiriting conviction lurks at the heart of modern campus radicalism: the notion that each racial group, gender and sexuality is fundamentally different, destined (at best) to coexist in siloed spaces, safe or otherwise. As the authors lament, that diverges sadly from the ideal of common humanity that informed both the civil-rights movement and, later, the drive for gay equality.

What has gone wrong? A lot, they contend. The Western world is safer for children than ever, yet because its perils are more widely advertised, it feels more dangerous. Parents have become overprotective, inducing anxiety in their offspring long before they get to college. Social media exacerbate the nerves through perpetual judgments, comparisons and opportunities for bullying. They amplify bad news and isolate teenagers from contrary opinions. Technology also helps to isolate them literally: time spent in sociable and risky play is declining.

Tellingly, the cohort that most exhibits these symptoms are not millennials but “iGen”—people born from the late 1990s, who grew up with Facebook and Twitter and began to matriculate in 2013. They also reached adulthood in an atmosphere of political rancour, in which partisan allegiance was increasingly determined by shared enmities rather than values, and as America’s first black president was succeeded by a man who numbers some “very fine people” among the neo-Nazis who marched in Charlottesville.

If the causes of these shoddy intellectual habits mostly lie beyond the campus, so, the authors argue, do the consequences. “Nothing is of more importance to the public weal, than to form and train up youth in wisdom and virtue,” reckoned Benjamin Franklin, one of many thinkers cited in “The Coddling”. If the Enlightenment values of reason and empiricism wither at universities, they will struggle in the outside world too.

### Just kids

All that is true and alarming. Mr Haidt’s and Mr Lukianoff’s analysis is wise and scrupulous. Still, another form of oversensitivity may colour the angst about campus activism—namely that of older people towards the antics of youngsters. That



is especially true of events at elite institutions. Their alumnae tend to feel proprietorial about their alma maters; those who did not attend them often resent those who have. In reality, only a minority of students take part in the more egregious sorts of disorder that “The Coddling” documents. In the spectrum of threats to Western democracy, cock-eyed campus politics may not entirely deserve the attention it attracts.

Another mitigating factor—which Mr Haidt and Mr Lukianoff acknowledge—is that, in the headline incidents, at least, bolshie students are not the only blameworthy parties. Harassing speakers is always wrong; but sometimes the inviters and the barrackers are engaged in a cycle of provocations rather than a profound contest of ideas. The principle of free speech means Milo Yiannopoulos, a bilious provocateur who occasioned the Berkeley riot, is entitled to his views. It does not require colleges to welcome him.

Moreover the boundary between discomfiting opinions, which ought to be accommodated, and the abhorrent kind is unstable. In 2018, for instance, speakers who maintain that women are too intellectually feeble to vote, or who advocate eugenics, are unlikely to receive invitations even from impish contrarians; both were mainstream positions in the fairly recent past. By contrast, the beliefs that homosexuality is sinful, or that women belong at home, just about lie within the sphere of legitimate discussion. In 50 years they may not—and impatient students will complain about something else.

*This article appeared in the Books and arts section of the print edition under the headline “Unsafe spaces”*

The Rales rules

## Contemporary art comes to the American capital

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*An industrial tycoon presents an important collection of post-war art*

Print edition | Books and arts Sep 29th 2018

WHEN David Hammons's massive portrait of the Rev Jesse Jackson as a blue-eyed blond man, "How Ya Like Me Now?", was shown in Washington in 1989 it was attacked by assailants wielding sledgehammers. They thought the African-American politician was being insulted. Mr Hammons incorporated the damage into the piece, but for almost 20 years afterwards he refused to sell it. Until he met Mitchell Rales.

One of the founders of Danaher Corporation, an industrial-design and innovation conglomerate, Mr Rales has quietly become one of America's most energetic collectors of modern art. Now he and his wife Emily, a gallery director, are putting some of their artworks on show at their newly enlarged Glenstone Museum, which opens on October 4th. One of the centrepieces of the display will be Mr Hammons's portrait, which in the maelstrom of America's racial politics seems only to have grown more relevant.

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Apart from the Hirshhorn Museum and Sculpture Garden, Washington does not have much in the way of must-see contemporary-art galleries. That is one reason why Glenstone, 18 miles (29km) from the city centre in what used to be Maryland's fox-hunting country, is likely to prove a hit with Beltway art-lovers and tourists. Entry will be free, but only 400 visitors will be admitted each day. Tickets for the first two months were snapped up almost as soon as they were released.

In contrast to Crystal Bridges, the imposing museum that Moshe Safdie designed for Alice Walton, the Walmart heiress, in Arkansas, the 11 galleries in Glenstone's \$200m extension are set low in the landscape, in a circle looking over a central pond. The picture window at the Beyeler Foundation near Basel was an inspiration, as were the proportions of the Menil Collection in Houston. The architect, Thomas Phifer, is known for his use of natural light and his choice of materials. At Glenstone there is only concrete, glass, wood and stainless steel. On bright days no electric lighting will be needed.

In a collection that focuses on the post-war period, especially German and American Expressionists, the Raleses' acquisition policy is as rigorous as Mr Phifer's design. Each artist they buy has to have been exhibiting for at least 15 years. For example, they identified Wade Guyton as a rising post-conceptual artist early in his career, but waited until he had completed a decade and a half of shows before acquiring any of his work. They do not buy at art fairs and rarely at auction. Instead they rely on well-known dealers, such as Gagosian, Hauser & Wirth and David Zwirner.

If those rules seem conservative, the underlying aspiration is bold. The couple want each work to represent a pivotal moment in the development of a particular artist, or in the history of art itself. Alighiero Boetti, an influential member of the Italian Arte Povera movement, made more than 150 versions of his embroidered "Map of the World". The one at Glenstone is the first. If key works are not available—as, for instance, they have not been in the cases of Vasily Kandinsky or Kazimir Malevich—they do not buy that artist at all.

The resulting collection is less edgy than those assembled by Charles Saatchi in the 1970s or (more recently) by Patrizia Sandretto Re Rebaudengo, an up-and-coming collector from Turin. Instead Glenstone offers top-quality work by established names. For example, Cildo Meireles is probably the most important living Brazilian artist. Glenstone has two magnificent works by him: "Red Room" and "Glovetrotter", both of which have been shown at Tate Modern in London. Similarly, Louise Bourgeois, a Franco-American sculptor who died in 2010, spent decades probing her relationship with her father in psychoanalysis. One of the most celebrated works that resulted is the uncanny installation called "The Destruction of the Father" (pictured), which Bourgeois made in 1974 and Glenstone recently acquired.

Brice Marden, an American minimalist, had never undertaken a commission before the couple invited him to respond to the monumental Rothko chapel next to the Menil Collection. Mr Marden wanted his painting to be exactly 39 feet (11.9 metres) long, with precisely six feet of white wall on either side. So the Raleses built him a gallery all of his own, exactly 51 feet wide, not an inch more or less.

**Correction (September 28th 2018):** A previous version of this piece said that David Hammons's portrait of the Rev Jesse Jackson was vandalised in New York. The incident in fact took place in Washington. This has been corrected. Sorry.

*This article appeared in the Books and arts section of the print edition under the headline "The Rales rules"*

Keys to the heart

## William Boyd's new novel is a moreish romp

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*In "Love is Blind", a Scottish piano-tuner falls in love with a Russian opera singer*

Print edition | Books and arts Sep 27th 2018

**Love is Blind.** By William Boyd. Knopf; 384 pages; \$26.95. Viking; £18.99

IN AN illustrious career spanning 20 works of fiction, William Boyd has covered a broad range of genres and tones. Early books such as "A Good Man in Africa" and "An Ice-Cream War" seemed inspired by Evelyn Waugh; later works such as "Brazzaville Beach" and "Armadillo" deal with weighty contemporary themes. "Restless" and "Waiting for Sunrise" are espionage thrillers. Some of his best-loved novels, such as "Any Human Heart", are globe-trotting historical yarns. His moreish new one, "Love is Blind", belongs in this last group.

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Brodie Moncur is a Scottish piano-tuner—a profession Mr Boyd expertly evokes—and the son of a loathsome fire-and-brimstone preacher. The 19th century is drawing to a close. Moncur longs to escape the suffocation of the manse, and accepts an offer from Ainsley Channon, boss of the Edinburgh piano manufacturer for which he works, to move to its Paris showroom. There Moncur enterprisingly arranges for the firm to sponsor John Kilbarron, "the Irish Liszt", who in return plays Channon pianos at his concerts.

Kilbarron lives with his brother, the sinister Malachi, and a Russian opera singer, Lika Blum, with whom Moncur falls violently in love. The two begin an affair, Moncur ensuring that he becomes indispensable to the ailing and volatile pianist. Love may be blind, but it is certainly benighted, constantly threatened with discovery, by the lowering presence of Malachi and, most troublingly of all, by Moncur's tubercular lungs.

The second half of the book is a kind of cat-and-mouse game, which ends, as a number of Mr Boyd's narratives do, on a remote island, on which its amiably flawed protagonist washes up. As much as the finely orchestrated plot, the joy of the story lies in its perfect period detail, the exquisitely sketched settings and a cast of supporting characters who, as in the best novels of the era in which the book is set, spring to technicolour life: a cigarette-puffing female doctor in St Petersburg, an American anthropologist researching sexual mores in the Andaman Islands, a rakish convalescent in Nice. Historical figures are sprinkled among the invented ones. The author's prose is characteristically faultless.

These somewhat old-fashioned narrative skills tend to appeal more to readers than to novelty-seeking prize juries. But, as with Moncur's piano-tuning, practising a craft to this degree of refinement is an impressive feat. This sweeping tale of love and revenge, fate and free will, surrender and control will delight its author's many fans.

*This article appeared in the Books and arts section of the print edition under the headline "Keys to the heart"*

Flight to freedom

## “Washington Black” is a poignant saga of slavery and escape

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*Esi Edugyan's new novel is a triumph*

Print edition | Books and arts Sep 27th 2018

**Washington Black.** By Esi Edugyan. Knopf; 352 pages; \$26.95. *Serpent's Tail*; £14.99.

THE word “vicious” recurs in “Washington Black”, Esi Edugyan’s masterful novel about the exploits of an escaped slave. There are vicious gazes, vicious sounds, vicious murders and even a vicious boil, glistening with poison. A death from suicide is “vicious”, but so is a mother’s love (“She loved me with a viciousness”). The crowd at a hanging is “all teeth and vicious anticipation”. The word beats like a metronome through this wondrous book, capturing the nastiness and brutality of the world as seen by a young black man in the early 19th century.

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The man in question is George Washington Black, or “Wash”, who was born into slavery on a Barbados sugar plantation but tells his tale as an 18-year-old “Freeman, now in possession of my own person”. His story is gripping. As a boy of ten or 11, he is plucked from the cane fields to assist his master’s eccentric brother, Christopher Wilde, or “Titch”, an inventor who has grand notions about air travel and the equality of men.

What began as an apprenticeship of convenience—little Wash was the right size to join Titch in his “Cloud-cutter”, or hot-air balloon—evolves into a kind of friendship. Wash proves a quick study and prodigious artist, capable of capturing the natural world in paint. A sudden tragedy turns them both into fugitives; a strange turn in the Arctic leaves Wash alone, with a small purse of money, a price on his head and a slave-catcher on his trail.

Wash’s struggle to forge a life amid cruelty (and some odd luck) spans several continents, none of them very hospitable to a lone black adolescent with a head for science and a disfiguring burn, which he acquired during one of Titch’s experiments. Ms Edugyan makes him a gifted storyteller; his keen observations bear the hallmarks of his artistic sensibility. Eyelashes are “black as the legs of flies”; the letters of the alphabet resemble “nurse’s stitches” to his initially illiterate eyes. Occasionally his teenage powers of insight strain credulity, but readers will enjoy his precocious company.

Ms Edugyan’s depiction of this dark period is vivid and captivating (like her previous novel, “Half Blood Blues”, “Washington Black” has been shortlisted for the Man Booker prize). The Canadian author is too subtle a novelist to belabour her story’s contemporary relevance, but, like the moral stain of human bondage, it is palpable all the same. At a time when blackness still invites unwarranted violence, young Wash’s hard lessons resonate.

Most profound, perhaps, is his recollection that even as a child his nightmares did not feature clawed monsters. “I knew the nature of evil; I knew its benign easy face,” he recalls. “He would be a man, simply.”

*This article appeared in the Books and arts section of the print edition under the headline “Flight to freedom”*

Output, prices and jobs

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## Output, prices and jobs

Print edition | Economic and financial indicators Sep 27th 2018

## **Trade, exchange rates, budget balances and interest rates**

**Print edition | Economic and financial indicators** Sep 27th 2018



## **The Economist commodity-price index**

**Print edition | Economic and financial indicators** Sep 27th 2018

## World GDP

**Print edition | Economic and financial indicators** Sep 27th 2018

The world economy grew by 3.56% in the second quarter of 2018 compared with a year earlier, according to our estimates. That is almost exactly the same as the 3.57% expansion rate observed in the first quarter. Trends vary between regions: growth rates continue to rise in America and India, but are levelling off in China and the euro area. According to the OECD, a think-tank, growth is also becoming more uncertain because of increased restrictions on trade, the lack of clarity over Brexit and building financial risks. It expects global growth to level off in the coming years, and has tempered its predictions for both 2018 and 2019, from 3.9% down to 3.7%.

**Markets**

**Print edition | Economic and financial indicators** Sep 27th 2018

**Shan Tianfang**  
Tradition's voice

Tradition's voice  
**Obituary: Shan Tianfang**

*China's favourite storyteller died on September 11th, aged 84*

Print edition | Obituary Sep 27th 2018

WHAT struck Shan Tianfang most, as he walked into the studio for his first radio broadcast at the end of the 1970s, was the lack of things. No brightly painted screen to set the scene for his *pingshu*, or storytelling. No block of wood on the table, to make the audience pay attention or to scare them stiff. No folded fan to snap open for a surprise, simper behind, or whip through the air as a sword. A traditional storyteller needed only those three props. Still, he could manage. With the side of his left hand, he could bang emphatically. And with his voice alone he could evoke the creaking wingbeats of a flying bird, the peeling, descending glugs of a man taking poison or the power of an adversary, “the corners of his eyes and brows showing a thousand streams of killing aura”.

The thing he missed most was an audience. He was used to the teeming tea houses of north-east China, packed with old folk smoking in bamboo chairs and children running round. Here there were only two sound guys in headphones. He remembered, though, that for his first official performance in an Anshan tea house, in 1956 when he was 23 and faint with nerves, he had tried his routine on a few colleagues first. A few were as good as a crowd. So he told “The Three Heroes and Five Gallants” to the sound guys, improvising and with lots of slang as usual, watching closely to see where they laughed, and where they dozed off.

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That broadcast, he later found out, was heard by 100m people. It brought him such fame that by the end of a 60-year career he had performed more than 12,000 episodes of more than 100 stories on 500 TV and radio stations. He had filled stadiums. His hoarse, smoky voice, “cloud covering the moon” as the saying went, was listened to everywhere, by farmers in fields, workers commuting and, especially, by taxi drivers, to while the traffic away. “Wherever a well has water”, people tuned in to him.

He had grown up in Liaoning province before the Communist revolution of 1949, his mother (“The Pale Girl”) an actress and his father a player of the three-stringed lute. But he knew from childhood, as he shook the money-basket round after their shows, that this was not much of a living. Folk arts might be centuries old, but they had low social status. He hoped to be a doctor or an engineer, until the collapse of his parents’ marriage threw him back on *pingshu* to maintain his seven sisters. Fate ordained it so. He had always been good at memorising, diligent at practice, and after more instruction he was happy to spend the decade from 1956 to 1966 playing the tea-house circuit.

His favourite stories were always the classics, not least China’s four great novels: the medieval “Romance of the Three Kingdoms”, “The Journey to the West”, where an intrepid monk went searching for Buddhist texts, “The Dream of the Red Chamber”, in which 40 main characters portrayed a noble family’s 18th-century decline, and “Water Margin”, with its wild band of 108 scheming outlaws. Some stories had hundreds of chapters, each ending with a coy “To be continued”. As a keen student of history he altered some tales a bit, playing down the demons and spirits and giving his listeners, instead, characters that made sense. He also turned recent events into stories, poring over newspapers, as soon as the sun came up, to find reports of policemen foiling notorious robbers. Fighters against injustice touched a soft spot with him: the wrongly court-martialled General Sheng of “I Know Your Name Well”, or the “White-Eyebrow Hero” Lord Bao, China’s most righteous judge, whose story he had been telling all and sundry since he was five years old.

During the Cultural Revolution, however, he fought injustice himself and lost. The builders of the New China did not need his old tales, those remnants of the imperial and feudal system. They sent him to the far north-east, his teeth knocked out to silence him, to cut hay and cart manure. He escaped, and lived with his family on the streets for four years, selling artificial flowers. In 1978 he was rehabilitated, though with a mouth full of painful plastic through which he had to learn to speak again. He summed up life then in one word, “Endure”. But it rapidly got better.

### The last green tree

In the hectic consumerist China of the late 20th century he cut a deliberately quaint figure. On television, in plain robes before a screen of ancient symbols, he did not move from behind his table, letting his hands, eyes and voice paint scenes, characters, emotions, even abstractions. The young loved him as much as the old, and the government declared him an Inheritor of China’s Intangible Cultural Heritage; his fans called him “an eternal electric wave” and an evergreen tree. Kind words, but he still worried that he had no obvious successor to carry on the oral tradition.

To stave off silence he set up a storytelling academy in Beijing, put his favourite tales into 47 books and blogged on Sina

Weibo. Yet most of that was words written down. His gravelly voice was what mattered: so much so that a channel was set up in 2005 just to keep broadcasting his stories. At an episode a day, the stock would last until 2036. Ever since that first studio performance he had reminded China that it needed those tales, after all. Despite its rush to modernity, it needed him.

*This article appeared in the Obituary section of the print edition under the headline "Tradition's voice"*