The Economist

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Politics this week

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President Donald Trump pulled America out of the deal brokered by world powers in 2015 to roll back **Iran's** nuclear-weapons programme, saying it was "rotten". He reimposed all sanctions and gave foreign firms up to six months to stop doing business with the country. Other signatories—Britain, France and Germany—said they would continue to honour the agreement, to which Iran seemed to be adhering. "If we achieve the deal's goals in co-operation with other members of the deal, it will remain in place," said President Hassan Rouhani of Iran. See article .

Binyamin Netanyahu, **Israel's** prime minister, applauded Mr Trump's "bold decision". Twenty rockets were fired from **Syria** into the Israeli-controlled side of the Golan Heights. Israel blamed Iran and struck back at dozens of targets in Syria. It was the biggest exchange of fire across the border since 1974. See article .

Hizbullah and its allies gained seats in **Lebanon's** parliament, according to preliminary election results. The Iranian-backed militia-cum-political party increased its share of power at the expense of the country's prime minister, Saad Hariri, whose party sustained heavy losses.

An outbreak of **Ebola** killed at least 17 people in the Democratic Republic of Congo. This is the ninth outbreak of the disease in the country since its discovery in the 1970s.

Zimbabwe, which has suffered a crippling liquidity crisis in financial markets because of a shortage of foreign currency, is now at risk of suffering an acute liquidity crisis in its alcohol market. Delta, its biggest brewer, is running out of ingredients because it cannot get dollars to pay for imports; it may have to cut beer supplies.

A friendly start

The leader of the protests against **Armenia's** government, Nikol Pashinian, was elected as prime minister by parliament. The Russian president, Vladimir Putin, congratulated him. Mr Pashinian has promised that he will not break with the Kremlin.

Mr Putin was re-inaugurated as **Russia's** president, after winning a landslide election victory in March. His fourth term lasts six years; it is supposed to be his last. Protests against him were violently broken up. See article .

Italy remained without a government; but the odds for one led by a technocrat appointed by the president receded. A coalition between the radical Five Star Movement and the right-wing Northern League seemed to be back on the cards.

A night to remember

Malaysia's opposition won a stunning upset victory at the polls, paving the way for the country's first ever change of government. The ruling party used all manner of dirty tricks to pervert the vote, but still lost. Najib Razak, the prime minister, whom American officials had accused of embezzling nearly $700m, is out. Mahathir Mohamad, a sprightly 92-year-old former prime minister who had quit the ruling party in disgust, will replace him. See article .

A Malaysian investor whose firm has done public-relations work for the **Cambodian** government bought the *Phnom Penh Post*, the last daily newspaper in Cambodia that regularly criticises the government. Many of its journalists resigned in a row about its coverage of the acquisition. See article .

Pakistan's interior minister, Ahsan Iqbal, survived an assassination attempt after being shot in the shoulder. Mr Iqbal's outspoken defence of minorities has earned him the enmity of Muslim radicals.

North Korea released three Americans speciously accused of espionage and "hostile acts". Mike Pompeo, the secretary of state, returned to America with the three after visiting North Korea to discuss arrangements for a summit between Donald Trump and Kim Jong Un, the North's dictator. Mr Kim went to China for a second meeting with President Xi Jinping. He was the first North Korean leader to go abroad by plane in 32 years.

Sun Zhengcai, a former member of **China's** ruling Politburo, was sentenced to life in prison after being found guilty of taking bribes worth $27m.

The place they called home

The Trump administration said it was ending a "temporary protected status" programme for 57,000 **Hondurans** living in America. They will have to leave by 2020. The government gave the status to Hondurans after a hurricane struck their country in 1998. The administration also announced plans to separate children and parents caught entering the country illegally.

Marco Rubio, a senator from Florida, suspended American funding for a UN-backed anti-corruption commission in **Guatemala** known as CICIG. Mr Rubio said the long sentences given to a Russian family convicted of buying false passports suggested that the Kremlin influenced the commission. Supporters of CICIG say Mr Rubio is the one being manipulated by allies of the Guatemalan president, Jimmy Morales. See article .

Not too Trumpy, please

A number of party primaries were held across America. The most closely watched result was for the Republican Senate candidate in **West Virginia**. Don Blankenship, a former coal baron and jailbird who campaigned on a message of being "Trumpier than Trump", lost to Patrick Morrisey, who had the support of the party hierarchy, including Donald Trump. See article .

The Senate held a hearing on whether to confirm Gina Haspel as the next director of the **CIA**. She was asked about her role overseeing a secret site where prisoners were tortured and ruled out any return to a similar programme. Ms Haspel offered to withdraw from consideration days before the hearing, an offer that was rejected by Mr Trump. See article .

Eric Schneiderman resigned as the attorney-general of **New York** state, after women with whom he had been romantically involved claimed he had slapped them in the face and choked them. Mr Schneiderman was a prominent backer of the #MeToo movement. He denies the allegations, and says he has "never engaged in non-consensual sex".

An unholy row in the House of Representatives over the sacking of its **chaplain** came to a miraculous end when Paul Ryan, the Speaker, decided to allow him to stay in the job. Mr Ryan had asked Father Patrick Conroy to resign, reportedly for praying that the benefits of the recent tax reform should be "shared by all Americans".

Business this week

Print edition | The world this week May 12th 2018

Argentina called in the IMF, after a run on the peso prompted the central bank to raise its benchmark interest rate to 40% and spend $5bn of reserves in an effort to prop up the currency. President Mauricio Macri went on television to explain that he had turned to the IMF to avoid the type of economic crises that have beset Argentina in the past. Mr Macri has been praised for his reforming zeal, but calling on the fund, which is widely blamed in Argentina for the country's financial crisis in 2001, is politically risky. See article .

The multimedia revolution

In another sign of the convergence between the wireless and cable industries, **Vodafone** offered to buy a chunk of the assets in Europe held by **Liberty Global**. The transaction, valued at €18.4bn ($21.8bn), sees Vodafone taking over Unitymedia in Germany, as well as Liberty's holdings in the Czech Republic, Hungary and Romania.

After several weeks of courtship, **Shire** accepted **Takeda's** takeover bid of £46bn ($62bn). If approved by shareholders the deal will create one of the world's biggest drug companies. It would also represent the largest foreign takeover by a Japanese company.

Volkswagen's board was reportedly considering whether to seek damages from Martin Winterkorn in relation to the emissions-cheating scandal that surfaced in 2015. Mr Winterkorn resigned as CEO when the scandal broke. He was charged recently by America's Justice Department with conspiracy, which may muddy the carmaker's argument that senior management knew nothing about the tampering. Mr Winterkorn has repeatedly denied any wrongdoing.

Royal Bank of Scotland said that it had reached a settlement in principle with the Justice Department over the sale and underwriting of residential mortgage-backed securities in 2005-07. Because $3.5bn of the $4.9bn fine is covered by provisions already made, RBS—of which the British government still owns more than 70%—should avoid sliding into a loss this year.

Take off and landing

The share price of **Air France-KLM** tumbled by 10%, after its chief executive quit amid a protracted pay dispute with unions. The company was formed by the merger in 2004 of the French and Dutch national carriers. Pilots and staff at Air France have carried out a series of strikes; they have rejected the latest proposal on wages. The French government, the biggest shareholder in Air France-KLM, criticised the unions, pointing out that KLM is more competitive. Bruno Le Maire, the finance minister, warned that the state would not "mop up the losses of Air France" by bailing it out. See article .

Under pressure to show that they are doing more to police their platforms, Google banned all political **advertisements** about Ireland's forthcoming referendum on abortion from its websites, a day after Facebook said it would block ads about the referendum from non-Irish sources.

In China, **Wu Xiaohui**, who transformed Anbang from a small insurer into a global conglomerate, was sentenced to 18 years in prison for fraud and abuse of power. The government took control of Anbang earlier this year, saying its rapid expansion was a threat to financial stability.

Glencore and the **Qatar Investment Authority** scrapped a plan to sell their joint stake in **Rosneft**, Russia's state oil company, to CEFC, a private Chinese conglomerate whose boss has apparently fallen foul of the authorities. The pair dissolved their venture. QIA now holds an equity stake of 18.9% in Rosneft; Glencore retains 0.6%.

In its biggest acquisition so far, **Walmart** agreed to pay $16bn for a 77% stake in **Flipkart**, India's leading online retailer. The country's e-commerce sector is expanding rapidly; Flipkart's net sales grew by more than 50% in the year ending March 31st. That may be one reason why Amazon was said to be interested in bidding for Flipkart, only to be thwarted by its arch-rival. See article .

One of those selling its stake in Flipkart was **SoftBank**, which made an investment through its Vision Fund and earned a tidy return on its trade. The Japanese tech giant reported an operating profit of ¥155bn ($1.4bn) for the latest quarter. That was up by 60% from the same period in 2017, in large part because of income from the fund. Sprint, an American wireless operator owned by SoftBank, made its first annual net profit in 11 years. See article .

A shot in the arm

Nestlé struck a $7.2bn deal for the rights to sell packaged coffee and other products under the **Starbucks** label. Products like packaged coffee beans and pods account for just 8% of sales at Starbucks. It intends to use the proceeds from the deal to accelerate its share buy-back programme.

KAL’s cartoon

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The Vision Fund
The $100 billion bet

The $100bn bet

The meaning of the Vision Fund

Succeed or fail, Masayoshi Son is changing the world of technology investing

Print edition | Leaders May 12th 2018

TWO years ago, if you had asked experts to identify the most influential person in technology, you would have heard some familiar names: Jeff Bezos of Amazon, Alibaba's Jack Ma or Facebook's Mark Zuckerberg. Today there is a new contender: Masayoshi Son. The founder of SoftBank, a Japanese telecoms and internet firm, has put together an enormous investment fund that is busy gobbling up stakes in the world's most exciting young companies. The Vision Fund is disrupting both the industries in which it invests and other suppliers of capital.

The fund is the result of a peculiar alliance forged in 2016 between Mr Son and Muhammad bin Salman. Saudi Arabia's thrusting crown prince handed Mr Son $45bn as part of his attempt to diversify the kingdom's economy. That great dollop of capital attracted more investors—from Abu Dhabi, Apple and others. Add in SoftBank's own $28bn of equity, and Mr Son has a war chest of $100bn. That far exceeds the $64bn that all venture capital (VC) funds raised globally in 2016; it is four times the size of the biggest private-equity fund ever raised (see Briefing). One VC grandee calls Vision Fund "the most powerful investor in our world".

Masastroke...

Power does not necessarily mean success. Sceptics about the Vision Fund have lots of ammunition. After a long bull market, the valuations of tech firms are stretched. Mr Son personally makes most of the investing decisions. He has notched up some triumphs in his career, including an early bet on Alibaba. But his dotcom-era investments mean he is also the person to have lost more money than anyone else in history. His pursuit of the "singularity", the point at which computer intelligence exceeds the human kind, might make him a visionary—or just an eccentric. The money is being shovelled out almost as fast as it was taken in. The fund has already spent $30bn, nearly as much as the $33bn raised by the entire American VC industry in 2017. And because about half of its capital is in the form of debt, it is under pressure to make interest payments. This combination of gargantuanism, grandiosity and guaranteed payouts may end up in financial disaster. Indeed, the Vision Fund could mark the giddy top of the tech boom.

But even if the fund ends up flopping, it will have several lasting effects on technology investing. The first is that the deployment of so much cash now will help shape the industries of the future. Mr Son is pumping money into "frontier technologies" from robotics to the internet of things. He already owns stakes in ride-hailing firms such as Uber; in WeWork, a co-working company; and in Flipkart, an Indian e-commerce firm that was this week sold to Walmart (see article). In five years' time the fund plans to have invested in 70-100 technology unicorns, privately held startups valued at $1bn or more. Its money, often handed to entrepreneurs in multiples of the amounts they initially demand and accompanied by the threat that the cash will go to the competition if they balk, gives startups the wherewithal to outgun worse-funded rivals. Mr Son's bets do not have to pay off for him to affect the race.

Mr Son's second impact will be on the venture-capital industry. To compete with the Vision Fund's pot of moolah, and with the forays of other unconventional investors, incumbents are having to bulk up. Sequoia Capital, one of Silicon Valley's most famous names, is raising its biggest-ever fund in response. Mr Son is also bringing capital to places where it is still in fairly short supply—to India, to South-East Asia and to several European countries. When the Vision Fund invested close to $500m in Improbable, a British virtual-reality firm, it broke a funding record, and its €460m ($565m) in Auto1, a German online car dealer, was one of the country's biggest such investments in several years. Rather than wait for founders to make the trip to California, investors are under greater pressure to seek out entrepreneurs.

The Vision Fund's unprecedented span, across countries and industries, leads to its third impact. Mr Son says he wants to create a "virtual Silicon Valley in SoftBank", meaning a platform on which unicorns can offer each other contacts and advice, buy goods and services from each other, and even join forces. The concept of portfolio companies collaborating is familiar from private equity, but the fund's sheer breadth marks it out. Mr Son is, for example, trying to orchestrate his various ride-hailing investments so that they do not burn through so much cash by competing with each other. He encouraged Uber to sell its South-East Asian business to Grab earlier this year and is urging it to make a deal in India with Ola.

The Vision Fund model is disruptive, then. But is it good for innovation and consumers? Mr Son's project certainly has its attractions. It is shaking up the cosy world of Silicon Valley venture capital. And it may nurture competition against the tech giants. The fund offers founders of startups an alternative to cashing out to the likes of Google, Facebook and Amazon; its massive chequebook also gives those entrepreneurs a better shot at competing with the titans. The fund may perform a similar function in China, where nearly half of all unicorns are by now backed by one of the country's four tech giants, Baidu, Alibaba, Tencent or JD.com.

...or Masachism?

Yet its disadvantages extend beyond the risk of losses. Its sheer size risks raising the cost of running a startup for everyone. Young firms that receive its cash often spend it on sales and marketing, which puts pressure on every other company in the industry to spend as lavishly in order to acquire customers. Companies that receive hundreds of millions of dollars of capital in one go are elevated far above their competitors. That hands a single individual kingmaking powers, while keeping young firms out of the clarifying glare of the public markets for even longer. Attempts to carve up markets among portfolio firms may in time raise a different set of competition concerns.

A proper verdict on the Vision Fund will not be possible for years. But the fate of many startups and the choices consumers enjoy in the future will be guided by the bets Mr Son is making today. Fortune's biggest wheel is spinning.

This article appeared in the Leaders section of the print edition under the headline "The $100 billion bet"

Tango tantrum

Will Argentina's woes spread?

Argentina has much in common with yesterday's emerging markets, but little in common with today's

Print edition | Leaders May 12th 2018

YAWNING deficits, stubborn inflation, a plunging currency, spiking interest rates, dwindling reserves and a humbling turn to the IMF. Argentina seems to be going through a classic emerging-market crisis, culminating in the government's decision this week to seek a precautionary loan from the fund—an institution that fears Argentina almost as much as Argentina fears it.

The country is not quite repeating its own crisis-ridden history. Argentina today has a reformist government largely intent on doing the right thing, rather than the populist administrations that blighted its recent past (see article). But its troubles are real. Many wonder if they will spread to other emerging markets. Several economies share one or two of its vulnerabilities. Mercifully few share all of them.

Argentina's rate of inflation, which exceeds 25%, seems to belong to a lost world. Only in Egypt, Nigeria and Turkey (among notable economies; Venezuela is on a different planet) is inflation even in double digits. It is now comfortably below the government's target in Brazil, China and Russia (among other places) and uncomfortably below it in Thailand. These countries' monetary authorities have already won the battle for price stability that Argentina is still waging.

In several emerging economies, including Brazil, Egypt and India, the government finances are, if anything, worse than in Argentina. Brazil's fiscal deficit is projected to exceed 8% of GDP this year, according to the IMF, compared with an overall deficit of 5.5% for Argentina. But even as these other countries' governments live far beyond their means, their private sectors are living well within them. For that reason, their large fiscal deficits have not translated into equally large current-account deficits with the rest of the world.

And although many emerging markets have heavy debts, they do not share Argentina's old-fashioned need to borrow in other countries' currencies. Almost 64% of Argentina's combined government and corporate debt is denominated in dollars and other foreign monies, according to the Institute of International Finance. Among the big emerging markets, only Turkey compares, with 56%. The equivalent figure for Thailand is 17%, for Brazil only 16%.

Let it go

Low inflation, modest current-account deficits and limited foreign-currency debt thus distinguish many of today's emerging markets from the peso—and from their own past. These attributes do not render them immune from the global financial forces that have rocked the peso. All emerging economies, even the biggest, must still watch the Federal Reserve, rising American bond yields and the strengthening dollar with trepidation. In many cases their long-term interest rates seem as sensitive to America's central bank as to their own.

But their new virtues do give emerging economies more room for manoeuvre. They can ease their own interest rates if borrowing costs rise too much. And if capital flees they can allow their currencies to fall without the economy faltering. That is because they need not worry that a one-off rise in import prices will translate into ongoing inflation or that a weaker exchange rate will render dollar debts impossible to service.

The distinctions between Argentina and the broader group of emerging markets have not gone unnoticed. In 2009 the country was even reclassified as a "frontier" market by MSCI, an index provider. But in its struggles with inflation, deficits, dollar debt and depreciation, Argentina's economy resembles a classic emerging market more faithfully than many economies that still carry the label.

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Blood money

Lift bans on paying for human-blood plasma

The limited medical and social risks are dwarfed by the benefits

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THIS year marks the 200th anniversary of the first successful human-to-human blood transfusion, conducted by James Blundell, an English obstetrician working just across the Thames from *The Economist*'s offices. Today blood is big business—with global exports worth more, in 2016, than global exports of aeroplanes. But that trade is distorted by the refusal of most governments to allow payment to people who give plasma, blood's yellowish liquid component.

The blood trade today consists mostly not of blood for transfusion, demand for which is falling as medical techniques improve, but of plasma (see article). Most of this comes from plasma-collection centres, where it is extracted from whole blood and the platelets and blood-cells are transfused back into the donor. Plasma is used to make drugs such as factor VIII, which helps haemophiliacs' blood to clot, and vaccines for rabies, tetanus and Rhesus disease. Almost 50m litres of it were used in 2015, enough to fill 20 Olympic swimming pools. America, the OPEC of plasma, produces 15 of those swimming-pool equivalents. Forget steel and cars: plasma makes up 1.6% of America's total goods exports.

The secret of this success is simple: America lets companies pay people for their plasma. So do the few other countries that are good at collecting the stuff, including Germany and Hungary. Others don't. Big importers such as Australia, France and Belgium have banned payment. In Canada, where the issue is a live debate, the lone company trying to collect paid plasma has recently been banned in two provinces and risks the same in a third.

Blood and treasure

The aversion to paid plasma rests on three reasonable-sounding but largely groundless propositions. The first is that it is unsafe. Payment might encourage donors to conceal dangerous behaviour—such as intravenous drug use. In the 1980s and 1990s, tainted blood products infected half the world's haemophiliacs with HIV, along with tens of thousands of plasma donors in China. But modern plasma products do not carry such risks. They are heat-treated and bathed in chemicals to sanitise them (an impossibility for blood for transfusion). Since the adoption of these techniques there has not been a single case of transmission of HIV or hepatitis via plasma products. Doctors agree that plasma products from paid donors are just as safe as those from unpaid ones.

A second argument is that, if people are paid for their plasma, fewer will volunteer to donate whole blood for transfusions. (Paying for whole blood would be unwise, since it cannot be sterilised as plasma can.) But there is no evidence that paying for plasma diminishes the supply of donated blood. That is why, in Canada, more than 30 economists and philosophers wrote an open letter arguing against bans on paid plasma. Americans voluntarily donate as much blood per person as do Canadians.

A third argument is that paying for plasma preys on the poor. It is possible that those selling plasma need the money and therefore might give too often. In America plasma donors can give twice a week; those in Europe can give just once a week. There is no evidence of harm to their health in either case, but more long-term study would be prudent.

Those against allowing payment suggest using voluntary donors instead. Yet every country that does not pay ends up importing plasma. And the fact that America is by far the dominant supplier carries risks of its own. The dependence on a single source leaves the rest of the world vulnerable to an interruption of supply. To protect their people, therefore, other governments need to diversify their supplies of plasma. Paying for it would make a big difference.

This article appeared in the Leaders section of the print edition under the headline "Blood money"

Iran and America

Scrapping the Iran deal won't do anyone any good

Donald Trump is acting on a wish built on a hunch

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BY PULLING out of the Iran nuclear deal, President Donald Trump is counting on renegotiation or regime change. He is more likely to end up with war.

On May 8th Mr Trump did not cut America's ties with the Iran deal so much as take an axe to it. The Joint Comprehensive Plan of Action, as it is known, curtails Iran's nuclear programme for a number of years and permanently subjects it to intrusive inspections, in exchange for the lifting of sanctions. Mr Trump's withdrawal from the "decaying and rotten" agreement honoured a campaign promise. However, the president was unexpectedly harsh in vowing to extend sanctions, not just restore them, and to punish any firm doing business with Iran wherever it is based.

Since the UN says that Iran was honouring the agreement, as even its critics allow, Mr Trump has strengthened the arguments of foes that America cannot be trusted and that the global rules it claims to uphold are made to be broken. The question for the other parties to the deal (Russia, China, Germany, Britain, France and the European Union) is: what next? The question for the world as a whole, especially the Middle East, is: what does this mean for Iran's ability to get the bomb?

First tragedy, then Farsi

In Tuesday's announcement Mr Trump offered his own answers. He said that he is "ready, willing and able" to negotiate a new deal that limits Iran's regional aggression as well as its nuclear weapons, though he offered no plan for bringing that about. He also issued a veiled appeal to the Iranian people, who he said are being held "hostage" by their government, to rise up against their oppressors.

At its heart, Mr Trump's plan is based on a hunch about sanctions. First it assumes that, with heavier sanctions, Iran's economy will be less able to finance warfare in Iraq, Syria, Lebanon and Yemen. Yet Iran's belligerence is not the outcome of a book-keeping exercise. Notwithstanding last year's street protests, which called for more spending at home, Iran finances troops, militias and terrorists because it craves influence and it perceives threats. Mr Trump set out to intimidate Iran this week: he may have left it more determined.

Second, Mr Trump assumes that economic pain from new sanctions could force Iran to the negotiating table, as it did North Korea. Heavy sanctions can indeed lead regimes to negotiate, as Iran showed in the deal that Mr Trump has now rejected. But Mr Trump displays little sense of how the very leaders he has just welched on can surrender wholesale to his demands and survive.

Perhaps that is the point, and his real bet is that sanctions will bring about economic agonies that topple the regime. The mullahs will not rule Iran for ever. But the Castros in Cuba have withstood sanctions for decades. Iran's theocrats have proved perfectly willing to keep order by force.

This newspaper would welcome an end to Iranian belligerence and to the regime itself, but a wish based on a hunch is not a policy. Instead, faced with the probable failure of Mr Trump's scheme, the parties to the deal should strive to keep it alive for as long as they can. One aim is to demonstrate to Mr Trump and his supporters that global rules do matter. The EU should, for instance, continue to meet Iranian officials and protest to the World Trade Organisation about American sanctions on its companies, as it did 20 years ago when America applied secondary sanctions over Cuba. The other aim is to hold Iran back from restarting its nuclear-weapons programme.

Realistically, however, China and Russia may not want to dig Mr Trump out of the hole he has made for himself, and the EU cannot save the deal on its own. The dollar is still dominant (though Mr Trump has surely brought forward the day when China clears global payments in yuan). Companies with a choice between operating in America or Iran will inevitably choose the bigger market.

So the gains from a partial deal will be negligible and Iran may well sooner or later restart its nuclear programme. The Iran deal guarded against that, by providing an early warning and the option to reimpose sanctions. Without it, Iran may seek to return to the old limited inspections regime, to build new centrifuges, to enrich uranium to near weapons-grade and to miniaturise warheads. If the Iranian programme goes underground—literally and figuratively—there may not be enough intelligence to assess the threat. Moreover, with sanctions already ratcheted up high, Mr Trump and his successors will have limited diplomatic scope to get Iran to stop. Instead, they will have to resort to military action.

You do not go to war with Iran lightly—would Mr Trump fight over, say, some extra centrifuges? Iran would be able to creep towards the nuclear threshold. And, unlike the Iraqi and Syrian programmes, which were destroyed in one mission by the Israeli air force, Iran's know-how and industrial capacity cannot be bombed out of existence. If Iran is determined to get a weapon, America or Israel will have to bomb it every few years. How would they justify that? It is hard to think of any previous American president tossing aside an international agreement for such poor odds and at such a heavy cost.

This article appeared in the Leaders section of the print edition under the headline "A new deal?"

Mahathir's back

Malaysia's chance to clean up

The ruling party used every dirty trick in the book and still lost

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ELECTIONS in Malaysia are normally predictable. In fact, the United Malays National Organisation (UMNO) and various allies had won all of them since 1955, until this week. Over the years UMNO has resorted to every conceivable trick to remain in power: stirring communal tensions among Malaysia's ethnic groups, locking up critics, rigging the electoral system in its favour, bribing voters with populist handouts and threatening chaos if it lost. In the run-up to the election on May 9th it did all of that. It was testimony to the awfulness of the government of Najib Razak that the opposition was even in contention. And it is testimony to the good sense of Malaysian voters that the opposition won, convincingly, paving the way for Malaysia's first ever change of government (see article).

For a country where politics has always been run along communal lines, the shocking upset holds out the prospect of a more meritocratic form of government. For the region, where rulers with authoritarian instincts have been steadily curbing political freedoms, it is a heartening victory for democracy. And for Mr Najib, who was accused by America's Department of Justice of personally pocketing $681m looted from a Malaysian government agency, it is a welcome comeuppance.

Living up to its image

Malaysia is often put forward as a rare example of tolerance and democracy among countries with a Muslim majority. Both claims had been looking shaky as UMNO resorted to ever more unfair tactics, and ever more strident appeals to the country's Malay Muslim majority, to remain in power. How much this changes depends on the good faith and efficiency of the new government.

Sceptics note that it is led by Mahathir Mohamad, a former five-term UMNO prime minister who pioneered many of the underhand tactics to which Mr Najib resorted in his failed bid to remain in power. Dr Mahathir was also a champion of Malaysia's odious system of racial preferences, which he expanded to keep Malay voters loyal to UMNO. What is more, Pakatan Harapan, as the victorious coalition is known, resorted to populism to counter UMNO's election-rigging, promising to roll back an unpopular but necessary goods-and-services tax and to reinstate subsidies on petrol that Mr Najib had scaled back.

The new government's majority also rests on an unwieldy coalition of other defectors from UMNO and veteran opposition politicians with relatively little experience of government. In particular, there is bad blood between Dr Mahathir, who is 92 years old, and Anwar Ibrahim, a former deputy prime minister whom Dr Mahathir first treated as a protégé and later had jailed on spurious sodomy charges. Mr Anwar is now the leader of one of Pakatan Harapan's component parties, and would have been its prime ministerial candidate had Mr Najib not had him jailed again. Although Dr Mahathir and Mr Anwar claim to be reconciled, it is not clear how they will get on after Mr Anwar is released from prison next month.

Nonetheless, it is hard to imagine that UMNO's loss will not change Malaysia for the better. For one thing, it is in the new lot's interest to make the electoral system fairer and to promote a freer press. Better yet, the results suggest that centrism has more electoral appeal than both UMNO's Malay chauvinism and the Islamic zealotry of PAS, an opposition party that declined to join Pakatan Harapan. Many of the new MPs, having experienced various forms of official bias when UMNO was in power, will have a natural desire to make the bureaucracy more impartial. Doing away with preferences for Malays was always going to be a tall order, given the clout of Malay voters. But at the very least Pakatan Harapan is likely to reform some of the handouts, to make them less of a gravy train for UMNO cronies. Its pledge to investigate Mr Najib's alleged corruption should also help clean up politics.

Perhaps the new government will succumb to infighting and fail to get much done. But its very existence is a potent reminder to Malaysians and their neighbours that governments can and should, from time to time, change peacefully. With luck, Cambodians, Singaporeans, Thais and Vietnamese, among others, will begin to wonder if something similar might one day happen to them.

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On juries, economics, Enoch Powell, Guatemala, robots
Letters

Letters

Letters to the editor

On juries, economics, Enoch Powell, Guatemala, robots

Print edition | Letters May 12th 2018

Letters are welcome and should be addressed to the Editor at letters@economist.com

Reaching a verdict

I read with interest Johnson's column on the baffling legalese contained in instructions given to juries (April 14th). My colleagues and I have published a number of experiments about how laypeople do, and commonly do not, understand the categories of mental states that the defendant can be said to be in at the time of the crime. To give a sense of the magnitude of consequences that can follow when a juror misunderstands criminal mental-states, the difference between being convicted of a "knowing" homicide and a "reckless" homicide for the very same act can be as much as 14 years in prison, in the first case, and probation without prison time in the latter case. It is typically juries, not judges, who decide which of these two mental states the defendant was in.

The experiments were motivated by the sense that the law had too comfortably assumed that jurors understand how to apply the mental-state categories that the law created. When they can't, justice is likely to miscarry.

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Economists respond

Regarding your Free exchange column purporting to review how economists understand growth (April 14th), we also share serious misgivings about the adequacy of the analysis of economic growth that one sees in the standard textbooks and in much of the current literature. Granting the legitimacy of that target, however, we found that you fell short when describing how the limitations of the early neoclassical growth models were recognised, leading to newer models, and in discussing the range of empirical understandings that growth accounting and other quantitative methods used by the profession have brought to light.

More importantly, you hardly touched upon the rich body of research and findings about economic growth that are somewhat outside mainstream writing. There is, for example, significant research exploring the characteristics of the social and cultural environments that foster growth. Extensive studies have been written on institutions involved in economic growth and how they have changed over time. This has been illuminated by many economists, notably Douglass North. There is also a substantial empirical literature on how technological advances, the primary driver of economic growth, come about and the key institutions supporting them. More generally, the past 40 years have seen the development of empirical and theoretical research that views growth as an evolutionary process, taking up themes introduced by Joseph Schumpeter.

The concerns that have led to this letter are in part about that particular Free exchange column, but are more general than that. We also believe it is important that *The Economist* is aware of how the knowledge of economists who work outside the mainstream textbooks and journals is evolving.

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CONSTANCE HELFAT
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* You are right that ”Macroeconomics must get to grips with its epistemological woes if it hopes to maintain its influence and limit the damage done by the next crisis” (Free exchange , April 21st). This is also true for microeconomics, for which firms remain largely black boxes. (It is said that microeconomists are wrong about specific things, whereas macroeconomists are just wrong in general.) I’d like to add three further points to the argument.

First, your critique of Keynesianism would be applauded by Keynes, who was acutely aware financial markets are driven by people’s assumptions about what other people might think, rather than any ’rational’ expectations; and that many ’fundamentals’ are simply unknowable.

Second, one of the underlying causes of the ’epistemological woes’ is the assumption of ’marginalism’, which enables the world to be modelled, but isn’t how it works. Thus, a ’diminishing marginal product of labour’ requires wages to be cut to reduce unemployment, which my DPhil research showed has no theoretical justification nor empirical evidence.

And third, one of the profession’s weaknesses is its reluctance to work with other disciplines – and when it does, a failure to seek to learn from rather than colonise them. This may change. Britain’s next Research Excellence Framework exercise, which allocates funding, will for the first time have panel members evaluating interdisciplinary work – and there’s nothing economists like more than incentives.

PROFESSOR JONATHAN MICHIE
President
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An infamous speech

Since when has it been wrong for an MP to empathise with the plight of a constituent, as Enoch Powell did in his “rivers of blood” speech (“ Fifty years down-river ”, April 21st)? Powell’s anecdotal middle-aged constituent must have been one of many who found their neighbourhood transformed overnight by strangers. Neither quick enough nor wealthy enough to have fled elsewhere, they felt trapped and abandoned. In contrast, those living in leafy suburbs were cushioned from the realities of mass immigration.

YUGO KOVACH
Winterborne Houghton, Dorset

Guatemala and Belize

It is not true that Guatemala claims half of Belize’s territory (“ Half of Belize, please ”, April 21st). Belize has a right to self-determination. But we are in disagreement about a treaty from 1859. Belize was not a party to that treaty, which still damages Guatemala. That cannot be forgotten. However, Guatemala’s claim is to its territorial, insular and maritime rights, which are based on international law and universal legal principles. Both Guatemala and Belize want to lay out their arguments at the International Court of Justice, a legal process that does not refer to damages.

The referendum held in Guatemala on April 15th was not an act of provocation. And regarding the notion that the referendum was “irrelevant”, turnout, at 26%, was the highest in all of the popular consultations held in Guatemala so far; 96% of those voters supported the agreement. Belize will hold an identical consultation at the end of this year or next year and I trust Belize’s authorities will have the same support of their people.

Guatemala and Belize want peace and prosperity, which is why we both decided to bring our differences to the ICJ. I want to emphasise that the damages suffered by Guatemala as a consequence of the non-compliance with the treaty of 1859 is not an object of Guatemala’s legal claim against Belize.

ACISCLO VALLADARES MOLINA
Ambassador of Guatemala
London

Assembly instructions

It is true that artificial intelligence struggles with physical tasks that appear simple to humans (“ The Kamprad test ”, April 21st). There is a straightforward explanation for this observation. AI systems excel whenever they can learn from an immense number of examples. In the case of chess or a video game, they can practise by playing millions of matches in short time periods. When attempting to learn a physical task, however, they are constrained by physical laws. Watching whether an assembled chair falls over or stays upright takes time.

MORITZ GROSSE-WENTRUP
Professor of data science
Ludwig Maximilian University of Munich

The Kamprad test, which tasks robots with the seemingly impossible job of assembling an IKEA chair, appears designed to comfort us mere mortals that we will not be easily replaced by AI. Instead, it evokes a dystopian future where artificially intelligent computers serve as the world’s thought leaders and problem-solvers while their human serfs toil away in physical tasks. Perhaps I should learn to welcome our new computer overlords, because being relieved of stressful cognitive tasks will leave me more time to enjoy *The Economist*.

ANDREW WHITEHAIR
Cleveland

* Letters appear online only

This article appeared in the Letters section of the print edition under the headline "Letters"

SoftBank's Vision Fund
The Son kingdom

The Son kingdom

The impact of Masayoshi Son's $100bn tech fund will be profound

It is giving new opportunities to entrepreneurs and forcing Silicon Valley's best to stay relevant

Print edition | Briefing May 10th 2018

HERMAN NARULA named his company Improbable for a business plan so outlandish and fraught with computing problems that only two outcomes are plausible. As the British entrepreneur tells it, the result will be outright failure or success unmatched. He wants to create virtual worlds as detailed, immersive and persistent as reality, where millions of people can live as their true selves, earn their main income and interact with artificially intelligent robots. If that happens, it will be partly because Mr Narula drew the attention of a similarly improbable, wildly ambitious technology fund. The Vision Fund has put close to $500m into Improbable, which had previously raised only $52m.

An outsize investment in an unconventional business is typical of a fund that itself is both vast and resistant to definition. It is the brainchild of Masayoshi Son, an unusually risk-loving Japanese telecoms and internet entrepreneur. It is too big to be considered a conventional venture-capital firm, which would typically manage much smaller sums. It eschews many of the practices of private-equity funds, such as shaking up management and applying plenty of debt. Yet this impressive-but-puzzling experiment is having an impact on everyone who invests in technology. At a recent gathering of financiers in New York, Bill Gurley of Benchmark, a venture-capital firm that has invested in numerous well-known tech firms, called the Vision Fund "the most powerful investor in our world".

Even amid the hyperbole and fervour of tech Mr Son stands out. This is partly because of his belief in mind-boggling futuristic scenarios such as the "singularity", when computer intelligence is meant to overtake the human kind. But it is also because Mr Son's method is to do things rapidly and on a scale other investors would shy away from. Whether backing founders lavishly, so they can roll out new business models and technology as quickly as possible, or encouraging consolidation among the world's giant ride-hailing companies, including Uber and Singapore's Grab, he thinks bigger than most.

Silicon Valley insiders are sceptical, saying that Mr Son is force-feeding young firms with more capital than they deserve or need and that his fund will further inflate a bubble in technology valuations. His investors may well discover how hard it is to earn high returns on huge sums invested in relatively mature firms. But entrepreneurs, some of whom regard Mr Son as superhuman, are delighted. "If he came in and levitated one day I would not be surprised," says Mike Cagney, co-founder of SoFi, an American financial-technology company in which Mr Son has invested.

Those doubting his grand visions have been proved wrong in the past. In 1981 he founded SoftBank to distribute personal-computer software in Tokyo with two part-time employees. On the first day the diminutive Mr Son stood on two apple cartons and announced to those befuddled workers that in five years the firm would have $75m in sales and be number one. They thought "this guy must be crazy", Mr Son later told the *Harvard Business Review*, and quit the same day. But Mr Son's drive and ambition saw SoftBank eventually distributing 80% of PC software in Japan.

Rising Son

SoftBank subsequently grew into a global conglomerate with stakes in hundreds of web firms, including Yahoo. As tech valuations soared in 2000 Mr Son's personal wealth even briefly overtook that of Bill Gates. The dotcom crash of 2001 wiped out 99% of SoftBank's market value. But one investment—$20m sunk into Alibaba—is regarded as one of the best in history. The Chinese internet titan went public in 2014 in the world's biggest IPO. SoftBank's 28% stake in the firm is now worth $140bn.

Many old hands of the tech industry snootily dismiss his bets on Yahoo and Alibaba as flukes. Mr Son is bent on proving them wrong. He spent a decade focusing on SoftBank's Japanese telecoms and internet-infrastructure businesses and on trying to turn around struggling Sprint, an American mobile-phone operator acquired in 2013 (on April 29th Mr Son beat a retreat, agreeing to merge it with T-Mobile to create an enterprise worth $146bn). Now Mr Son has returned to investing. Since reaping the riches of Alibaba's IPO Mr Son has been using SoftBank's capital for a series of large tech investments, including $2.5bn in Flipkart, an Indian e-commerce site which on May 9th Mr Son said he was selling to Walmart for $4bn (see article). He has also put money into Grab and SoFi. And in 2016 SoftBank bought Arm Holdings, a British chip firm, for £24.3bn ($31.9bn).

The appetite of Mr Son and his main lieutenant, Rajeev Misra, a well-connected former derivatives trader from Deutsche Bank, was far from sated. But Mr Son's grand dreams were not matched by the depth of SoftBank's pockets. Its acquisitions had left the firm weighed down by debt. So the two men beat a path to the Middle East. The timing was handy. Muhammad bin Salman, now Saudi Arabia's crown prince, was preparing to launch a programme to wean the country off oil and diversify the economy. Mr Son's sales pitch on how he could use the kingdom's wealth to grab a stake in future technologies, rather than buying the usual Western trophy assets, saw him leave with a pledge of $45bn.

That vast sum, from Saudi Arabia's Public Investment Fund, is the biggest chunk of the $100bn that the Vision Fund has now raised. It has also raised $28bn from SoftBank itself, $15bn from Mubadala, Abu Dhabi's sovereign-wealth fund, $5bn from Apple and other corporate sources, and $7bn from other sources as yet unnamed (see chart 1).

Raising the stakes

Having amassed the wherewithal, Mr Son set about collecting stakes. After a year the Vision Fund boasts a family of 24 companies (see chart 2). SoftBank's holdings in ride-sharing firms—Uber, Didi, Grab and Ola—will reportedly move into the fund within months. Other stakes are expected to move later, such as those in SoFi and OneWeb. All future investments of $100m or more that Mr Son makes will go into the Vision Fund, which plans to have invested in as many as 100 firms within five years.

Its sheer size has transfixed potential investment targets and rival funds alike. The $30bn it has already invested nearly equals the $33bn that the American venture-capital industry raised in 2017. It will not stop there. If the fund performs well, versions two, three and four could be in the offing, says Mr Son.

In some ways the Vision Fund operates like any other technology fund. It has welcomed pitches from a couple of hundred hopeful young companies. Founders visit its offices in San Carlos in San Francisco's Bay Area or its opulent town house in London's Mayfair, in both places greeted at the door by Pepper, a cheery robot made by SoftBank's robotics arm. Less than 5% of the entrepreneurs who seek funding receive it, which is slightly more generous than most VC firms. When Mr Son has chosen his targets, he believes in the power of capital and the potential for synergies between his firms to help reap rewards.

The recipients of cash fall into three main areas. First there is the "frontier"—bets backing Mr Son's instincts about revolutionary technologies in areas such as the internet of things, robotics, artificial intelligence (AI), computational biology and genomics. The internet of things was his rationale for the purchase of Arm, which Mr Son says can design the chips to enable what he believes will be a trillion connected devices by 2035. NVIDIA, another chip-design firm in which SoftBank recently bought a big stake, will provide processors for AI services. SoftBank's interest in an American 5G network (via Sprint's tie-up with T-Mobile) and in OneWeb, a satellite startup, will help with the connections.

Second comes investments designed to bring new tech to old industries such as transport, property and logistics. Ride-hailing falls into this category (see article). And the third area is technology, media and telecoms, where SoftBank has been investing for nearly 25 years. Its stakes here stretch from Fanatics, an online sports-merchandise retailer, to Wag!, an on-demand dog-walking service.

But alongside the futuristic vision runs a hard-nosed, opportunistic appreciation of the power of capital to create winners. Mr Son recently said that, if Steve Jobs brought to Apple an understanding of technology and art, his own formula is technology plus finance. Time and again he has cajoled and bullied founders and chief executives into accepting his money, often handing out much more than they were asking for.

Fundraising pitches are atypical of the tech world. A videoconference call to Tokyo with an awkward audio delay makes for stilted dialogue. After ten minutes Mr Son often interrupts, as one founder tells it: "Stop, I know. I've heard enough, how much do you want?" He then offers up to four or five times what the entrepreneur suggests. Any questions over what the firm would do with that much money and Mr Son threatens to put the cash into a rival, usually leading to capitulation. During talks with Uber, he threatened to invest in Lyft. SoFi, Didi, Grab and Brain Corp, which builds machine brains for robots, all got variations of the treatment.

Money is not the only thing that the fund offers; so is the privilege of joining the "family". Once the Vision Fund has invested in 70-100 or so companies, it will have the world's biggest collection of young tech firms. They will create an ecosystem where they will be each other's customers, will merge with each other, and swap help and advice, says Mr Misra.

The idea is that such ties will help firms grow more quickly. Mr Son is intent on taking American and European startups into Asia, and vice versa, and Asian ones into nearby countries. SoftBank will act as a guide—its network in Japan, for example, is a boon to Slack, a messaging company in which it has a sizeable stake, as it expands there. SoftBank sometimes makes it a condition of investing in a young Western firm that it must enter a joint venture in Asia.

OYO Rooms, an Indian startup that overhauls and brands small, local hotels, provides another example of collaboration. It is preparing to enter Europe and is moving into China, where Mr Son's connection to Alibaba and other firms has helped, says Ritesh Agarwal, its founder. In Shenzhen, now one of OYO's big markets, it ran a joint ad campaign with Didi with the tagline "ride comfortably with Didi, stay comfortably with OYO".

Mentoring is also sold as a benefit of clan membership. Executives from Grab and Ola often visit Didi to learn from its mistakes, says Mr Misra. "As the number of portfolio companies increases, the possibilities for synergies will be unlimited," says Mr Son. "The Vision Fund is a platform where portfolio companies can stimulate and collaborate with one another."

When the bill comes due

Mr Son's pitch does not convince everyone. Analysts have marked down SoftBank's shares in large part because they fear Mr Son's big bets on the future, notes Chris Lane of Bernstein, an equity-research firm. In recent years SoftBank has traded at a 30% discount to the value of its assets, which include its holding in Alibaba. This gap has widened lately.

Some wagers in particular raise eyebrows. His investments in ride-hailing firms attract criticism because their business models are easy to copy, and because his injection of cash may, in the short-term, encourage them to burn even more of the stuff battling each other. Putting $4.4bn into WeWork, a provider of shared workspaces, valuing it at $20bn, is another risky bet. The firm leases office space, redesigns it to create a hip vibe and sublets it to startups, freelancers and some big firms. The worry is that WeWork is little more than a commercial-property company that is unjustifiably trading on a tech valuation and will soon be rumbled.

SoftBank's shareholders are firmly on the hook when it comes to the Vision Fund. It is the only investor to contribute nothing but equity and would lose its $28bn first if the fund falls steeply in value. Of the money contributed by known outsiders, just over 60% is in the form of debt, which will receive a 7% coupon, to be paid every six months. According to people familiar with the fund, it will move in and out of investments but it will always keep a buffer of around $20bn to make follow-on investments in existing portfolio firms and to pay the coupon each six months. (That cushion underlines that the headline figure of $100bn is partly a marketing strategy.) The flipside of this structure is that SoftBank's returns from the Vision Fund are leveraged, because it holds only equity, so it would profit handsomely if things go well. It also gets an annual management fee and a performance bonus if the fund surpasses expectations. A rough estimate is that if the underlying investments return only 1% a year for the fund's life of 12 years, SoftBank's annual internal rate of return (IRR) would be -4%, whereas if they returned 20% a year, the annual IRR would be 27%.

What, then, would count as success after the fund has run its course? Mr Son has repeatedly said that even without Alibaba, his investments have produced a remarkably high IRR of 42% (with Alibaba included, it rises to 44%). But IRR is a fuzzy concept with no standard measure and can be manipulated. The discrepancy between the figure of 42% and the poor relative performance of SoftBank shares may be more telling.

It seems certain that the Vision Fund is aiming high. But the bigger a fund is, the harder it is to make high returns. Success in venture capital in particular is based on the idea of making a range of bets with returns that are likely to diverge sharply. Out of a portfolio of, say, 50 investments, the chances are that 20 will fail and 20 might produce a middling return. The real money comes from the few that generate an extraordinary windfall, such as Accel achieved with its early investment in Facebook or Sequoia with Google.

Achieving such a distribution is harder when investing huge sums, in the range of $100m to $5bn. In the case of a $5bn investment, it would not be enough for the Vision Fund to exit even at $50bn; it would need an exit at $100bn or more, and such outcomes are extremely rare. Perhaps, as the portfolio is tilted heavily towards later-stage investments in more tried-and-tested businesses, the answer is that there will be fewer failures, so big wins are not as essential. But the Vision Fund has lots of early-stage bets too, such as Improbable or Plenty, an indoor-farming startup. It may require a firm such as Uber, Didi or Arm to end up worth over $500bn for the fund to meet Mr Son's definition of success.

The complexity of the relationship between the Vision Fund and SoftBank is another potential vulnerability. Despite a strong alignment of interest, the two sets of shareholders might disagree about which firms should go where. Or Mr Son might spread himself too thin. He seldom sees anything but upside, says a person close to him. That may make him unrealistic about the need for him to stay closely involved in all the Vision Fund's investments. He is probably the only one who fully understands the jigsaw puzzle of AI, satellites, data and so on that it comprises.

Mr Son will also run up against limits on his ability to influence founders and find synergies. The fund's stakes are usually below 30%, so it has few formal levers to force chief executives into deals or alliances they find unappetising. And where he presses for long-term growth and advances in frontier technologies, other investors may prefer near-term profits.

Unaugmented reality

Even success would have its complications. As some firms get bigger and more dominant, regulators are casting a warier eye. In ride-hailing, the most high-profile part of the portfolio, antitrust watchdogs are stirring. It was a shock to regulators in Singapore, Vietnam and the Philippines when, after Grab merged with Uber, the latter prepared to wind down, leaving Grab as the monopoly operator. Competition reviews have begun in all three places.

Mr Son's connections in China may also be double-edged. They could benefit firms looking to enter the local market. But amid rising nervousness in Washington, DC, about China's clout in tech, they are also attracting attention from America's powerful Committee on Foreign Investment in the United States. Its pending review of SoftBank's acquisition of its stake in Uber, for example, means that Mr Misra has yet to take his seat on the firm's board.

As for the Vision Fund's broader impact on startups, the most controversial question is whether stuffing balance-sheets with too much capital encourages indiscipline. Startups perish more often from indigestion than starvation, runs a Silicon Valley saying. Too much money can create unrealistic expectations and lead to waste, inefficiency and sloppiness. Mr Gurley, who has long warned about a bubble, notes that the cash-burn rate of the top 200 private tech firms is now probably five times faster than in 1999, and the Vision Fund is adding to the risk.

Mr Son's broad aim in giving out such massive cheques is to ensure that founders can focus on their businesses rather than spending time preparing for their next funding round. "Too much money has a bad effect," he says, "but turbocharging the firms that have a great formula stimulates founders' thinking and gives them stamina." It seems clear, however, that smaller firms, once they get the money, are elevated above their rivals. Having lots of capital is in itself a shield against competitors. Patricia Nakache of Trinity Ventures, has dubbed Vision Fund companies "untouchable" or "super haves".

Some founders do say "no". One such was David Rosenberg, who set up AeroFarms, an indoor vertical-farming startup, in upstate New York in 2004. The firm is well-established and operates nine indoor farms (the most recent is the world's largest) using its patented aeroponic system to grow many different types of leafy greens and herbs. When Mr Rosenberg found out the Vision Fund's minimum cheque size was $100m, he turned it down. "I did not think at the time that we could spend that money in a responsible way," he says.

Such self-denial is rare, and the wider effects of such massive sums are already being felt. The Vision Fund intensifies an existing trend for ever-greater wads of money to pour into startups, pumping up valuations. That in turn reinforces a tendency for highly valued private companies to shun the public markets for longer. Some founders now even speak of "doing an IPO to the SoftBank market".

It also brings disruption to those who have themselves mercilessly backed upstarts in established industries (see chart 3). The fund's reach and heft has stoked intense jealousy among American private-equity and venture-capital bosses, notes one New York-based financier close to Mr Son. The next three biggest growth funds of venture-capital firms add up to a mere $12bn, and all but the biggest are now often priced out of later-stage funding rounds.

In response, investment firms in Silicon Valley are attempting to up the ante—Sequoia, for example, is raising a new $8bn global growth fund. Some of them have taken to warning startups against accepting funding from Saudi Arabia which, despite its new and more liberal instincts, is still a deeply repressive country. But few entrepreneurs will turn down the largesse. As one quips, not all money can come from the blue-chip Rockefeller Foundation.

As a result the fund is swinging the tech pendulum a little away from Silicon Valley. Money is gushing from farther-flung places. Only around a third of the Vision Fund's cash comes from American, Japanese and Taiwanese firms; 60% hails from Saudi Arabi and Abu Dhabi. And its money is also flowing to places where capital is in shorter supply. The beneficiary should be Europe, which has struggled to attract the sums that routinely get invested in startups in America and China.

The risks, however, are huge. Determined to invest in indoor farming, but unable to back AeroFarms, Mr Son last year put $200m in Plenty, which was founded in 2014. The firm has not yet started selling produce to customers; it plans to do so in San Francisco very shortly. Its founder, Matt Barnard, a Steinbeckian character who grew up on a cherry-and-apple farm in Wisconsin, reckons that indoor farming could help the global fruit-and-vegetable industry quintuple from $500bn today to $2.5trn. Without having sold a single lettuce, Plenty is planning expansion into China and Japan. Like the Vision Fund itself, such a firm will either fail dramatically or succeed beyond all expectations—regardless, it will happen on a grand scale.

This article appeared in the Briefing section of the print edition under the headline "The Son kingdom"

Steering group

A bold scheme to dominate ride-hailing

And to take a firm grip on the future of personal transport

Print edition | Briefing May 10th 2018

OF ALL his ambitious plans, Masayoshi Son's most audacious is to create an informal business group among the world's leading ride-hailing firms. SoftBank has put $20bn into these businesses, starting in 2014 with an investment in India's Ola. It soon added a stake in Grab, which operates across South-East Asia. Its first investment in China's Didi came in 2015; it later added an investment in Brazil's 99 (which is controlled by Didi). Its 15% stake in Uber was acquired in January. How sound a bet this web of investments is remains uncertain, given low barriers to entry and the fact that none of the firms is profitable. But now that around 90% of rides hailed in the world—45m a day—use one of the firms in which SoftBank has stakes, success for the industry will almost inevitably mean success for Mr Son.

In the near term, the focus is on encouraging the ride-hailing firms to compete less feverishly and push up fares. Mr Misra has called on Uber to concentrate on its core markets of North and South America, Europe and Australia in order to narrow its losses before an IPO expected in 2019. In March SoftBank pulled off a coup when Uber agreed to sell its business in South-East Asia to Grab in return for a 27.5% stake. Uber will stop operating in Singapore, the Philippines, Malaysia and Vietnam, leaving the field clear, in theory, for Grab to raise prices.

SoftBank is now urging consolidation in India, where Uber is battling Ola. Mr Son and Mr Misra are encouraging meetings between the firms' bosses and stress the benefits of a deal. But having backed out of Russia, China and South-East Asia, Uber is determined not to cede in India. It will test the relationship between Uber and its new, biggest shareholder. "Masa can be forceful but it is advice only," says Dara Khosrowshahi, Uber's boss.

In the longer term Mr Son sees ride-hailing as a way to profit from a wider upheaval in transport, as the firms develop autonomous cars and roll out electric vehicles. He may invest in charging stations, as well as leasing and financing vehicles. Mr Son's family of firms could help. Nauto, for example, collects data about drivers' behaviour that will be useful for self-driving cars. As Mr Khosrowshahi notes, it is another example of Mr Son putting the pieces together and seeing the end state in an industry. And then backing the idea with lots of money.

This article appeared in the Briefing section of the print edition under the headline "Steering group"

Guaranteeing employment
Make work can't work

Make work can't work

A jobs guarantee is a flawed idea

Democrats are trying to impress their base, rather than writing good policy

Print edition | United States May 10th 2018

IN APRIL America's unemployment rate fell to 3.9%, its lowest since December 2000. That is not good enough for Democrats eyeing the 2020 presidential race. Senator Bernie Sanders recently promised to introduce a bill guaranteeing every American a taxpayer-financed job, should they want it. His colleague, Senator Cory Booker, has already written a bill which would test such a policy in 15 places with high joblessness. Senators Kamala Harris, Elizabeth Warren and Kirsten Gillibrand, three other potential presidential contenders, are co-sponsors. Ms Gillibrand will reportedly soon pen her own plan, too.

For a long time, so-called full employment was the holy grail of economic policy for Democrats. In his 1944 state of the union address, President Franklin Roosevelt proposed a "second bill of rights" that would guarantee the right to work. In 1946 Congress passed the Employment Act, which declared it the responsibility of the federal government to "use all practicable means" to ensure there were jobs for everyone who was willing to work. The Keynesian demand management that followed kept unemployment fairly low for several decades. But even as the post-war consensus on economic policy was collapsing in 1978, Congress passed the Humphrey-Hawkins Full Employment Act, which set a goal of 3% unemployment by 1983. The act, much of which turned out to be toothless, also asked the government to create a "reservoir of public employment". Had the left got its way, the welfare reform President Bill Clinton signed in 1996 would also have guaranteed a minimum-wage job, as a last resort, for those leaving the welfare rolls.

The timing of Democrats' revival of the idea of a jobs guarantee is strange because many economists, including those at the Federal Reserve, think that the economy is beyond full employment. To their mind, the unemployment rate is unnaturally low, and if policymakers try to sustain it via stimulus, inflation will result. If they are right, today's joblessness is the result of structural factors, such as insufficient skills, unrealistically high wage demands, or an unwillingness of workers to leave stagnant areas. It is not the involuntary unemployment, resulting from a weak economy, which so concerned Keynes.

Still, a strong economy does not make a jobs guarantee pointless. It would reduce structural unemployment. If recession did strike, more government jobs would both provide a safety net for workers and automatic stimulus to demand. Most important, guaranteed alternative employment would raise the bargaining power of unskilled workers. They could use it as leverage when negotiating with their existing employers. Mr Booker's plan would offer parental leave, health insurance and pay its participants a wage that would eventually rise to $15 an hour. Private employers would have to compete with this generosity when hiring workers. That appeals greatly to those who fear automation and the gig economy are combining to create a glut of low-paid workers without bargaining power (in Britain, such workers have been dubbed the "precariat").

Low-paid jobs are concentrated in the food, hospitality and retail industries. Some employers would match the government's terms. It is easy to imagine, say, restaurants in San Francisco or New York, whose wealthy customers may not balk at higher prices, paying their workers more and passing the costs on to customers. But others, such as those in the beleaguered retail industry, could struggle.

The policy's supporters compare it to the minimum wage, which they say has not much dented employment even when set high. But that has typically been in rich cities. Were the terms of employment as generous as Mr Booker wants across the country, the impact on the government payroll could be huge. About half of America's 148m workers earn less than $15 per hour. In some southern and south-western states, the figure is almost 60% (see chart).

That would not be a problem, were the government capable of productively employing tens of millions of new workers. Supporters of the policy envisage armies of labourers erecting infrastructure, caring for children and cleaning up the environment. Yet some of these jobs are skilled. Others are unsuitable for a programme that would face high turnover in a strengthening economy, and sudden influxes during recessions. In any case, it is hard to imagine the government operating the programme efficiently, even if the job of running projects were delegated to states, as proposed by the Centre on Budget and Policy Priorities (CBPP) a left-leaning think-tank. Government at all levels employs 22.3m Americans. Even if the CBPP's estimate of take-up of about 10m is right, it would represent nearly a 50% expansion of the government payroll. It is not clear whether these workers could be sacked if they performed poorly.

It goes without saying that Congress is unlikely ever to authorise such an intervention, not least because it would be expensive. The CBPP's conservative calculation puts the bill at $543bn (2.7% of GDP)—about one-and-a-half times what the federal government spent on Medicaid in 2017. Mr Sanders has not yet set out where he will find the money. Raising that much cash with only new taxes on the rich will be difficult (although a jobs guarantee could cause other welfare spending to fall).

A more realistic route to improving the lot of low-skilled workers would be to beef up labour market regulation, and to subsidise unskilled jobs to the degree necessary to keep them profitable for employers. This could be achieved incrementally, for example by expanding tax credits for low earners. Many Democrats claim that such schemes subsidise big corporations, like Walmart, to pay low wages. It is true that firms see about a third of the benefit of such subsidies, according to the best research on the subject. But unlike a jobs guarantee, they do not risk the colossal waste of resources that is likely from a huge expansion of the government payroll.

That will not worry Democratic presidential hopefuls, who are happily playing to the left of the party. They seem most concerned with guaranteeing a job for themselves—in the Oval Office.

This article appeared in the United States section of the print edition under the headline "Make work can't work"

A smattering of primaries

Fringe candidates and House Republicans fare poorly

The centre mostly holds, for a change

Print edition | United States May 10th 2018

THIS autumn Democrats must defend ten Senate seats in states that President Donald Trump won. They may well flip Republican-held seats in Nevada and Arizona, so Republicans have to pick off at least a few of those ten seats if they want to retain their majority. Primary elections in three of these states—West Virginia, Indiana and Ohio, as well as North Carolina—were held on May 8th. Viable candidates prevailed in all three, partly by emphasising their affinity with Mr Trump. Yet even though Republicans control both houses of Congress and the White House, anti-establishment anger still animates their base.

The fear for what remains of the Republican establishment was that Don Blankenship would prevail in West Virginia, where Mr Trump won 68.5% of the vote in 2016. Mr Blankenship is a doughy, charmless ex-convict who praised China's "dictatorial capitalism" and spent a year in prison for conspiring to evade federal mine-safety standards after an accident killed 29 men at one of his company's mines. His campaign ads featured him staring into the camera while droning racist bilge. On the other hand, he hates the federal government and Mitch McConnell—whom he called "Cocaine Mitch", and whose "China family" (Mr McConnell's wife was born in Taiwan) he mocked. Though the president urged people to vote against him, Mr Blakenship claimed to be Trumpier than Trump.

To the relief of Republicans running in November, he lost West Virginia's Senate primary to Patrick Morrisey, the state's attorney-general (Mr McConnell's gloating tweet read "Thanks for playing, Don," and depicted the Senate majority leader smirking in a cloud of white powder). In November he faces Joe Manchin, who will be a tougher opponent than the state's numbers hint. Mr Manchin is a populist Democrat and wily campaigner with deep local roots, whereas Mr Morrisey did not move to West Virginia until 2006; before that he lobbied for pharmaceutical firms in Washington, which could prove damaging in a state wracked by opioid deaths. Elsewhere in West Virginia, Richard Ojeda, a pro-gun, tattooed army veteran who passionately defended his state's striking teachers, won the 3rd District's Democratic primary.

Indiana's three-way slugfest ended with Mike Braun, a wealthy businessman, prevailing over Luke Messer and Todd Rokita, both Republican congressmen. (Evan Jenkins, another Republican congressman also lost in West Virginia.) All three candidates tried to claim Mr Trump's mantle while emulating his style, lambasting each other with derisive nicknames: "Lyin' Todd" for Mr Rokita, who falsely implied that Mr Trump had endorsed him; "Missing Messer" for the congressman who allegedly spends more time in the Washington area than Indiana; and "Tax Hike Mike" for Mr Braun, who voted to raise the gas tax when he was a state legislator. Mr Braun will face Joe Donnelly, the Democratic incumbent, in November, in a state Mr Trump won by nearly 20 points.

In North Carolina's 9th District, Robert Pittenger, the incumbent Republican congressman, lost to Mark Harris, whom he defeated in 2016. Mr Harris, a Baptist pastor who called his opponent a "Republican liberal", will face Dan McCready, a well-funded former marine turned solar-power executive, in November. Though the 9th has been Republican for decades, it is the sort of suburban district that Democrats think they can flip—and indeed over 10,000 more Democrats than Republicans voted in the primary.

The sole bright spot for House Republicans was seen in Ohio, where Jim Renacci, who has represented Ohio's 16th District since 2010, defeated Mike Gibbons, a banker from Cleveland, following an endorsement from Mr Trump. Mr Renacci hopes to oust Sherrod Brown, a populist Democrat who has held the Senate seat since 2007.

The Democratic centre held in Ohio's primary for governor, where Richard Cordray, once head of the Consumer Financial Protection Bureau, defeated Dennis Kucinich, a former congressman and presidential candidate, who has defended both Mr Trump and Bashar al-Assad. Elizabeth Warren endorsed Mr Cordray, while groups affiliated with Bernie Sanders backed Mr Kucinich. Mr Cordray will face Mike DeWine, who beat him in the race for attorney-general in 2010. A battle between two mainstream politicians may not thrill the fringes, but it will satisfy the centre—a welcome rarity in American politics.

This article appeared in the United States section of the print edition under the headline "The centre mostly holds"

The lady from Langley

Gina Haspel, alleged water-boarder, could be the next CIA director

Ms Haspel's performance at her confirmation hearing should assuage enough of her critics

Print edition | United States May 10th 2018

REASONABLE people can disagree about Gina Haspel's fitness to lead the CIA. On the one hand, Ms Haspel, who has been nominated for the position by President Donald Trump and was grilled by the Senate Intelligence Committee on May 9th, has been a highly regarded member of the agency for 33 years. She would also be the first women to lead it. On the other hand, her post-9/11 role managing a secret prison in Thailand where "enhanced interrogation" techniques such as waterboarding were used on an al-Qaeda prisoner recalls a bleak episode. She was also controversially involved in destroying evidence of those interrogations. Yet Ms Haspel's confirmation hearing was less an honest airing of this dilemma than a partisan mud-wrestle.

In her opening remarks, she sought to head off the coming Democratic assault on her interrogation record. "Having served in that tumultuous time," she said, "I can offer you my personal commitment, clearly and without reservation, that under my leadership, CIA will not restart such a detention and interrogation programme." Yet, under questioning from Kamala Harris of California, she refused to say whether she considered that programme "immoral". How could she? If it was not immoral, it would probably still be legal. Yet to admit its immorality would be a damning indictment of her record and deeply unpopular at the CIA. Democratic senators, most of whom will vote against Ms Haspel, may cite this as a decisive moment.

She will probably still be confirmed. Though a couple of Republicans—including Rand Paul of Kentucky and perhaps John McCain, ill at home in Arizona—may not support her, two or three Democrats will make up a majority. Joe Manchin of West Virginia says he will be one. Ms Haspel also offered a couple more reasons to welcome that. She oozed confidence in her brief. Richard Burr, the Republican committee chair, described her as the best prepared nominee to lead the CIA ever. In particular she stressed a need to improve basic intelligence-gathering skills, such as foreign languages, which sounded reassuringly sensible. This good impression also spoke well of the agency's previous director, Mike Pompeo, now secretary of state, who must have backed her nomination.

Even so, two worries about Ms Haspel's likely confirmation remain. One concerns the message it would send to the president, who has claimed to be a fan of torture. It is Mr Trump, not Ms Haspel, who makes her record most problematic. The second concerns the Senate Intelligence Committee. Steep growth in the CIA's powers and responsibility have made congressional oversight of it more important than ever. The fact that Ms Haspel would be such an insiderish appointment underlines that. Yet the deepening partisanship on the committee, one of the last effective congressional bodies, puts it in doubt.

This article appeared in the United States section of the print edition under the headline "The lady from Langley"

Truth and consequences

How Trump's lawyers are becoming a liability

Though their acts look tawdry rather than criminal

Print edition | United States May 12th 2018

"TAKE away credentials" from "Fake News", tweeted President Donald Trump on May 9th. Such outbursts are usually a sign that Mr Trump is feeling the pressure. The day before, Michael Avenatti—the lawyer representing Stephanie Clifford, an adult-film star who performs as Stormy Daniels, with whom Mr Trump allegedly had an affair—released a document claiming that a payment made by Michael Cohen, Mr Trump's longtime lawyer and fixer, to Ms Clifford may have come from "a Russian oligarch with close ties to...Vladimir Putin". Just a few days earlier Rudy Giuliani, one of Mr Trump's lawyers, inadvertently raised the possibility that the president may have violated campaign-finance laws. How much trouble is Mr Trump really in?

At least $4.4m flowed through Essential Consultants, a company created by Mr Cohen, between October 2016 and January 2018. Columbus Nova, an American investment firm with links to Viktor Vekselberg, an oligarch close to Mr Putin, paid Essential Consultants $500,000 as a consulting fee. The firm says that Mr Vekselberg had nothing to do with the payment. AT&T, Novartis and Korean Aerospace Industries also paid sizeable fees to Mr Cohen's firm.

Where the money went, and what the companies got for it, remain unclear. Perhaps Mr Cohen simply persuaded them that he had insight or access worth paying for. That is tawdry, but regrettably common in Washington. Corey Lewandowski, one of Mr Trump's campaign managers, set up a consultancy after Mr Trump won in order to profit from his ties to the president; Paul Manafort, another campaign manager, is a veteran of the cash-for-influence business.

The campaign-finance question is thornier. Just weeks before the 2016 election, Mr Cohen arranged a $130,000 payment—through Essential Consultants, naturally—to Ms Clifford in exchange for her silence about an alleged affair with Mr Trump. Mr Trump's name is not on the agreement. Messrs Cohen and Trump both say that the affair with Ms Clifford never happened (though they paid her anyway).

On May 2nd, however, Mr Giuliani told Sean Hannity, a talk-show host and fervent backer of Mr Trump, that Mr Trump "funnelled [the $130,000] through a law firm and...repaid it." In a television interview four days later Mr Giuliani allowed that Mr Cohen might have paid off other women on Mr Trump's behalf. In all Mr Trump paid Mr Cohen around $460,000—the initial repayment plus extra to cover taxes and, as Mr Giuliani put it to the *Washington Post*, "a few other situations that might have been considered campaign expenses."

Mr Giuliani contends that because the payment to Ms Clifford—which the president previously said he knew nothing about—came from Mr Trump's personal rather than campaign funds, and would have been made regardless of his candidacy, the payment did not violate federal campaign-finance laws. That sounds conclusive enough. But there are many ways to fall foul of campaign-finance laws.

A candidate may spend as much of his own money on trying to get elected as he likes; it just has to be reported as a campaign contribution, which this payment was not. Then there are caps on donations. In general elections, individuals cannot contribute more than $2,700—well below what Mr Cohen gave Ms Clifford—to a specific candidate. Nor can they use their own names to disguise a contribution's true source, which in this version of the story the White House cannot get straight, would be Mr Trump.

The relevant federal statute defines a contribution as "any gift, subscription, loan... or anything of value made by any person for the purpose of influencing any election for federal office." Mr Giuliani told a trio of Fox News hosts that the payment "was for personal reasons", not political ones. But he immediately undercut that claim, musing, "Imagine if that came out on October 15th 2016, in the middle of the last debate with Hillary Clinton...Cohen made it go away."

Jed Shugerman, a law professor at Fordham University, calls Mr Giuliani's strategy "admit and spin": admit the repayment, because federal investigators probably know about it anyway, and portray it as normal, non-felonious conduct. Others posit that Mr Giuliani is trying to overwhelm and confuse, so voters do not know whom to believe. There is also a third possibility, which is that two septuagenarians who surround themselves with flatterers are not the most adept legal strategists.

The Federal Election Commission (FEC) can impose fines for accidental campaign violations. But "knowing and wilful violations" of campaign-finance laws are felonies, punishable by up to five years in prison. That landed John Rowland, a former governor of Connecticut, in federal prison for 14 months. And John Edwards, a former senator and presidential candidate, was prosecuted for paying his former mistress to ensure her silence. The Justice Department argued that the funds, which came from a donor, were campaign contributions because they were meant to help Mr Edwards hide the affair from voters.

That does not mean that Mr Trump is about to be hauled out of the Oval Office in handcuffs. Politically, the bar to file charges against a sitting president is higher than the bar for a failed candidate or ex-governor. The entity that the president calls "the Trump Justice Department" would have to want to prosecute, which seems unlikely. Yet for all Mr Trump's grousing about "fake news", prosecutors have indicted a number of his former associates. He has duly begun distancing himself from Mr Cohen, whom he now says performed "a tiny, tiny fraction" of his "overall legal work".

This article appeared in the United States section of the print edition under the headline "Cash flows"

Attention deficit

Too often, poverty is treated with pills

Children whose parents are eligible for Medicaid are much more likely to be prescribed psychotropic drugs

Print edition | United States May 10th 2018

IN A recently released documentary,"Take Your Pills", Leigh, a freckled college senior, sits on her bed and reflects on her relationship with Adderall, a stimulant widely used to treat Attention Deficit Hyperactivity Disorder (ADHD), a condition that makes it hard to focus or control impulses. "Adderall for me has always been, like, when you're desperate...You're like, I need this right now because I need to be my best, smartest, fastest self," she says, after calculating what score she will need on an imminent exam to boost her final grade. Later on, Nathanael, a software engineer with piercing blue-green eyes who codes with a cat nestled in his lap, recounts how Adderall allowed him to work intensely until midnight—a coder's dream.

According to a study conducted by Milken Institute School of Public Health at George Washington University, in 2011 12% of American children and teenagers had a diagnosis of ADHD, an increase of 43% from 2003. IMS Health, a health-care information and services company, found that sales of prescription stimulants like those used to treat ADHD quintupled between 2002 and 2012 to nearly $9bn. People like Leigh and Nathanael, who sometimes turn to medication to cope with pressure, often spring to mind as typical consumers of such things. But they are not the only ones. A new study by researchers at the University of Maryland School of Pharmacy reveals high rates of psychiatric diagnosis and medication use among poor, very young Americans.

The study, which was published in *JAMA Paediatrics*, a medical journal,looked at 35,244 children born in an unidentified mid-Atlantic state in 2007 and followed them until the end of 2014, when they were seven years old. All the children were enrolled in Medicaid, which provides free or cheap health care to low-income Americans. By the age of eight, when children are typically learning about fractions and the solar system, nearly 20% of those studied had received a psychiatric diagnosis. The rate in the population at large is around 14%, according to the National Survey of Children's Health. Just over 10% of children in the study group received medication to alter their mental state.

Dinci Pennap and Julie Zito, respectively a PhD candidate and professor at the University of Maryland School of Pharmacy, directed researchers to look at diagnoses including ADHD, learning disorders, anxiety disorders, depression and autism-spectrum disorders. ADHD was the most prevalent condition diagnosed, and stimulants were the most commonly prescribed drugs. The research also suggests startlingly high psychiatric diagnosis rates among young children receiving foster care. Nearly 60% of children in foster care had such a diagnosis, compared with 17% for "income-eligible" children whose families hover at or below the federal poverty level.

The finding that poor children are more likely to be medicated echoes previous research. A study conducted by researchers at Columbia and Rutgers Universities and published in 2009 found that children covered by Medicaid are provided with antipsychotic drugs, used to treat conditions such as bipolar disorder, at a rate four times higher than privately insured children, and often for less severe conditions.

"One problem is that we're medicating behaviour," says Ms Pennap, the Maryland study's lead author. "If a child doesn't do well in school, they're medicated because they might be in homes where their parents work three jobs and don't have the bandwidth to explore the underlying problems or nonmedical options." Dr Zito partly blames direct-to-consumer drug advertising and the urge to reach for quick fixes. Her most pressing worry is that there has been little scrutiny of the long-term effects of exposing young children to such medication. "They have little hearts, little brains, and little livers. We really don't know how the physiology of young kids will be impacted by these potent drugs," Dr Zito muses. In most scenarios, poor children are likely to have less than wealthier children: less educational opportunity, less healthy food, less-safe neighbourhoods. When it comes to psychotropic drugs, the opposite is true.

This article appeared in the United States section of the print edition under the headline "Attention deficit"

The wrong remedy

Faced with a housing crisis, California could further restrict supply

Rent control sounds appealing but is counter-productive

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"THE rent is too damn high," read the signs brandished by tenant advocates at rallies held in late April in Oakland (median monthly rent: $2,950), Los Angeles (median monthly rent: $2,700), and Sacramento (median monthly rent: $1,895). The activists gathered, along with local politicians, to announce that they had collected the signatures necessary to include a proposal on California's November ballot that would pave the way for cities to expand rent control. This, they feel, is the only way to mitigate the shortage of affordable housing in the state.

The measure will seek to repeal the Costa Hawkins Rental Housing Act, a law passed in 1995 that places restrictions on local rent controls. It bars the 15 Californian cities that have them from introducing rent control in buildings constructed after 1995, and freezes previous municipal rent-control ordinances in place. In Los Angeles, this means that local leaders cannot mandate rent control in any building completed after October 1978. The law also regulates how much landlords can increase rent between tenants, and bans rent control on single-family homes. California's legislators tried and failed to repeal Costa Hawkins earlier this year.

The renewed push for an expansion of rent control comes at a time of fierce debate over the future of California's biggest cities, where housing is in short supply and rents have been rocketing. According to Trulia, a property-rental and sales platform, median rents in Oakland grew by 51% between 2012 and 2017; in San Francisco, they grew by 38% over the same period. Over half of California's renters spend more than 30% of their income on shelter, according to the California Budget and Policy Centre, a research group. Instead of straining to cobble together rent, many Californians are trading palm trees for cheaper pastures in Texas, Arizona and Nevada. Others have been forced onto the streets. Homelessness in California rose by 14% between 2016 and 2017, according to the Department of Housing and Urban Development, a federal agency, compared with 1% nationally. Gloria Cortez, a mother of six, alleges she was recently evicted from her home in Pomona after complaining that mould was making her feel ill. She and her family cannot find another apartment they can afford, and now divide their sleep between hotels, cars and parks.

Champions of expanded rent control argue that it will allow cities to protect and increase their stock of affordable housing. "We need tools to prevent price gouging," says Elena Popp, executive director of the Eviction Defence Network, one of three groups leading the charge to repeal Costa Hawkins. "It's insane that a developer can go in and buy a building where the median rent is $1,100 and bump it up to $2,700 from one day to another."

Such stories are troubling, but rent control is likely to make California's housing problems even worse. A team of economists at Stanford University recently studied a 1994 ballot initiative in San Francisco that brought in rent protections for small multi-family housing built before 1980. The policy inspired landlords affected by it to convert their units into condos or redevelop their buildings, reducing their supply of rental housing by 15% and pushing up rents by 5% across the city. Paul Habibi, a professor at the Anderson School of Management at the University of California, Los Angeles, who invests in a mix of rent-controlled and non-rent-controlled property in the city, also points out that rent control does not necessarily benefit those most in need. "It seems sort of perverse that you can end up with a banker making $400,000 in a rent-controlled unit, while a plumber is forced to pay market rates."

It would make more sense to build some houses. Data released by the California Department of Housing and Community Development in January suggest that 98% of the state's cities are failing to approve the construction needed to keep pace with population growth. In Los Angeles, the main barrier is an antiquated zoning code that is heavily skewed towards single-family homes. In April California's state legislature blocked a plan to abolish caps on building height in some places, which would have allowed developers to scrape the sky.

The Golden State is thus likely to respond to its shortfall by restricting housing supply even more. No polling has yet been done on the movement to repeal the restrictions on rent control, but a survey conducted by the Institute of Governmental Studies at the University of California, Berkeley, of registered Californian voters in 2017 found that 60% of those polled supported rent control. Just 26% opposed it.

This article appeared in the United States section of the print edition under the headline "The wrong remedy"

Lexington

Laughing with Diamond and Silk

What the success of a pair of political entrepreneurs reveals about voting and race

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THE three southern ladies entering the Marriott Hotel in Greensboro, North Carolina, were clear about why they loved Diamond and Silk. "They're very conservative," said Stephanie, who had driven for two hours over from Charlotte to watch the social-media stars and professional Trump fans perform their new show. "And, you know, they're black," said Gracie. "That means black people don't need to have a certain point of view." It also makes some whites feel better about holding a certain view. Soothing Trump voters' anxiety over their reputation for racism is the main function of Lynnette Hardaway and Rochelle Richardson, as Diamond and Silk are properly called. It has made them highly successful political entrepreneurs.

Members of a family of small-time televangelists, the former Democrats emerged on YouTube during the 2016 Republican primaries, when they began uploading pro-Trump video messages. One of the first to pass a million views—a diatribe against Megyn Kelly, then a Fox News journalist, after she asked Mr Trump why he verbally abused women—illustrates their method. It features Ms Hardaway raging in her dining-room against that "bitch…Megyn Kelly or Kelly Megyn" and advising her to "leave my man Donald Trump the hell alone." Ms Richardson, sitting snug against her sister, accompanies her with hyperactive head rolls, hand gestures and expostulations of "mm-hmm" and "That's right!" Like their hero, the sisters are reality-politics stars: shouty, free with facts and comical, though apparently in earnest. They have 1.7m followers on Facebook, a line in Diamond and Silk merchandise (including a song, "Trump's Yo President", downloadable for $1.99), and a prominent perch on the right. They have appeared on stage with Mr Trump and in the Oval Office. Last week they spoke at the National Rifle Association's annual shindig, and the week before they testified to Congress on their contested claim to have been censored by Facebook.

They say Mr Trump opened their eyes to the way Democratic identity politics keeps blacks poor and loyal to the left. When politicians stop talking about race, they suggest, racial inequalities dissolve. "Trump's not a racist, he's a realist," Ms Hardaway says. "The only colour he sees is green and he wants you to have some." Such arguments have long been popular on the right, as an endorsement of small-governmentism and as an explanation for why nine out of ten blacks vote Democratic, though 70% identify as conservative or moderate. Yet black voices give those familiar lines a special power. Ms Hardaway describes blacks as living on "the Democratic plantation" and Hillary Clinton as a "slave master". The rapper Kanye West recently echoed her. He suggested his fellow African-Americans prefer Democrats because they are "mentally enslaved" by a Democratic platform unduly focused on past injustice. Mr Trump, who loves a celebrity boost, claimed Mr West had "doubled" his black following. There is no evidence for that; only 13% of blacks like Mr Trump. Diamond and Silk are in fact more revealing of where the president stands with African-Americans, not least because they appear to have few black fans.

During an hour-long show in Greensboro, before an almost exclusively white crowd, the sisters drew on other black conservative strains. They offered hints of the love of Mammon in the prosperity gospel and, in their gags about black poverty and naivety, a comic spin on the disdain for other blacks that Ta-Nehisi Coates, a writer, divines in Mr West. Yet their act was mainly an exercise in rattling off Mr Trump's positions—the sisters claimed to be pro-wall, pro-gun, against destroying Confederate monuments and sounded fairly relaxed about male sex pests—interspersed with reminders that they are, you know, black. The validating effect of this combination was what many in the audience had paid $50 a ticket for. Ms Richardson's black-sister shtick and the snarks against black heroes such as Barack Obama and Oprah Winfrey got all the biggest cheers. "All these white folk here to see two black girls and people say we're racist!" a woman seated behind Lexington kept repeating to her husband.

There is a debate about how sincere Ms Hardaway and Ms Richardson are. But it rather misses the point. Political activists do not use stage-names. Whatever the sisters' private views, Diamond and Silk is an act (a "routine", Mr Trump calls it) which is not merely designed, but boastfully promoted, to fill the role of token black face in a mostly white political movement. The fact that the sisters are comedians makes their artifice—and their fans' willing suspension of disbelief—seem all the more obvious.

Mr Trump's rise has brought a proliferation of such political role-playing. The president reprises the role of boardroom titan he played on "The Apprentice" and his supporters pretend that this was why they chose him. He pretends to be pious, and white evangelicals pretend to care. Such performances are no more credible than Diamond and Silk and do not disguise the real source of Mr Trump's appeal: a reshaping of the American right around cultural anxieties so impolite and reactionary that even his more devoted supporters prefer not to acknowledge them.

The blackest comedy

It is good that such voters do not like to be considered racist. It is also understandable that many of them feel frustrated to be told that the casual bigotry which was acceptable in the 1980s no longer is. It is not their fault that the definition of racism in America has broadened. But the racial battle-lines Mr Trump has drawn leave no room for such niceties. In reality, African-Americans always vote in line with their interests, and a president who has equivocated on white supremacist violence naturally repels them. Fully 84% consider Mr Trump racist. That represents an American tragedy, a reaffirmation of racial-political divisions from which Diamond and Silk provide no comic relief. The joke is on anyone who thinks they do.

Central America
A brief prosecutorial golden age

A brief golden age

The threat to Central America's prosecutors

Attorneys-general in the countries of the northern triangle have made war on corruption. Politicians are itching to get rid of them

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ON MAY 7th hundreds of officials gathered in the ballroom of the Camino Real hotel in Guatemala City to pay tribute to Thelma Aldana, who was stepping down at the end of her four-year term as the country's attorney-general. A Powerpoint presentation touted her prosecutorial feats. They included jailing the country's president, Otto Pérez Molina (pictured) in 2015, and the vice-president, Roxana Baldetti. Last year she began an investigation of the current president, Jimmy Morales, on suspicions that he had paid for his campaign illegally. The front-row seat intended for him was empty.

The corruption that Ms Aldana pursued is not new. In Guatemala, as in the other countries in Central America's "northern triangle", El Salvador and Honduras, it infects the highest levels of government. Attorneys-general have mostly ignored the crimes of the politicians who appoint them. This contributes to the lawlessness and violence that impel people to flee the region and go to the United States.

But in all three countries recent holders of that office have fought impunity. Prosecutors in Honduras uncovered embezzlement at state agencies. In El Salvador a former president is in jail, another fled to Nicaragua and a third died before his trial. The region's prosecutors have become "effectively a fourth branch of government", says Charles Call of American University in Washington, DC. In Guatemala and Honduras they have had vital support from anti-corruption agencies backed by the UN and other international bodies.

Their successes are fragile. By early next year the three countries will have new chief prosecutors. El Salvador is due to replace five supreme-court justices. Politicians want to appoint tamer successors. The United States, which has helped in the fight against corruption, is retreating from the fray. All this threatens progress.

Northern tangle

The main target in Guatemala is the International Commission against Impunity (CICIG), the UN-backed agency that helped Ms Aldana lock up the former president. Its enemies are getting help from an unexpected quarter: Marco Rubio, a senator from Florida.

CICIG was set up in 2006 to help prosecutors dismantle "illegal security organisations" and related networks of businessmen and politicians. It has the backing of more than 70% of Guatemalans. Mr Morales, a comedian who had never held office, was elected in 2015 on a promise to fight the graft that CICIG and Ms Aldana uncovered. But when they scrutinised the financing of his campaign, he struck back. In August he tried to expel from the country CICIG's boss, Iván Velásquez, but relented in the face of protests.

Mr Morales has a new ally in Mr Rubio, a member of the Senate's appropriations committee, which authorises the American contribution to CICIG. That help is part of the United States' strategy to discourage illegal migration by bolstering the rule of law. On May 4th Mr Rubio suspended the $6m grant, nearly half the agency's budget.

He is taking his cue from Bill Browder, a foe of Vladimir Putin who contends that Russia is manipulating CICIG. Mr Browder bases that claim on CICIG's role in prosecuting the Bitkov family, who have antagonised President Putin. The Bitkovs were given harsh sentences for using false documents to get residency in Guatemala. No other compelling evidence has emerged to support Mr Browder's claim. A Guatemalan court recently ordered the Bitkovs' retrial. Mr Rubio cut off the money anyway.

Some Guatemalans think he and Mr Browder are unwitting pawns of CICIG's enemies. "Someone astutely planted the seed," says a business lobbyist. Mr Rubio's attack on CICIG may make it easier for Mr Morales to force out its director or let its mandate expire next year. The fight against corruption would then depend on Ms Aldana's successor, María Consuelo Porras.

She is not well known. Her career as a judge and prosecutor suggests that she can do the job. "We're giving her the benefit of the doubt," says Helen Mack, a human-rights activist. Ms Porras will benefit from progress made during the CICIG era, including better prosecutors. But, like Ms Aldana, she will have to choose between CICIG and a tainted president, says Ms Mack.

In Honduras the battle may already be lost. The president, Juan Orlando Hernández, controls most of the country's institutions, including the judiciary. Political control of the attorney-general's office weakened for a time after the discovery in 2013 of massive corruption at the social-security agency. Protests led to the creation in 2016 of MACCIH, a CICIG-like commission with weaker powers, under the aegis of the Organisation of American States. It has investigated corruption allegations against congressmen and a former first lady, in partnership with the attorney-general, Óscar Chinchilla. Political elites fought back after Mr Hernández was re-elected last November. Though the vote was widely thought to be fraudulent, the United States endorsed it. In January Honduras's congress passed a law that transfers investigations of the misuse of public funds from prosecutors to an audit body influenced by the president. MACCIH's chief, Juan Jiménez Mayor, quit in February. Mr Hernández has not replaced him.

He is in a bigger hurry to replace Mr Chinchilla, whose term ends in September. Most of the 26 candidates have ties to the president's National Party. One is rumoured to be involved in organised crime. Whoever is appointed, argues Edmundo Orellana, a former attorney-general, for MACCIH "it's over."

El Salvador's attorney-general, Douglas Meléndez, has no help from an outside agency. He got the job in 2016 because the two main political parties, the left-wing FMLN and the right-wing Arena, could not agree on anyone else. He surprised them by going after former presidents from both parties: Tony Saca, from Arena, who is in jail awaiting trial on charges of stealing hundreds of millions of dollars of public money; Mauricio Funes, from the FMLN, who fled to Nicaragua in 2016 when prosecutors began investigating him for illegal enrichment; and Francisco Flores (Arena), who was accused of embezzling millions of dollars meant for earthquake relief. After Flores died in early 2016, Mr Meléndez filed a suit against his estate.

Mr Meléndez has been criticised for self-promotion and for prosecuting more FMLN officials than Arena ones. But he is vastly better than his predecessor, Luis Martínez, who is in jail. The United States embassy has backed Mr Meléndez strongly. Arena, which gained control of congress in an election in March, has signalled that it may try to reappoint him when his term ends in December.

A bigger worry is who will replace five supreme-court justices in July. Four of them have been unusually feisty in defending human rights and loosening the stranglehold on politics of the two big parties. An international panel of experts will help vet the candidates to succeed them but congress will make the final choice. The parties regret naming independent-minded judges in 2009. "They won't make that mistake again," says Abraham Abrego of Cristosal, a human-rights group. In the northern triangle, a golden age of judicial independence may be ending.

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A tale of two tweets

Canada qualifies its welcome to asylum-seekers

Too many migrants think the country has an open-door policy

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"TO THOSE fleeing persecution, terror & war, Canadians will welcome you, regardless of your faith." Canada's prime minister, Justin Trudeau, sent that tweet in January 2017, after President Donald Trump temporarily barred refugees from the United States. Now Canada is sending a cooler message. "There are no guarantees you can stay in Canada," tweeted the immigration department last month.

The tone changed because too many migrants interpreted Mr Trudeau's welcome as unconditional. Some 20,000 asylum-seekers walked over the border from the United States last year, a nearly tenfold rise from 2016. About 7,500 came in the first four months of 2018.

Under a "safe third country" agreement between Canada and the United States, implemented in 2004, Canada should turn back asylum-seekers crossing over from its southern neighbour. It requires them to seek asylum in the first safe country they reach. But recent border-crossers are taking advantage of a loophole: the agreement applies to those who come by air or train or cross at one of the 119 border posts. If they get in another way, Canada has to let them stay while it processes their claims.

Now the most popular way in is to take a taxi to a spot near Champlain, a town in northern New York state, then hop across a ditch into Quebec, Canada's French-speaking province. In April 2,500 asylum-seekers entered Canada this way.

Among all claimants, the biggest group last year was Haitians (see chart). Some came after Mr Trump withdrew the "temporary protected status" they received after an earthquake in Haiti in 2010. American citizens, many the children of undocumented immigrants, were the third-biggest group. This year Nigerians top the ranking.

At first Canadians enjoyed feeling morally superior. Then they started to worry that most asylum-seekers were really economic migrants. The opposition Conservatives accused the government of losing control of immigration. Such claims threaten the consensus that underpins Canada's immigration policy, which remains generous. This year it plans to admit 310,000 immigrants and refugees, equivalent to 0.8% of its population.

Asserting control means sounding tough. Avoiding border posts "is no free ticket to Canada", said Ralph Goodale, the public-safety minister, on May 7th. Asylum-seekers will be arrested before officials consider their claims, he warned.

The surest way to solve the problem would be to close the loophole in the third-country agreement. There are rumours that Canada has proposed this to the United States. Mr Trump is unlikely to support a deal that would keep more asylum-seekers in the United States. Canadian NGOs have challenged the existing agreement in court, saying that the United States no longer qualifies as a safe country. Mr Trudeau may wish he could build a wall.

This article appeared in the The Americas section of the print edition under the headline "A tale of two tweets"

Unfed and unwashed

How chavismo makes the taps run dry in Venezuela

Plentiful rain plus Bolivarian socialism equals water shortages

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IT IS the rainy season in Caracas and the reservoirs are full. But most of the 5.3m people who live in and near the city have not had regular running water for at least a month. Venezuela is an oil-rich country that cannot pay for food and medicines. Now its autocratic regime is showing that it can create shortages even when nature provides abundance. “I’ve forgotten what it is like to bathe in running water,” says Soledad Rodríguez, a graphic designer.

Supplying Caracas with water is not easy. The city is 1,000 metres (3,300 feet) above sea level. The nearest big river, the Tuy, flows on the other side of a mountain range. Earlier governments had cracked these problems. Marcos Pérez Jiménez, a dictator in the 1950s, oversaw construction of a system of pumps and reservoirs that kept up with the city’s fast growth.

Hugo Chávez, whose election as president began Venezuela’s “Bolivarian revolution” in 1999, improved water supply to poor areas but did not upgrade infrastructure. By 2005 shortages were a problem. Chávez, who died in 2013, responded, characteristically, with lots of cash and publicity and little supervision. He and Nicolás Maduro, who succeeded him as president, spent $10bn to little effect.

Now the city is getting less water than it did in 1999, says José de Viana, who in pre-Chávez days was president of Hidrocapital, a state-owned water utility. The main job requirement for workers is loyalty to the leftist regime. This has led to its “de-professionalisation”, says Mr de Viana.

Hyperinflation and depression—the economy has shrunk by half since Mr Maduro took over—make matters worse. The company cannot afford spare parts for vehicles. The minimum salary at Hidrocapital is worth less than three dollars a month at the market exchange rate. For that pay, many employees do not even pretend to work. Just 20 of Hidrocapital’s 400 maintenance teams are functioning. Two aqueducts are supplying Caracas with less than half the normal amount of water because the firm has not maintained pumping stations. Water is ridiculously cheap, which is part of the problem. The monthly water bill for a three-bedroom house is 20,000 bolívares, less than three cents.

Drier parts of Venezuela have both water shortages and power cuts. Domenico Clara, who runs a bakery in Maracaibo, capital of the oil industry, says power is cut off five to seven times a day. Without refrigeration ingredients spoil; electronic payment systems don’t work so customers can’t pay (there is a shortage of cash, too).

Mr Maduro, who will probably be re-elected in a rigged vote scheduled for May 20th, may be getting nervous. Last month *caraqueños* living near the presidential palace, normally loyal to the regime, protested noisily against water shortages. They calmed down after the government dispatched a single water truck. With expectations so low, sops like that may earn Mr Maduro a few votes.

This article appeared in the The Americas section of the print edition under the headline ”Unfed and unwashed”

Bello

A warning on poverty from Peru

A setback on the long road to poverty eradication

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WHAT is it to be poor in Peru? Gonzalo Sánchez, a single father with health problems who is a part-time lecturer at a public university with a son studying to be a designer, often can't afford an evening meal. Manuela Cuevas makes ends meet thanks to her retired husband's odd jobs and her live-in son-in-law's income as a manager at a security firm. Gina Palomino, her husband and their three children scrape by on his income from occasional building work and her street-corner sales of fruit, interrupted now that she is pregnant. Their names are not real, but their situations are. So are the tens of thousands of farmers whose crops were not insured and were lost to flooding last year. As these cases show, crossing the poverty line in either direction depends on countless details of circumstance.

In this century, Peru has been spectacularly successful in reducing poverty, more so than any other country in Latin America, according to the UN. The share of the population that is poor fell from 55% in 2001 to 21% in 2016, according to the national statistics institute, which defines poverty as a monthly income per person of less than 338 soles ($103). Most of this decline was due to rapid economic growth, though recently better social programmes have helped. But it has come to an end: in 2017 the poverty rate rose again to 22%, meaning that 375,000 more people are poor.

The rise is small, but it is worrying and has significance beyond Peru. Unlike those of some of its neighbours, its economy is still expanding at a reasonable pace (it grew by 4% in 2016 and 2.5% in 2017). In the recent past, poverty would have fallen with that growth rate. In other words, cutting poverty is getting harder.

That is true across the region. Between 2014 and 2017 the average poverty rate in 18 countries tracked by the UN Economic Commission for Latin America and the Caribbean edged up from 28.5% to 31.7%. True, most of this was because of a recession in Brazil and a slump in Venezuela. But for the time being, the years of rapid social progress in Latin America are over.

The best antidote would be much faster economic growth. Though much derided, the "trickle-down" effect of growth on poverty is real. In Peru's case, creating social consent for big mining projects would help a lot in the short term. The foreign exchange and tax income they provide gets recycled in the form of increased demand for services that employ the unskilled. But for both Peru and the region as a whole, boosting productivity and diversifying the economy are vital for cutting poverty over the medium term.

There are other things policymakers need to address. Large numbers of the emerging lower-middle class remain vulnerable to changes in personal or national circumstances, such as last year's floods in Peru. Poverty has many dimensions, apart from income, as many governments now recognise. They include poor health, housing and education, lack of training and child-care facilities, dangerous neighbourhoods and inadequate public transport. All of these may stand between urban Latin Americans and a secure, well-paid job.

In Peru, rural poverty has fallen dramatically, thanks to better communications, as Richard Webb, a former president of the central bank, has pointed out. Decentralisation has given small-town mayors money to build or improve roads. The spread of mobile phones has connected peasant farmers to markets. But these effects may have slowed: 70% of Peru's poor still live in towns of less than 20,000, and half depend on agricultural income, as Carolina Trivelli, a former social-development minister, has noted.

The World Bank found, in a study published in 2015, that some 130m Latin Americans had remained stuck in poverty throughout the previous nine years despite faster economic growth. These chronically poor tend to be in remote rural areas or on the periphery of cities. Their poverty is especially "multi-dimensional". Alleviating their situation requires well-targeted public policies.

The rise in poverty in Peru coincided with political turmoil. The government of Pedro Pablo Kuczynski, elected in 2016, proved ineffective at boosting economic growth. It abandoned a promising education reform to placate a destructive opposition in congress, and showed little understanding of the realities of poverty (he appointed a corporate lobbyist as social-development minister, for example). Following Mr Kuczynski's resignation in March over conflict-of-interest allegations (which he denies), his replacement, Martín Vizcarra, declared the rise in poverty "unacceptable". If he is to reverse it, the politicians need to raise their game.

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Malaysia's election
Um, no!

Um, no!

Control of Malaysia's parliament changes for the first time

But can the opposition coalition stick together in government?

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"IT IS beautiful!" shrieks one opposition supporter at a rally celebrating Malaysia's change of government. The gold teeth revealed by his huge smile flash in the spotlights at a park in the capital, Kuala Lumpur. "This time they did it!" adds another. "We have waited so long," explains a local businesswoman, "we wanted change and now we are so excited!" The United Malays National Organisation (UMNO), the party which has ruled Malaysia since independence, no longer runs the country. Its boss Najib Razak, the incumbent prime minister, lost to a man who not only once led his party, but also his country: Mahathir Mohamad. The 92-year-old switched allegiance to head the Pakatan Harapan (PH), an alliance of opposition parties. In elections on May 9th the underdogs triumphed over the ruling coalition led by UMNO, the Barisan Nasional (BN). With an estimated turnout of 76% of Malaysia's 14.4m eligible voters—down from almost 85% at the last election five years ago—PH and its allies managed to win 122 of the 222 seats up for grabs in the national parliament (see chart). It also won control of six of the country's 13 states, up from two.

The result is astounding. Mr Najib's government had methodically paved the way for victory. It showered goodies on important voting groups, such as civil servants, in its budget in October. It approved new electoral boundaries in March to boost the chances of BN candidates (more than two-thirds of seats in the battleground states of Perak, Selangor and Johor were altered). In a desperate effort just hours before voters flocked to the polls, Mr Najib promised to give an income-tax exemption to those aged under 26. It was all to no avail. "I accept the verdict of the people," Mr Najib declared grimly the morning after the election, although he did suggest, quixotically, that there was some uncertainty as to which party the king might nominate to lead the next government.

The loss fits into a pattern of declining support for BN over the past decade. In 2008 the coalition lost its two-thirds majority in parliament; in 2013 it failed even to win the popular vote. This time support for its ethnic-Chinese and -Indian component parties ebbed further. Their leaders, the ministers for transport and health respectively, lost their seats. Meanwhile, voters from the Malay Muslim majority split their votes among UMNO, PH and the Pan-Malaysian Islamic Party (PAS), a stern religious grouping. As a result, PAS made some headway, seizing the state of Terengganu from BN. In three states there was no clear winner.

Dr Mahathir's coalition is composed of four parties. The biggest are the Democratic Action Party, a disciplined organisation long associated with ethnic-Chinese voters, and Parti Keadilan Rakyat (PKR), the vehicle of Anwar Ibrahim, another former UMNO leader who fell out spectacularly with Dr Mahathir in 1998. He is in prison for a sodomy conviction which he says was politically motivated, but will be released in June. The expectation is that once he finds a way to return to parliament, he will take over the top job from his former foe. In the meantime Mr Anwar's wife, Azizah Ismail, appears set to become Malaysia's first female deputy prime minister. Dr Mahathir's new party, Bersatu, is the third member of the PH coalition. He and Mr Anwar insist they now get on, but their rift was the defining feature of Malaysian politics for a decade. Last and least is Amanah, a small religious party which broke away from PAS.

In the short term the new government will turn to issues PH shouted about most on the campaign trail. It will try to modify a hated goods-and-services tax of 6%, introduced in 2015 as a way to reduce the government's dependence on oil revenue. Another urgent priority will be the launch of a proper probe into the disappearance of $4.5bn from a state development fund, 1MDB. PH also said it wants to reintroduce certain petrol subsidies as well as increasing the minimum monthly wage to 1,500 ringgit ($380), both of which will please voters hit by inflation.

In the long term fundamental disagreements over racial policies may strain the new government. About 69% of the country's 32m people are *bumiputra*—Malays and other indigenous groups. About 24% are Chinese and 7% Indian. The *bumiputra* have historically backed UMNO for introducing and defending policies designed to raise their status economically. Many of PH's minority supporters, and a good number of its new MPs, would like to see this system of preferences reformed or abolished. But any tinkering could exacerbate existing rifts between parties and personalities within the coalition, reckons Francis Hutchinson of the ISEAS-Yusof Ishak Institute, a think-tank based in Singapore. In particular, Dr Mahathir's popularity with *bumiputras* stems partly from his staunch past defence of their interests. The policies "will be subject to review and tweaking", says Wong Chen, a Chinese MP for PKR, "but with the constitutional safeguards for *bumiputras* fully intact."

The government may not take on such difficult topics for many months yet, if at all. PH's triumph suggests that the old model of winning elections—giveaways and gerrymandering—no longer appeals to Malaysia's increasingly sophisticated electorate. It follows that voters will have high expectations for their new government. It must demonstrate, in turn, that its parties have more in common than just their shared antipathy towards Mr Najib, and do so before its supporters grow disenchanted. "It has been a good day for Malaysia," declared one mother questioned outside a polling station in Kajang, "But pray for a better country."

This article appeared in the Asia section of the print edition under the headline "Um, no!"

Launder and press

A new owner cows Cambodia's last independent daily newspaper

Thirteen staff quit after the editor is dismissed

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BILL CLOUGH, an Australian mining mogul, bought the *Phnom Penh Post*, a daily newspaper published in English in Cambodia's capital, just over a decade ago. He held onto it despite steady losses. Then came a sudden tax bill of at least $3.9m last year. On May 5th Mr Clough threw in the towel and sold. The *Post*'s new owner, Sivakumar Ganapathy, is an executive at Asia Public Relations Consultants, a Malaysian firm which once worked on behalf of the Cambodian government. On May 7th he demanded that an article about his purchase of the paper be removed from its website. A series of journalists refused, which led to the firing of the editor and the resignation of 13 more staff in protest (including a former intern at *The Economist*).

Ly Tayseng, a lawyer representing Mr Ganapathy, says the new owner wanted the article removed because it contained errors. Moreover, Mr Ly points out, Asia PR had stopped working for the Cambodian government years before Mr Ganapathy joined. "The reporters, they believe that they are independent," he says, but "the article was very negative." Erin Handley, one of the journalists who has resigned, says the management would not discuss their grievances fully.

The standoff speaks to larger political tensions. In September the government forced the closure of the *Cambodia Daily*, the *Post*'s main rival, by presenting it with a colossal tax bill. It also switched off dozens of radio frequencies on which American news services were broadcast.

Repression has ratcheted up ahead of an election slated for July 29th. Hun Sen, the country's leader for 33 years, will win in a contest that is set to be neither free nor fair. In September the president of the main opposition force, the Cambodia National Rescue Party (CNRP), was arrested for treason. In November the CNRP itself was abolished after the Supreme Court conveniently agreed with the government that it was a hive of foreign plots. Eleven of its members wait to hear whether their convictions for "insurrection", which could lead to 20 years in prison in some instances, will be upheld on appeal.

In such an environment the fate of the *Phnom Penh Post* attracts keen attention. If its output is sanitised Cambodia will be left with few sources of independent reporting. At least one bolder monthly magazine survives, as do critical blogs and websites, but they are dwarfed by the might of Fresh News, an online government mouthpiece, and television stations which fawn over Mr Hun Sen.

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Banking on tax cuts

Flush with cash, Australia's prime minister woos voters with tax cuts

But neither voters, nor their representatives in the Senate, seem convinced

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JUST two months ago Malcolm Turnbull came within a whisker of winning parliament's approval for his most cherished policy: cutting the corporate tax rate from 30% to 25% over ten years. At the last minute he failed to secure a couple of votes in the Senate, where his conservative government lacks a majority. Undeterred, on May 8th the prime minister made tax cuts the centrepiece of his government's budget for the coming fiscal year. As well as lowering rates for business, it also included cuts in personal income tax. Mr Turnbull, whose government has long trailed Labor, the main opposition, in opinion polls, hopes his tax strategy will reverse his fortunes at a federal election due next year.

Among rich countries, Australia has lagged in cutting corporate taxes. It last did so 17 years ago. The Business Council of Australia, a lobby group, complains that the rate is "frozen in time" compared with the American one of 21%, which is also the average in Asia. The Treasury worries that Australia risks becoming "increasingly uncompetitive internationally".

Business taxes are Australia's biggest source of revenue after personal income tax. Revenue from both is buoyant, thanks largely to rising employment and mining profits (see chart). The economy is entering its 27th year of unbroken growth. After years of deficits, a balanced budget is in sight next fiscal year and a surplus a year later. A former banker and businessman, Mr Turnbull proposed a corporate-tax cut at the previous election, in 2016. He argued it would pep up the economy by encouraging businesses to invest and hire more. There was "no question", he said. "You'll see a rise in wages with a reduction in company tax."

Mr Turnbull has struck an even bolder note with his income-tax cuts. They are worth about A$140bn ($104bn) over a decade, almost twice as much as the corporate cuts. The government proposes ditching a 37% tax rate that kicks in on earnings over A$87,000, which would leave 94% of taxpayers handing over just under a third of their incomes in tax. But Labor has suggested it may not support the full plan.

The business-tax cuts, too, still face a rocky legislative road. Parliament has already approved them, but only for firms with annual turnovers of A$50m or less. When the government reintroduced the plan in March, it needed the votes of just two independent senators to extend the cuts to all businesses. One of them, Tim Storer, an economist, argued the cuts were too "narrowly cast" and called for broader tax reform. He remains unconvinced.

Another complication stems from a royal commission Mr Turnbull reluctantly set up in December to look into misconduct at banks and financial-services firms. Revelations of shabby treatment of customers have hurt the industry's image. Derryn Hinch, a former journalist whose Senate vote the government also needs, wants banks excluded from any business-tax cut. To include them, he says, is "not only immoral, it's politically suicidal".

Some question the claimed economic benefits of corporate-tax cuts. Saul Eslake, an economist, compares Australia with Canada, which has cut its corporate-tax rate by more than the Turnbull government proposes. Mr Eslake calculates that investment and wages have risen by more in Australia than in Canada since Canada began to cut tax rates in 2000. A survey of some 130 corporate bosses by the Business Council of Australia, leaked in March, bears out his doubts. Less than a fifth said they would increase wages and hiring as a result of a tax cut. Most said their priority would be capital investment and increasing returns to shareholders.

A recent opinion poll showed greater public support for cutting debt than cutting taxes. At A$341bn, or 18.6% of GDP, Australia's net debt is quite low by global standards. Mr Turnbull is convinced that voters will thank him for lowering their bills—if he can persuade the Senate to do so.

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Another bloody Sunday

India's victories against militants in Kashmir are largely pyrrhic

The army's tactics only serve to alienate ordinary Kashmiris

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BY ONE account, what happened in Shopian district in the Indian part of Kashmir on the first Sunday in May was a stinging defeat for jihadism. Security forces had trapped five armed rebels in a house during the night. When the shooting stopped at noon they were all dead. Among them was Saddam Paddar, the local commander of a militant Islamist group. He had been on the wanted list since 2014 but, more importantly to police, also happened to be the last man still at large among 11 young guerrillas whose group photograph, taken in 2015, had gone viral, inspiring support for armed resistance to Indian rule. The "neutralisation" of Mr Paddar—in the words of a police spokesman—symbolised the futility of insurrection.

Other tellings emphasise different elements of the day's events. As happens with growing regularity during the Indian army's search-and-kill operations in the Kashmir Valley, hundreds of villagers had gathered at the scene to try to protect the doomed fugitives. During the incident and in subsequent protests, police gunfire killed six more people, all civilians. Dozens more were hospitalised, many with shotgun pellets lodged in their eyes. More than 1,250 people have been treated for similar eye injuries over the past two years.

The Shopian "martyrs" all turned out to be local Kashmiris and not, as has often been the case in the past, infiltrators from Pakistan. Tens of thousands thronged their funerals. One viral video showed a woman, said to be Mr Paddar's mother, standing on a rooftop before a chanting crowd and firing an automatic rifle in a gesture of defiance. It emerged, too, that one of the slain militants had been a popular teacher of sociology at the University of Kashmir. He had earned his doctorate only in November, and had joined the rebels just two days before his death. As inexorably as police are hunting down rebels, Kashmiris concluded, new recruits are joining them.

The contrast between these two narratives helps explain why Kashmir remains in uproar after 30 years of turmoil. Following a decline in political violence after a Pakistan-backed insurgency peaked 20 years ago, the death toll has mounted again in recent years, from a low of 117 fatalities in 2012 to 358 in 2017, and 132 so far this year.

Yet the situation as understood in Delhi, the Indian capital, as purveyed in the Indian press and as widely accepted by 1.3bn other Indians, is that brave Indian troops are waging a largely successful effort to crush a small but resilient band of Islamist terrorists who are operated by remote control from Pakistan. The situation as experienced in the Kashmir Valley, whose 7m people are nearly all Kashmiri-speaking Muslims, is rather different. In the absence of any political initiative from Delhi to respond to Kashmiris' concerns, the heavy-handed efforts of half a million soldiers to crush a few dozen armed militants are compounding a growing sense of alienation from India.

The disjuncture in these views is reflected in the clumsy coalition that runs the state. One partner is the Hindu nationalist Bharatiya Janata Party (BJP), whose local support is concentrated in the Hindu-majority region of Jammu but which also runs the national government. The other is the Peoples Democratic Party, one of several Kashmiri groups that participate in elections and so are branded traitors by more radical factions. The relative strength of the radicals, who include pro-independence, pro-Pakistan and pan-Islamist groups, is hard to judge since they are either banned or have boycotted elections. Partly as a result, voter turnout has typically been low.

Following another bloody Sunday in early April that left 19 people dead, Syed Ali Shah Geelani, the elderly leader of one dissident group, released a video of himself banging on the inside of his own gate, demanding to be released from house arrest. "Open the doors," he shouted to police outside, "I want to attend the funeral of your democracy."

Indian democracy is not quite dead in the Kashmir Valley, but it is certainly ailing. Since the partition of India and Pakistan in 1947 called their fate into question, Kashmiris have been hostage to relations between the two. In its focus on the bigger picture, India has often flouted Kashmiri concerns. This trend has grown harsher since the BJP took power in 2014, vowing to end "appeasement" of Indian Muslims and to get tough on Pakistan. As Mohammed Ayoob, an Indian-American political scientist, recently lamented in the *Hindu*, an Indian daily, "If the political elites had the sagacity to solve or at least manage the problem 'in' Kashmir, the problem 'of' Kashmir would have lost its salience over time. Unfortunately, they did exactly the reverse."

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Banyan

Indonesia's president is neither a grubby politician nor a diehard reformer

Jokowi is simply interested in results

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IT'S Friday afternoon in Jakarta, and Indonesia's president is getting on his hobby horse. Mounting a gaudily painted cut-out handed to him by a solemn aide, Joko Widodo, known as Jokowi, leads not just children from across the archipelago but also panting cabinet ministers on a merry dance around the grounds of the presidential palace. Some of the girls are wearing the hijab; others sport the pigtails of Japanese idol bands. Javanese boys wear the black velvet *peci* cap. Shy young Papuans are in grass skirts. Jokowi makes the children promise, in a pealing question-and-answer response, to go out and play more. To hammer the point home, he does so himself, taking on all comers at hoop rolling and tag. It is a struggle to imagine other leaders—Xi Jinping, say, or Theresa May—doing the same.

Blusukan-do

Jokowi's common touch brought him to national prominence—plus a reputation for incorruptibility and getting stuff done, first as mayor of the Javanese city of Solo and then as governor of Jakarta, the bursting capital. Where the outgoing president, Susilo Bambang Yudhoyono, or "SBY", was tall and orotund, Jokowi was approachable and slight. His trademark was the *blusukan*, impromptu walkabouts in Jakarta's alleyways during which he would listen to residents' worries about food prices, transport, flooding and health care.

Deft on social media as well as in person, he suddenly became a hot political asset for his party, the Indonesian Democratic Party of Struggle (PDI-P), which selected him as its candidate for president in 2014. Campaigning as an outsider, Jokowi beat the macho Prabowo Subianto, like SBY a former general under Suharto, the long-serving strongman who fell in 1998. Jokowi, whose father was a furniture-maker, is the first president not from the elites. Megawati Sukarnoputri, the leader of the PDI-P, president from 2001 to 2004 and daughter of Indonesia's founding father, Sukarno, once referred to President Jokowi as a party "functionary".

To liberals, Jokowi was the mould-breaking reformer of their dreams. To sceptics, he was a naïf about to be devoured by a devious and corrupt establishment. He has disappointed both camps.

On the economic side, he slashed budget-busting fuel subsidies early on, to the cheers of free-marketeers. But it was a practical decision, to free money for an infrastructure binge, rather than a principled one. As the oil price has risen, fuel subsidies have begun creeping up again. Meanwhile, he has made state infrastructure and energy firms even more dominant. Though he promised the economy would grow by 7% a year, it has only managed around 5%, no faster than under SBY.

A parallel exists with his political approach. He did not view his win as reason to upend a cosy political system in which the spoils are shared and no proper opposition exists. In some respects he underscored it, by offering cabinet posts even to parties that opposed his candidacy. And even though he has talked about a reconciliation commission to examine past human-rights abuses, his minister for security, Wiranto, is emblematic of them. He was army chief at the time of Indonesia's withdrawal from Timor-Leste in 1999, when thousands of Timorese were killed by army-linked groups.

Yet far from draining his authority, sharing power with the establishment may have reinforced it, by blunting opposition. An ally says political considerations govern his choice for half the cabinet's 34 seats. But that leaves some of the most crucial ones, starting with the finance ministry, in the hands of true reformers, or at least competents. Somewhere behind Jokowi's soft edges lies an iron core. Less than a year before the next presidential election, he bats away Banyan's political questions—including whom he will choose as a running-mate—with twinkling Javanese inscrutability. Politics, he implies, is a necessary pursuit. But it is one divorced from the economy, which is his proper domain.

On that front, his administration is now doing more than it gets credit for. His finance minister, Sri Mulyani Indrawati, is overhauling a tax system that collects a mere tenth of GDP in revenue. Obstacles to doing business are being removed, and foreign investment is growing. And the infrastructure that Jokowi long promised—toll roads, new airports and power plants, all meant to knit the archipelago together—is being rolled out, with investment at near-record levels. Jokowi is in a hurry—hence an alarming reliance on state-owned firms, which can be got to start to work on a new project even before a contract is drawn up. Meanwhile Jokowi keeps ministers on their toes with *blusukan* to construction sites to ask why things aren't going faster.

He is most proud of the scheme he initiated to give 92m Indonesians access to cheap health care, along with one that provides 19m needy schoolchildren with money for books, bags and shoes, and another that gives 10m of the country's poorest families direct income support. Increasing their "purchasing power", he says, is good for everyone.

This economic medicine may possibly inoculate him against rising religiosity. In late 2016 Islamists demonstrated in huge numbers against his former deputy in Jakarta, Basuki Tjahaja Purnama, a Christian ethnic-Chinese known as Ahok, who was unfairly accused and later convicted of blasphemy. The protests posed a threat for Jokowi, who is Muslim but secular in outlook.

Since that crisis, he has assiduously courted—indeed co-opted—the devout, which has left some of his secular fans unhappy. In the palace grounds, gardeners have wrapped the statues of naked women, of which Sukarno was fond, with bundles of tall reeds. Pointedly, however, the first lady, Iriana, larked about before the television cameras with her head uncovered. The lesson of the Ahok saga, says Jokowi, is tolerance and moderation. The months before the next election will make clear how many Indonesians take issue with the proposition.

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The South China Sea
Making mischief

Making mischief

China has put missiles on islands in the South China Sea

China appears to have put missiles on some of its artificial islands. America sees a growing threat

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AN AMERICAN admiral slipped a startling admission into testimony submitted to the Senate last month. After almost five years of dredging and fortifying reefs in the disputed Spratly Islands, lying between the Philippines, Malaysia and Vietnam, "China is now capable of controlling the South China Sea in all scenarios short of war with the United States," reported the officer, Philip Davidson, who has been nominated by President Donald Trump to lead America's armed forces in the Pacific.

Admiral Davidson described how once-obscure rocks controlled by China now bristle with radar arrays and electronic warfare kit and are studded with aeroplane hangars and bunkers. He said the only things lacking on them were "deployed forces", and noted a contradiction between building these bases and an assurance given by President Xi Jinping in 2015 that China had no intention of militarising the South China Sea. Once occupied, said Admiral Davidson, China's outposts would be able to challenge America's presence in the region and "easily overwhelm" rival Asian claimants in those waters.

In early May leaked American intelligence added some fine detail to the admiral's picture. CNBC, an American television channel, reported the apparent deployment of missiles on three Chinese-occupied features—Fiery Cross Reef, Mischief Reef and Subi Reef. It identified the weapons as YJ-12B anti-ship cruise missiles with a range of 295 nautical miles (545km), and HQ-9B surface-to-air missiles which could hit projectiles, planes and drones within 160 nautical miles. Asked about this, the White House press secretary, Sarah Sanders, said the Trump administration was "well aware of China's militarisation of the South China Sea" and promised "consequences". A Chinese foreign ministry spokesman said that "necessary national defence facilities" on reclaimed islands were within China's rights and did not amount to militarisation.

Time for a rethink

Until the final years of Barack Obama's presidency, many military officers and White House officials had dismissed China's reclamation of disputed reefs and rocks as mostly an irritant. The new bases were sitting ducks, American planners sniffed, and could be taken out quickly in an actual conflict. They are still highly vulnerable, says Andrew Erickson of the US Naval War College. But China has no intention of starting a war with America, he says. Instead China wants the upper hand in peacetime, or in crises that fall in the grey zone between peace and war. It wants to make clear to smaller, less powerful neighbours that they will "pay a terrible price if they try to oppose China in the South China Sea", says Mr Erickson.

China also wants to raise the costs of future American interventions—hence its show of strength last month which it described as the country's biggest naval parade since the Communist Party came to power in 1949. The first such review in the South China Sea, it involved more than 75 fighter planes, helicopters and bombers as well as nearly 50 submarines and ships. "The task of building up the strength of the people's navy has never been so urgent," Mr Xi (pictured at the scene) told 10,000 or so participating troops.

The South China Sea is not yet lost, says Mr Erickson. America has to date deterred China from developing the Scarborough Shoal, a disputed reef off the Philippines, the fortification of which would be a "last piece of the puzzle". Nor has the Trump era seen blatant Chinese harassment of American ships legally in the area.

Team Trump's talk of consequences for Chinese actions may be vague. But it is in line with a growing consensus among American generals, Republicans and Democrats in Congress, and a swelling number of business leaders. Every week seems to bring hearings on Capitol Hill or think-tank conferences to debate how—not whether—America should push back against China. Sometimes their topic is China's hard power as displayed by its fast-growing military capability. At other times it is China's surreptitious hostile acts, such as the theft or forced transfer of American technology and the Communist Party's alleged influence operations in America.

The breadth of American concerns about a rising China helps explain the lack of progress when a government delegation led by the treasury secretary, Steven Mnuchin, visited Beijing on May 3rd and 4th. The officials' demands reportedly ranged from calls for China to reduce the bilateral trade deficit by $200bn a year by 2020, to an insistence that Chinese leaders curb forced technology transfers and stop handing subsidies to the high-tech businesses that they have chosen to favour in their "Made in China 2025" industrial plan.

The sheer variety of American complaints will complicate a visit in mid-May to Washington, announced this week, by Mr Xi's chief adviser on economic affairs, Liu He. In China Team Trump is accused of incoherence and not knowing what its own side wants. But seen from Washington, China is attacking or challenging on several fronts, making a “whole of government” pushback a necessity. American policymakers do not need an admiral to tell them that storms may lie ahead.

This article appeared in the China section of the print edition under the headline ”Making mischief”

Tectonic shift

A huge earthquake in China ten years ago was a turning point

It helped to spur the development of civil society

Print edition | China May 10th 2018

LI HAIJUN considers himself lucky. His home was destroyed by a huge earthquake that hit the south-western province of Sichuan on May 12th 2008. But like most of his neighbours in the mountain village of Wolong, 16km (10 miles) from the epicentre, he was busy tending his crops. He and his family all survived and spent nearly a year living in a tent. The government paid much of the cost of building a new house close by. The 25,000 yuan ($3,925) he had to contribute was no small sum, but Mr Li, who is 46, says he has no complaints. The disaster is still a bitter memory, but life is back to normal.

The earthquake, centred on Wenchuan county, killed about 70,000 people and left some 18,000 missing—the deadliest in the post-Mao era. It was not only a human tragedy, it was also a severe political test for the ruling Communist Party. In the age of the internet, the government's response could be monitored nationwide in real time. Contrast that with the secrecy the Maoist system was able to impose on the Tangshan earthquake of 1976, in which around a quarter of a million people died. Its epicentre was a mere 150km from Tiananmen Square, yet it was years before the government even acknowledged the death toll. The Wenchuan earthquake occurred in a very different China—one with a large new middle class that was anxious to help. For a party unused to co-operation with civil society, this posed a challenge.

Netizens quickly became aware that many of those killed were children, who were crushed in their schools. Parents and activists staged protests to vent their fury at officials for having allowed the construction of such "bean curd" buildings. The government responded by intimidating or detaining participants. (Radio Free Asia, a government-funded service in America, reported this month that campaigners in the town of Mianzhu had been put under surveillance or placed under house arrest in the lead-up to the tenth anniversary.)

But the government was more welcoming to those who merely tried to assist in the relief efforts. On their own initiative, NGOs and around 3m private citizens headed to Sichuan, where they distributed water, blankets and other supplies. It was, says Zhang Xuemei of the Sichuan Academy of Social Sciences, "an important turning-point" for civil society in China.

The government is less keen to hail it as such. It prefers to crow about the heroic response of the army and above all of the Communist Party. Officials can indeed claim considerable credit for getting the area back on its feet. Today in the city of Dujiangyan, on a site where hundreds of children died when their school, Xinjian Elementary, collapsed, there is a roast-duck restaurant and a panda-themed pedestrian shopping area. The rest of the block consists of elegant new buildings in grey brick adorned with decorative wood carvings.

In Yingxiu, another badly stricken but now rebuilt town near the epicentre, officials have turned another school into a memorial (pictured). One week before the tenth anniversary, soldiers were streaming up to lay flowers and bow in respect. It is no surprise that officials have chosen to highlight the story of this school, and to pave over the one in Dujiangyan. At the Yingxiu school, the death toll was far lower: 43 students and eight teachers killed.

But Ms Zhang, the social scientist, says the earthquake did result in a change of attitude by the government towards civilian involvement in disaster relief. "This event provided a model for how social forces could be put to use to respond to a big crisis," she says. At the time, officials had no guidelines for working with civil society. The flood of volunteers caused congestion and compounded difficulties with feeding and sheltering everyone. But NGOs and the government soon established trust—a spirit often lacking in the party's dealings with organisations that it does not control. When another big quake struck Sichuan in 2013, she says, the government was more prepared. "They said, 'OK, we can put out the money and you can do the work.'"

The new model involves leaving the heavy work of rebuilding cities and roads to the government but creating space for civil society in areas such as the counselling of bereaved families. After the more recent earthquake, NGOs helped to resolve conflicts that erupted during the relocation of survivors of destroyed villages. In the past few days, a local group in Dujiangyan has been raising funds for quake victims with permanent disabilities. Ms Zhang says NGOs have been particularly helpful in the rebuilding of shattered societies.

In 2009, on the first anniversary of the Wenchuan earthquake, the government published a white paper promising to give "full scope" to participation by grassroots organisations and volunteers in such work. Its response to the earthquake in 2013 showed that it was not merely paying lip-service to the idea. A new Charity Law, which came into force in 2016, aims to make it easier for some domestic NGOs to register and raise funds. But in recent years Xi Jinping, China's president, has been lashing out at those parts of civil society—independent lawyers, for example—that try to help the likes of the aggrieved parents in Sichuan. China's government has shown it has the capacity to rebuild disaster zones quickly. But it remains suspicious of the motives of some of those whose help it badly needs.

This article appeared in the China section of the print edition under the headline "Tectonic shift"

Ditching the Iran deal
Nuclear fallout

Nuclear fallout

Tension surges across the Middle East as America turns tougher on Iran

Donald Trump's decision to pull out of the nuclear deal with Iran is rippling across the region

Print edition | Middle East and Africa May 10th 2018

ALMOST everybody claims to have foreseen Donald Trump's decision, but when the thunderbolt came it was even more cacophonous than most people expected. Excoriating the nuclear bargain with Iran struck by his predecessor and five other leaders as a "horrible, one-sided deal", the president finally declared on May 8th that he was pulling out. Henceforth, he promised, America would use its muscle to extract far bigger concessions from the Islamic Republic.

These would include an end to "terrorist activities" in the region and to the development of ballistic missiles. Faced with such a show of strength, Mr Trump predicted, Iran's leaders "are going to want to make a new and lasting deal".

There was little sign of any such desire in Tehran, where hawkish figures gloated that Mr Trump had confirmed their doubts about bargaining with the West, while relative moderates, such as President Hassan Rouhani, said there was only a small window of opportunity to save the agreement. Signed by Barack Obama in 2015, the deal severely curbed Iran's nuclear-fuel programme in return for sanctions relief worth billions of dollars. UN inspectors and a broad range of other observers, including Tamir Pardo, a former Israeli intelligence chief, agree that Iran had more or less kept its part of the accord.

The leaders of the three European countries that signed the deal—Britain, France and Germany—reacted immediately to Mr Trump's thundering speech with a declaration that they remained committed to its terms, despite the president's decision to ignore their advice and walk away. The other parties, Russia and China, came together to issue their own proclamation of "unwavering support" for the accord.

A Trumpian retort

However Ayatollah Ali Khamenei, Iran's supreme leader, snarled at Mr Trump, via Twitter, that he would be "worm food" before the Islamic Republic bowed to his demands. He said his country would quit the agreement unless the European signatories could offer solid guarantees that trade relations would be unaffected by the American withdrawal (see article). Mr Rouhani, meanwhile, said there was a "short time" to negotiate ways of salvaging the agreement with the five remaining parties. And, just in case this failed, he ordered Iran's atomic agency to be ready to ratchet up its enrichment programme. That would amount in Western eyes to resuming the quest for a nuclear bomb, and raise the spectre of war. Mr Trump said this would incur "very severe" consequences.

General Muhammad Ali Jafari, the head of Iran's Revolutionary Guard, which reports directly to Mr Khamenei, never placed much hope in the nuclear deal. "We welcome Trump's decision on pulling out of the deal," he said sarcastically, predicting that the Europeans would soon follow America's lead.

Binyamin Netanyahu, Israel's prime minister, cut short a visit to Cyprus to hail Mr Trump's "bold decision", which he had strongly advocated, although many in his country's defence and intelligence establishment feel that the deal was, on balance, beneficial. Minutes after the American president spoke there were fresh reminders of regional tension, which will certainly escalate, in the short term, as a result of Mr Trump's move. Israel denounced "irregular Iranian activity" in the Golan Heights, called up conscripts and opened bomb shelters for civilians. On May 10th Israel said it hit dozens of Iranian positions in its most intensive attack on Syria in decades after 20 rockets were fired by Iranian forces in Syria towards Israeli territory.

Mr Netanyahu accused Iran of preparing to deploy "very dangerous weapons" in Syria with the aim of destroying Israel. Soon afterwards he left for Moscow, where he was expected to urge his Russian hosts to restrain their Syrian and Iranian friends. Russia, however, is unlikely to be willing or able to exercise that sort of leverage, and some senior Israeli defence officials said they hoped Mr Netanyahu would also press Mr Trump to keep American troops in Syria. (The president has promised to withdraw his country's small contingent.)

Fallout from Mr Trump's decision was felt across the Middle East, where hostility between Saudi Arabia and Iran, respective champions of Sunni and Shia Islam, crackles on many fronts. In Iraq, which will hold an election on May 12th, hard-line and pro-Iranian members of the country's Shia majority were expected to raise their profile, making it tougher for Haider al-Abadi, the incumbent prime minister and likely victor, to maintain his balancing act between the Saudis and the Iranians (see article
). Hopes suddenly seemed to fade that Iraq could at long last overcome sectarianism as the defining feature of its bitter internal contests.

Although he stopped short of explicitly calling for regime change in Tehran, Mr Trump made a bid for Iranian hearts and minds by declaring that "the people of America stand with you" and by deploring the fact that 40 years had passed since a "dictatorship seized power and took a proud nation hostage." He said Iran's citizens were "rightful heirs to a rich culture" and the future should belong to them.

But commentators in Tehran said the regime could all too easily use America's hostility as an excuse to come down hard on dissent, which is rising as a result of the country's economic doldrums and plummeting currency. In recent months, one observer noted, Iran's rulers have been relatively tolerant of strikes and protests by workers; Mr Trump's move could give them a perfect excuse to crack down.

This article appeared in the Middle East and Africa section of the print edition under the headline "Nuclear fallout"

The highest level

American sanctions will make it hard to revive the Iranian nuclear deal

Europe braces itself for secondary sanctions

Print edition | Middle East and Africa May 12th 2018

WHEN it has come to punishing recalcitrant foreign countries, President Donald Trump's bark has sometimes been worse than his bite. A fierce announcement from the Oval Office of new import tariffs or impending fire and fury has been followed by a lull. Loopholes and exemptions have emerged. The threat on May 8th of the "highest level of economic sanction" on Iran, however, seems to mean exactly what it says.

Again, there is a breathing space, of three to six months, before stinging sanctions lifted two years ago are reinstated. These include cutting Iran off from dollar financing, imposing "significant" reductions on its hydrocarbon exports and banning American companies from doing any business there. Most believe Steven Mnuchin, the treasury secretary, that after the "wind-down period" sanctions, both primary and secondary, "will come back into full effect".

The threat of secondary sanctions resonates most in Europe. As Carl Bildt, a former Swedish prime minister, tweeted: "US Iran sanctions are hardly hitting any US companies, but aim primarily at European ones." This matters to the European Union not just because its businesses will be hurt (see chart). If the EU is to rescue the nuclear deal, it knows Iran will need to see economic benefits.

The immediate impact of the sanctions on Iran itself may be mitigated by its ability to keep selling oil to China, a signatory to the nuclear deal, and to India. But, deprived of European trade, technology and investment, Iran is now unlikely to meet the IMF's forecast of 4.3% GDP growth this year.

The EU has mooted various ways of helping its businesses continue to operate in Iran. Finance could be arranged through euro-denominated export credits, loans from the European Investment Bank or bilateral lines of credit, such as one worth €5bn that Italy signed in January for projects in Iran. But many companies will be forced to comply with sanctions anyway. Airbus, for example, has delivered just three of 100 aeroplanes ordered by Iran in 2016 for $19bn. But because it uses American components, Airbus must obey American rules.

The EU is even considering reviving "blocking" regulations introduced in 1996 in response to American sanctions on Iran, Libya and Cuba, compelling European companies to ignore them. Another, high-risk, approach would be to challenge the sanctions at the World Trade Organisation. None of this, however, solves the big problem, that for most companies America matters far more than Iran—both in terms of opportunity and risk. Two banks, HSBC and BNP Paribas, were fined billions of dollars in America in 2012 and 2015 respectively over their dealings in Iran.

Total, a French oil giant that made the first big European investment in the energy industry in Iran, in the South Pars gasfield, has said it will seek an American waiver to carry on working. However, its majority stake in the project will probably be taken over by its Chinese partner. Unlike Europe, China is not averse to challenging Mr Trump's America.

This article appeared in the Middle East and Africa section of the print edition under the headline "The highest level"

Seeking someone with a vision

Iraqi voters are fed up with the old guard

But candidates in the coming election are offering few new ideas

Print edition | Middle East and Africa May 10th 2018

HAIDER AL-ABADI, the prime minister of Iraq (pictured), has a strong case for re-election. He has overseen the defeat of Islamic State (IS), which once held vast portions of the country. He denied a Kurdish push for independence last year. Oil production is near record levels and rising. And he has learned to play foreign powers off against each other. No wonder he calls his inclusive electoral list of Shias, Sunnis and Kurds the "Victory Alliance".

But as Iraqis go to the polls to elect a new parliament on May 12th, many will be thinking about the economy. Unemployment is up and salaries are down. GDP per person has fallen from almost $7,000 in 2013 to under $5,000 last year. Much of this is a result of the war with IS. Mr Abadi, though, has failed to tackle corruption, increase transparency or reform the system by which ministries are divvied up (and plundered) by sect and ethnicity. He shies away from a showdown with fellow Shia politicians who have ruled Iraq since America installed them 15 years ago.

Mr Abadi's manifesto speaks of a Vision 2030, based on the economic reform plan of neighbouring Saudi Arabia, but it is bereft of detail. He regurgitates old platitudes about addressing poor governance, removing corrupt politicians and depoliticising the civil service. Many Iraqis yearn for fresh thinking. "It's like Britain after the second world war," says Muhammad al-Moumin, an Iraqi television presenter. "People appreciated what Churchill did, but they wanted a change of leader for the period of peace."

Even among Mr Abadi's base in the Shia south there is growing disenchantment with the government. In the previous three elections, Grand Ayatollah Ali al-Sistani, Iraq's top cleric, declared voting a sacred duty. But on May 4th his representative, Sheikh Abdul Mahdi al-Karbalai, suggested that this time it was acceptable to abstain. "Many of those who were elected or appointed to high positions in the government abused their power and took part in spreading corruption and squandering public money," said Mr Karbalai. "Avoid falling into the trap of those who are corrupt and those who have failed."

Voters credit Mr Abadi for dumping the Shia-chauvinist rhetoric once used by his Dawa party. His manifesto does not mention Islam. "Our project is to build a political bloc that transcends sect and ethnicity," he said in the Kurdish city of Erbil. Sunnis cheer when he criticises the leaders of Shia militias. Unusually, his list includes candidates from all of Iraq's 18 provinces.

Other Shia parties have adopted his tactics, downplaying religion and putting Sunnis and Kurds on their lists. Iraqis question their sincerity. Many suspect Shia politicians will close ranks after the election, choose a prime minister and give their own people top jobs. Members of Dawa, who are competing on two rival lists—Mr Abadi's and that of Nuri al-Maliki, a former prime minister—might put aside their differences in order to hang on to the premiership, which the party has held since 2005. "At heart Abadi is a second-tier leader of a chauvinist party that has Shia Islamism as its *raison d'être*," says Raad Alkadiri of Boston Consulting Group.

Reinstalling Mr Abadi is unlikely to satisfy voters and risks fomenting more unrest. After the past two elections there were mass demonstrations. The ayatollahs, who fostered and protected the country's transition to democracy, increasingly sound like an opposition. An alarming number of Iraqis would prefer to have a strongman in charge. In order to mollify the public, Iraq's next prime minister must show that he is serving them, not just the old elite.

This article appeared in the Middle East and Africa section of the print edition under the headline "Seeking someone with a vision"

A fragile recovery

Africa's economies are turning a corner

But risks remain

Print edition | Middle East and Africa May 12th 2018

A MONTAGE of miracles plays on the giant screens in the Perez Dome, a Pentecostal church in Accra. A paralysed man tosses away his crutches. A woman's tumour vanishes. It is not only the sick who need help. "I pray for businesses," intones the pastor, promising that struggling ones will "resurrect". A stall outside sells recorded sermons on "financial prophecy" and "creating wealth God's way". Someone up there is listening. After several tough years Ghana's growth rate in 2017 was 8.4%, the third fastest in the world.

African economies often seem like victims of divine whimsy. Most of the continent's workers are farmers, reliant on the rains. Much of its wealth comes from oil and minerals, at the mercy of markets. When prices are high, as they were in the first decade of the century, Africa booms. But in recent times drought and a commodities slump have stymied growth. In 2016 economies in sub-Saharan Africa grew by just 1.4%, the slowest rate for two decades.

Now the gods are smiling, faintly. Commodity prices are up. Better harvests have helped reduce inflation. Governments in the region have already sold about $12bn of international bonds in 2018, a full-year record. In its latest regional update, published this week, the IMF forecasts growth across sub-Saharan Africa of 3.4% this year.

Abebe Aemro Selassie, the director of the IMF's African department, plays up the potential for faster growth. "The question I ask is why isn't a country growing at 6 or 7%?" But he frets that the recovery is fragile. Rising debt or a weaker world economy could stop it in its tracks.

Aggregate figures for the region are driven by three big economies, all recovering from recession. Nigeria and Angola stumbled when oil prices fell; in the former, militants also choked off production by blowing up pipelines. Both made their situation worse by trying, quixotically, to prop up exchange rates. They have now seen some sense. Nigeria partly eased restrictions on its currency last year to encourage investment and is pumping more of the black stuff. Angola has let its currency slide by 28% against the dollar this year, though the adjustment will make it costlier to repay dollar-denominated debts.

South Africa, the third big beast, is also on the mend. Cyril Ramaphosa, its new president, took over in February with promises to lure $100bn of investment and stop the rot in state-run firms. That was enough to save the country's only investment-grade credit rating. But Mr Ramaphosa will struggle to achieve many of his goals because of infighting in his party, the African National Congress, says Azar Jammine of Econometrix, a consultancy. One in four jobseekers can't find work.

These three countries are less of a drag on regional growth than they were (see chart). But their recoveries are modest. The IMF expects that income per person will shrink in all three in 2018, for the fourth consecutive year. This mirrors a wider trend. In 12 countries with about one-third of the region's population, incomes per person declined last year. They will fall again in most of them this year.

Instead, the sprightliest performers are a group of midsized economies, from Ivory Coast to Tanzania, with sustained growth rates above 5%. Most import oil. Their cities are swelling and they are reaping the rewards of innovations like mobile banking. Many (though far from all) have sound economic policies. Most are holding down inflation. Their consumer class is small but growing. And politicians are cutting plenty of ribbons. Kenya and Ethiopia have new railways. Senegal has a new airport. Public investment has added to growth in the short run. It could help in the long run, too, if better infrastructure boosts trade.

But three risks loom. The first is public finances. Governments have borrowed heavily to replace oil revenues or fund capital projects. The median level of public debt rose from 30% of GDP in 2012 to 53% last year. The median country's interest payments now swallow a tenth of revenues. Six governments are already in a debt crisis. Anzetse Were, an economist in Kenya, questions whether public investments there will do much for productivity. She thinks some of the money may have been diverted into private pockets.

A second risk is the world economy. Distant trade wars could crimp demand for African raw materials. Hikes in American interest rates would push up the cost of refinancing debts. And the oil price is still too low for many African exporters. Even if it doubled, Cameroon and Nigeria would still not balance their books.

The third risk is politics. Elections typically rip holes in public budgets and can cause months of uncertainty. The only thing worse is not holding a vote at all. In the Democratic Republic of Congo, while billionaires bicker over cobalt, the president is driving his country off a cliff.

Some think growth rates are a distraction. "We don't see it," says Courage Gamli, a Ghanaian barman, of his country's recent spurt. The numbers are only a rough guess: a rebasing of the calculation next month may add more to Ghana's GDP than several years of actual growth. A more basic problem is how to share the benefits. "The economy is growing but it's not translating into jobs," says George Boateng of the African Centre for Economic Transformation, a think-tank in Accra.

In 2002 some 57% of Africans were extremely poor, based on the World Bank's benchmark income of $1.90 a day. In 2013, after a long resource-fuelled boom, 42% were. More children were in school; fewer died young. There is reason to worry, then, when the IMF says that regional growth will hover below 4% for the next few years. Since populations are rising, income per person will creep up by barely 1% a year. That makes Africa look more like Italy than China. Better keep praying.

This article appeared in the Middle East and Africa section of the print edition under the headline ”Don’t expect miracles”

A rebel leader dies

Will Afonso Dhlakama's death derail peace in Mozambique?

Just as he was about to agree on a peace deal, a warlord drops dead

Print edition | Middle East and Africa May 10th 2018

AFONSO DHLAKAMA (pictured), the Mozambican rebel turned opposition leader who died on May 3rd at his Gorongosa mountain lair, had been the undisputed and charismatic leader of Renamo for nearly 40 years. Some disciples said he had magic powers: that he could turn into a partridge (a symbol of Renamo) to escape danger. He had been trying to clinch a peace deal with the government, and was said to have made progress during secretive talks with Mozambique's president, Filipe Nyusi. But since, in typical African big-man style, he left no successor, that whole process may now be in question.

Mr Dhlakama had once before laid down his guns, ending a civil war marked by mass atrocities, child conscripts and 1m deaths between 1977 and 1992. But the two decades of peace that followed were not to his liking. In 2012 he took up arms again to protest against the dominance of Frelimo, the ruling party. Renamo fighters attacked police stations, roads and railways. Although a truce was reached in late 2016, negotiations dragged on, advancing only after Mr Nyusi travelled to Mr Dhlakama's remote base for private talks.

Under the putative accord, power would have been devolved to the provinces. The two men were still discussing how to demobilise and reintegrate Renamo's militia, maybe a thousand strong.

Given Mr Dhlakama's dominance over Renamo, it is unclear when negotiations will restart. Ossufo Momade, a former guerrilla chief, has been chosen as its interim leader, promising to follow in his predecessor's footsteps. Some wonder if talks could proceed faster without the capricious Mr Dhlakama.

Whoever takes over will face a tough task. Mr Dhlakama unified old guerrilla fighters with his party's modern political wing. Mr Momade is from the military side. Ivone Soares, a niece of Mr Dhlakama who heads Renamo in parliament, may lack support from war veterans but do better at the ballot box. Another contender, Manuel Bissopo, the secretary-general, may appeal to both factions.

Renamo has little time to deliberate. Local elections are to be held in October, followed by a national poll next year. Renamo has momentum, recently winning a by-election in Nampula, up north. Mr Dhlakama's absence may make it easier for Renamo to work with the Mozambique Democratic Movement, which splintered from it. Some fear that the emerging deal between Messrs Nyusi and Dhlakama might concentrate power in the hands of Frelimo and Renamo at the expense of smaller parties. Others fear Mr Nyusi may be persuaded by Frelimo's old guard to drive a harder bargain. The peace process is even more fragile than it was.

This article appeared in the Middle East and Africa section of the print edition under the headline "A dangerous death"

Night of the long names

Tension is mounting in Madagascar ahead of elections in November

President Rajaonarimampianina fails to bar his opponents, Ravalomanana and Rajoelina, from running

Print edition | Middle East and Africa May 10th 2018

THE placard is grim: a hand smeared in blood set inside a red circle, with the words: “Enough, no more killings; Rajao, get out.” Since police shot and killed two people on April 21st at an opposition rally in Antananarivo, Madagascar’s capital, there has been a steady stream of anti-government demonstrations.

The trouble started with a new law that would have prevented leading opposition candidates from contesting elections scheduled for November. Among those barred were two former presidents: Marc Ravalomanana, who was ousted in a coup in 2009; and Andry Rajoelina, who had mounted the coup with the help of the army and ruled Africa’s biggest island until democracy was restored in 2013.

Even the constitutional court’s ruling on May 3rd that struck out parts of the electoral law, including those that would have prevented Mr Ravalomanana and Mr Rajoelina from running, has failed to placate the opposition. It is demanding the resignation of Hery Rajaonarimampianina, the current president, who has made as little progress in curbing rampant corruption as his two predecessors. He, in turn, says the protesters are attempting a coup. Western and African diplomats are scrambling to calm things down. Elections, they concede, are no longer certain to happen this year.

The deadlock is one that Madagascar can ill afford. It is one of the few countries in the world that became poorer (when measured by income per person) between 1960 and 2010. And the crisis is frustratingly familiar. Madagascar has suffered several coups and bouts of violent instability. This time, at least, the army is standing aside. A statement signed by the heads of the army and police, and read out by the defence minister, called on party leaders to resolve their differences.

That is easier said than done. The opposition has flatly refused to negotiate through foreign mediators, especially those from the Southern African Development Community, a regional club of 15 countries. It has dispatched Joachim Chissano, a former president of Mozambique, to mediate. But many Malagasy see him as the architect of the reviled “ni ni” (“neither nor”) deal under which Mr Ravalomanana and Mr Rajoelina were barred from standing for election in 2013, clearing the way for Mr Rajaonarimampianina. To break the cycle, the country badly needs free—and freely contested—elections.

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Russia
Six more years

Six more years

Fresh challenges for Vladimir Putin in his supposedly final term

Russia's strongman talks less about foreign adventures and more about domestic problems

Print edition | Europe May 10th 2018

THE sensation of Vladimir Putin's presidential re-inauguration was his car. A vast Russian-made black limousine with a defensive-looking narrow front window, it made a change from his usual stretch Mercedes. On May 7th it safely carried Mr Putin a few yards from his office, without venturing outside the walls of the Kremlin, to a gilded hall where tsars were once crowned. There, he swore to respect Russia's constitution, which says that this is his last presidential term. The vehicle, "cooler" than Donald Trump's "Beast", as one of his 5,000 guests cooed, was supposed to illustrate the main message of Mr Putin's speech: thanks to his leadership, Russia is becoming a modern, self-reliant superpower. (Look! In our own fancy cars, we can overtake the world!)

Now that "security and defence capabilities are reliably assured," Mr Putin said, the country was destined for a "breakthrough" and would be able to achieve "heights...unattainable to others". Omitting any mention of the West, Mr Putin concentrated on domestic affairs: "I strongly believe that only a free society...is capable of achieving these breakthroughs," he said. His words mocked thousands of young people who had demonstrated two days earlier under the slogan "He is not a tsar to us".

In Moscow, the demonstrators had been met not just by riot police but by whip-wielding Cossacks and members of NOD, a militant nationalist movement clad in St George ribbons adopted as a symbol of the Soviet victory in the second world war. Within minutes, riot police had (yet again) detained Alexei Navalny, the opposition leader who organised the protest, while the Cossacks and the police hit unarmed protesters. Some 1,600 people were detained across the country. Many remain in police detention; some were beaten up.

Patriotic ruffians

The use of paramilitary thugs marked an escalation of violence. It was probably also political theatre. By having people dressed as Cossacks, as well as the police, beat up the protesters, the aim was to show that real Russians are furious with Mr Navalny's supporters. If the Russian people were to unite, as Armenians just have to oust their own leader, Mr Putin would be worried. Happily for him, Russians are far from united. As scattered protesters in Moscow moved past Prada and Louis Vuitton boutiques chanting "Russia will be free!", patrons on the terrace at Tekhnikum, a swanky bistro, clinked glasses of white wine and chuckled, raising a toast of their own: "Russia is already free."

An odd mix of violent traditionalism and European-style urban modernisation—both financed by the government—is a key element in Mr Putin's political edifice. It allows him to appeal both to the middle class in large cities and to the conservative and ill-paid population of small-town and rural Russia. He won 77% of the vote, the highest ever scored by a post-Soviet president. His thumping victory supports his image as the supreme national leader and the only person who can keep Russia together.

In fact, his only serious opponent, Mr Navalny, was barred from taking part in the election in March, on spurious grounds. The opposition were constantly harassed. Public employees and staff at state-dependent firms were more or less coerced to turn out to vote. Pro-Putin forces bombarded voters with messages urging them to come to the polls, especially in big cities where turnout has often been low. Kirill Rogov, a political analyst, says the result signals a shift to a harder authoritarianism in which the power of the ruler is maintained mainly by violence rather than money and propaganda.

Mr Putin's previous presidential term was built around confrontation with the West: the war against Ukraine in 2014, the intervention to prop up Syria's despot and the meddling in democratic elections in Western countries. These actions were carried out by Mr Putin on the assumption that the West was too distracted, divided or indifferent to push back. But his aggressive tactics have backfired.

In America they have produced a massive backlash against Mr Putin, and personal sanctions against his cronies and tycoons, regardless of their formal affiliation with the state. The use of a military-grade nerve agent to poison a renegade spook produced a similar result in Britain, pushing the government to close the country's financial system to questionable Russian money. Further escalation with the West now seems both risky and unlikely to help Mr Putin much. According to polls, the most popular complaint among the Russian public about the Kremlin is that it pays too much attention to foreign policy, and thus neglects domestic problems.

As a result, Mr Putin's main message—both in his pre-election state-of-the-nation address and in his inauguration speech—was a promise to concentrate on technological modernisation, while maintaining tight control over politics. Not wanting to look like an ageing dictator, Mr Putin, who is 65, posed with young activists. On camera, they thanked him for all the opportunities he is offering them. In the first decree of his new term, Mr Putin ordered his government to improve health care and education and to raise living standards. That may be tricky, given the handicaps of economic stagnation, sanctions and endemic corruption, though rising oil prices will now help.

His decree copies the goals outlined in a reform programme drafted by Alexei Kudrin, a former finance minister and a licensed liberal in Mr Putin's entourage. However, it does not mention the means Mr Kudrin thinks his plans would require, such as political competition and an overhaul of the judicial system to foster the rule of law. Mr Putin gave no indication that his new administration will be much different from the old one on any of these counts. On the contrary, he reappointed his pliable sidekick, Dmitry Medvedev, as prime minister. This left the Russian elite none the wiser as to whom he might be grooming as his successor if he really plans to step aside when his term ends in 2024.

Muddling through until then will be increasingly difficult. Economic rents have shrunk, thanks to stagnation, and rich Russians find it harder to shelter their assets and children in the West. As a result infighting within the elite is likely to intensify; regional powerbrokers feel increasingly alienated and vulnerable. Growing political instability seems likely. Even in his shiny new bulletproof car, Mr Putin faces a bumpy ride.

This article appeared in the Europe section of the print edition under the headline "Six more years"

Warble games

Neighbourly voting in the Eurovision Song Contest

The continent's annual singing tournament is becoming increasingly partisan

Print edition | Europe May 12th 2018

EUROPE is breaking up. Where once the continent was connected by a web of tight relationships, it is now fragmenting into peripheral alliances. The core countries are becoming more isolated; collusion among voting blocs is on the rise.

These are the conclusions of a paper, published last year by three researchers at the University of Central Florida, about the Eurovision Song Contest, the 63rd of which began in Lisbon on May 8th. The competition is as notorious for its politics as its cheesy ballads. Last year Russia withdrew after the host, Ukraine, denied entry to its contestant, who had performed in Crimea after Russia had invaded and annexed the region in 2014. Ukraine had previously won the competition with a cheery song about Joseph Stalin's deportation of Crimean Tatars during the 1940s. In 2015 Armenia's lyrics marked 100 years since the massacre of 1.5m people, which its neighbours Turkey and Azerbaijan refuse to recognise as genocide. Turkey has boycotted the event since 2013, in protest against the automatic qualification to the final round enjoyed by the "Big Five": Germany, Britain, France, Spain and Italy.

Yet the data show that neighbourly tensions tend to be outweighed by collusive voting, defined as a consistently greater exchange of points between two countries than would be expected by random allocation. The fraternising has increased sharply since 1997, when votes by the general public were introduced to supplement those cast by juries of so-called experts. The trend has been most marked among adjacent countries at the continent's edges. In the past 20 years the Nordic bloc has won seven times; former Soviet states, six times. The "Big Five", meanwhile, have rarely co-operated and often been shunned by everybody else. Their contestants have won only once (Lena, a German singer, triumphed in 2010 with "Satellite"). They have finished last in the final nine times, with *nul points* in 2003 and 2015.

This article appeared in the Europe section of the print edition under the headline "Warble games"

To Russians with love

Estonia gets creative about integrating local Russian-speakers

It realises they don't want to be part of the next eastern Ukraine

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THE grey Stalinist blocks, potholed roads and intimidating communist-era plazas hardly suggest a hipster hotspot. But Narva, an Estonian town on Russia's border, is suddenly all the rage. "Within the last six months Narva has become hip in Estonia. Everyone wants to go there," says Helen Sildna, who runs Tallinn Music Week and who is going to stage a music festival in Narva for the first time in September. The abandoned factory buildings, cheap living space and the frisson of sitting on a cultural front line between Russia and the West will attract trendsetters—or so Estonian officials hope. Making Narva cool is part of Estonia's new strategy to integrate Russian-speakers in Estonia.

After Russia's annexation of Crimea in 2014, Western journalists scoured maps for other places that could be next on Vladimir Putin's hit-list. They stumbled on Narva, where almost the entire population is Russian-speaking. The sight of Russian flags and border guards below the medieval fortress on the other side of a narrow river made for suitably dramatic pictures on news bulletins. Suddenly Narva hit international headlines as "the next Crimea".

That was always too simplistic. Narva's residents may have cultural, historical and linguistic ties to Moscow, but few of them want to live in Russia. Wages, pensions and living standards are higher in Estonia than on the other side of the border. Narva is not Crimea, and Estonia is not Ukraine. It is much less corrupt, and also a member of the EU and NATO. So it is far more difficult for Russia to meddle in Estonia than it was in Ukraine. And if any Russophone Estonians ever thought it was a good idea to move the border, the carnage in eastern Ukraine dispelled that fantasy.

But Narva has felt ignored and economically deprived, something which might now be changing. Estonia's cheeky creative scene has co-opted the media cliché and declared "Narva is next". Not as a political flashpoint, but as a cultural hotspot. Narva's local government is using the phrase as part of its bid to be Estonia's European Capital of Culture in 2024, which would bring in EU money and investment from Tallinn. With the help of funds from central government, a theatre and gallery complex is being built in a disused factory. A residency programme allows artists to live and work in the crumbling 19th-century splendour of the former Kreenholm textile works, which a century ago employed 10,000 people and was the largest factory in the Tsarist Russian empire. Ms Sildna calls it the "East Berlin effect". The idea, she means, is to make the place cool by attracting artists and the avant-garde, create a buzz that pulls in ordinary people and thus, perhaps, lure private investment.

That is sorely needed. Narva has an ageing and shrinking population and high unemployment, making it one of the poorest regions of Estonia. Years of headlines predicting an imminent invasion have hardly helped. So it is often impossible for local entrepreneurs to get finance. In the city centre there are few cafés, bars or restaurants; and there have been no commercially funded new buildings for 25 years.

Within Estonia the region is also isolated linguistically. Some 95% of its people speak Russian as their first language, so it is rare to hear Estonian on the streets. This makes it difficult for Narva's residents to learn Estonian. Many struggle with the basics. According to government figures, around 20% of them speak no Estonian at all. For Estonians from elsewhere in the country, many of whom don't speak Russian, Narva can feel alien.

But Estonia is changing. A new globally-minded generation born in the 1980s and 1990s is coming of age. With no memory of the Soviet Union, young people from both communities are often more interested in the future than the grudges of the past. Estonia's government is also changing its approach. "In the past we didn't talk with Russian-speakers, but just told them what they have to do: that they have to learn Estonian, that they have to integrate," says Piret Hartman, undersecretary for cultural diversity. Ethnic Estonians have now realised that they need to become more open to Russian-speakers, she says. With tensions between Russia and the West rising, Narva might also serve as a reminder to the rest of the EU that speaking Russian as a mother tongue and supporting Mr Putin are not necessarily the same thing.

This article appeared in the Europe section of the print edition under the headline "To Russophones with love"

Zlotys for tots

Subsidising babies has bolstered Poland's ruling party—so far

But it could prove painfully expensive in the end

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POLITICIANS elsewhere kiss babies. Polish ones subsidise them. In a new report by the OECD, a club of mostly wealthy countries, Poland was the only one of its 35 members where families receive more in state handouts than they pay in tax. For a single-income Polish family on an average wage with two children, the average net personal tax rate is minus 4.8%, compared with an OECD average of 14%. While the rate has crept up in most of the countries surveyed, in Poland it has dipped by five percentage points since 2016.

Since coming to power in 2015, the socially conservative Law and Justice party (PiS) has championed families, albeit only of the traditional heterosexual sort. Its flagship 500Plus programme offers families a monthly handout of 500 zloty ($139) per child, from the second child onwards (and from the first in poor households). Since the launch in 2016, the government has splurged a total of 42.6bn zloty to 3.7m children from 2.4m families. Recently it proposed new measures focusing on motherhood, including a bonus for having a second child within two years of the first. Meanwhile, PiS politicians have sympathised with church-backed proposals to tighten restrictions on abortion, already among the tightest in Europe.

Poland needs children. The country has one of the lowest fertility rates in Europe, at around 1.4. (The EU average is 1.6.) Already employers are struggling to fill jobs, despite a stream of workers from neighbouring Ukraine. At a PiS convention on April 14th, Beata Szydlo, who was demoted to deputy prime minister in December, said that "our biggest challenge" was to increase the birth rate. A video clip released by the health ministry in November urges Poles literally to multiply like rabbits.

For the time being PiS's efforts may be working. Over 400,000 children were born in Poland in 2017, around 20,000 more than the previous year, buoyed by low unemployment and rising wages. Extreme child poverty has fallen, too. Yet the baby boom could prove short-lived. Meanwhile, PiS's natalist push has angered some women, who resent being treated like incubators. Same-sex couples, who are not recognised by the state, feel slighted by the government's traditional attitudes.

There are economic risks, too. Apart from its cost, critics warn that 500Plus encourages parents to drop out of work to qualify for the subsidy for the first child. In Poland, the inactivity trap—the disincentive to return to employment after inactivity—is one of the highest in the EU, according to a simulation by the European Commission. Since 2015, it has risen sharply to double the EU average. Already there are signs that mothers are quitting paid work. According to an estimate by the Institute for Structural Research in Warsaw, some 100,000 women were absent from the labour market in the first half of 2017 because of the 500Plus benefit; the effect was strongest among low-educated women and in medium-sized towns. 500Plus has been a political boon for PiS, which continues to lead in opinion polls, ahead of the centrist opposition. But it could make Poland poorer.

This article appeared in the Europe section of the print edition under the headline "Zlotys for tots"

Writing the history of terror

Spain's ETA Basque terrorists disband

The "battle for the narrative" continues

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LAGUN, a bookshop in San Sebastián, opened 50 years ago in March, just weeks before ETA, a Basque terrorist group, carried out its first killing, of a policeman. Lagun's owners were socialists and were fined for closing their shop during a strike against General Franco, Spain's dictator from 1939 to 1975. But it was ETA that made their venture almost impossible. The shop, in the city's old quarter, suffered years of politically inspired vandalism culminating in the public burning of the stock by ETA sympathisers. After the husband of one of the owners was gravely wounded in a terrorist attack, the shop moved to a safer site in the city centre. ETA's hostility was for the same reason as Franco's, says Ignacio Latierro, its surviving owner. "We weren't prepared to do what they wanted."

Over the past decade, Mr Latierro has seen the fading of ETA. The group's disbandment, marked by a ceremony on May 4th across the border in France and attended by a motley collection of foreign observers, was a formality. It declared an indefinite ceasefire in 2011 and handed over some weapons caches last year. Its disbandment came with an apology for its killing of civilians, but not of police.

ETA leaves many wounds in Basque society. The disappearance of western Europe's last home-grown terrorist group opens a new battle, for the narrative of what really happened in one of Spain's richest regions. Founded to fight against the Franco regime and for Basque independence, ETA lost its *raison d'être* when Spain became a democracy in the late 1970s and its three Basque provinces gained sweeping self-rule. By then ETA had imbibed a toxic cocktail of Marxism-Leninism and mystical ultra-nationalism which led it, for instance, to object to Lagun's anti-nationalism. Some 95% of its 850 murders took place after the death of Franco. Many of its victims were local councillors, businesspeople or police in the small towns and tight valleys in the hinterland of San Sebastián. It was a claustrophobic world in which victims found that their persecutors were the children of neighbours.

Two things were behind ETA's defeat: pressure from the Spanish, Basque and French police, and revulsion against terrorism, at a global, and eventually local, level. Its own supporters came to doubt its methods. After Spain passed a law banning parties that supported terrorism, some of the group's leaders created a new party, EH Bildu, which abjured violence.

EH Bildu won 21% of the vote at a regional election in 2016, coming second behind the moderate Basque National Party (PNV). It sees ETA's terrorism as a politically inspired "armed struggle" between Basques and Spaniards. "The conflict still exists, though in different parameters," according to Koro Etxeberria, the deputy mayor of Hernani, a Bildu stronghold. On independence, he says "We demand the right to decide." Bildu's first concern is the 300 ETA prisoners, 80% of them dispersed in facilities across Spain. The PNV, which runs the Basque government, supports moving them to local jails. Spain's government, under pressure from victims' groups, is opposed, for now at least.

In the 1970s and 1980s, some 66 people were killed by the police or death squads, one linked to the Interior Ministry. Some suspects were tortured. A former interior minister was jailed for these abuses. "Everyone has to do self-criticism," says Agus Hernan of Foro Social, a group promoting dialogue, reconciliation and "inclusive memory". "We can't have the idea of winners and losers."

That is anathema to many. José Antonio Pérez, a historian at the University of the Basque Country, rejects the idea that there were two sides. Unlike in Northern Ireland, "there was never a political party or social group that supported police crimes," he says. "Reconciliation is an empty word," retorts Consuelo Ordóñez, the leader of a victims' group whose brother was murdered by ETA, and who was forced into internal exile. "We've fought peacefully; we've never done anything to them."

Most Basques are somewhere in the middle, claims Andoni Ortuzar, the PNV's general secretary: "They see the history of ETA as a failure and something that should never happen again, but they also think that many other things happened here." For others it is much more straightforward. It is a victory for democracy and a defeat for terrorism.

This article appeared in the Europe section of the print edition under the headline "Writing the history of terror"

Huffing and puffing

A growing wolf population presents German politicians with a conundrum

Sheep are under attack; "wolf commissioners" are one answer

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IN THE 20th century the wolves that populated German fairy tales—such as "Little Red Riding Hood", published by the Grimm brothers in 1812—were an anachronism. Hunters had wiped them out over the course of the 19th century; the last was killed in 1904. For decades the animals were confined to Europe's east. Then came the end of the cold war, improved forest conservation standards, tighter rules on hunting, and the demilitarisation of border zones. Grey wolves started moving west, crossing from Poland into Germany around the turn of the millennium.

Their numbers are rising. In 2017 alone the number of documented packs in Germany rose from 47 to 60, putting the total count of wolves at around 400. Farmers reckon the true figure is over 1,000. Once concentrated in the north-east, attacks on livestock are spreading. In Lower Saxony, a western state with many sheep, a survey by the *Neue Osnabrücker Zeitung,* a newspaper, suggested the number of farm animals killed by wolves rose from 178 to 403 last year.

What to do? The question pits Germany's farmers and the political right (particularly the far-right Alternative for Germany and the pro-business Free Democrats) against the country's mighty conservationist movement and the left. The former want culls of the wolves; the latter emphasise better protection for livestock and resettlement of problematic packs. On March 11th farmers held a series of "wolf watches": bonfires lit to ward off the animals and in protest at hunting restrictions. On May 5th some 300 animal-rights campaigners demonstrated outside the Reichstag in Berlin. The influential *Bild* newspaper has backed the farmers, warning that wolves could kill children.

As part of their coalition talks in February, the centre-right Christian Democrats and centre-left Social Democrats agreed that farmers should be allowed to kill wolves—but only as a last resort. New guidelines on hunting regulations are to be released and local authorities are encouraged to adopt non-lethal methods: installing electric fences; hiring "wolf commissioners" to monitor numbers, support farmers and educate citizens; and even, under one proposal, giving the wolves contraception. Germany is turning its characteristic knack for compromise to the feared beasts from the forests.

This article appeared in the Europe section of the print edition under the headline "Huffing and puffing"

Charlemagne

How the EU is trying to find out what on Earth Europeans want

Long chats with ordinary voters yield interesting results

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EUROPE DAY, an occasion known only to employees of the European Union, who get the day off, was spoiled this year by an ill wind from the west. Donald Trump's decision on May 8th, a day before the festivities, to withdraw America from the nuclear deal with Iran cast a shadow over the EU's proudest foreign-policy achievement and further widened the transatlantic gulf (see article). Rather than belting out Beethoven and settling down to reread the Schuman Declaration, European politicians were forced to spend the day mulling euro-denominated credit lines and the dangers of secondary sanctions.

But there was a small glint of sunshine for Eurocrats amid the gathering clouds. Europe Day was also the occasion for a curious experiment, launched with little fanfare in the form of an online questionnaire for European citizens. This was the fruit of a "Citizens' Panel" conducted the previous weekend. Nearly 100 ordinary Europeans, selected for characteristics that roughly matched the demographic profile of the EU, had assembled in Brussels to thrash out a list of priorities for EU decision-makers. Finnish social workers rubbed shoulders with Greek tourist agents, Romanian builders and Maltese housewives.

Charlemagne attended part of the exercise, and encountered a lively and engaged set of discussions. The participants were told that no topic was off-limits, and some took that instruction to heart: one Slovene urged the EU to resolve the confusion caused by the existence of two rival European basketball federations. But on the whole the themes that emerged—migration, security, climate change—would not have been out of place at an EU summit. It was a scrappy and rushed affair, but on its own terms probably counted as a moderate success. Most participants, at least, left Brussels declaring that they had had a jolly good time.

We have built Europe. Now we must build Europeans

Yet some also wondered, aloud, what would happen next. The answer is vintage Brussels. The questionnaire published this week will form a basis for Europe-wide "citizens' consultations" designed in turn to inform meetings of EU leaders later this year and next. Meanwhile, each government will hold its own form of consultation on European matters. Nathalie Loiseau, Emmanuel Macron's Europe minister, says France's debates have been lively affairs. Yet none of these worthy endeavours will yield specific policy results, which makes it hard to see how they will generate real enthusiasm. "People don't see the meaning if there's no bite," says Claudia Chwalisz, a Paris-based analyst.

Contemporary attempts to foster a common European spirit do indeed often seem to flounder. Luuk Van Middelaar, a Dutch author, charts an example in "The Passage to Europe", his history of European integration. In the wake of a worryingly low turnout in the 1984 European elections, the leaders of what was then the European Economic Community agreed that their faltering club needed a flag to rally round. But when it was time to sign off on the plan, some leaders feared it might look like a Brussels sovereignty grab. And so a compromise emerged: the governments agreed to call the 12 stars on a blue background that now flutter from government buildings across Europe not a flag but a logo. This ambivalence is often to be seen in the EU. The club fears a loss of legitimacy, and so tries to assemble it from the top down. But resistance or hesitation forces an awkward compromise.

Why is this? Partly because the much-maligned distance between the EU and its voters is a feature, not a bug. National governments have by and large preserved their rights to legislate on matters that most exercise citizens, such as the appropriate level of taxation or the management of public services. Wheezes like direct elections to the European Parliament, or the *Spitzenkandidaten* system for choosing the president of the European Commission by respecting the result of the European Parliament's election, are presented as injections of democratic adrenalin into Europe's flabby body politic. But they have signally failed to budge voters from their national silos. Participation in European elections has steadily fallen since their introduction in 1979, even as the parliament has accumulated powers.

That has only made the EU more vulnerable to the barbs of sceptics. National governments are partly to blame; many take credit for successes and are happy to condemn Brussels when things go wrong. But how can discussions on the EU accommodate citizens who distrust the whole enterprise? Mr Macron thinks honest debate will disarm many; he blames pro-Europeans for yielding ground to their opponents. When the EU's 27 governments signed off on Mr Macron's plan to create a system of citizens' consultations in April, they urged special attention to be paid to the EU's critics. They also insisted that the consultations retain a national character.

Such pressures make it easy to assume that Europolis will remain for ever out of reach. But common threats and the risks of leaving projects half-built force countries and voters together, too. In "Democracy When The People Are Thinking", a forthcoming book, James Fishkin, a political scientist at Stanford, argues that Europeans can overcome national and linguistic divides to conduct a common conversation under the right conditions. Plenty of the participants in Brussels noted with delight the curiosity of encountering people from strange countries who shared their values and concerns.

Their leaders should take note, for this spirit will prove useful. The euro zone needs better systems for pooling risk, and more resilience to external shocks. The EU needs a stronger asylum system to weather the next refugee crisis. But mistrust between governments is hampering agreement. Both issues may come to a head at a summit in June. The EU will always rely on dealmaking to overcome its divisions, but a sense of common purpose can be useful. Not Europolis, then, but a step or two towards it.

This article appeared in the Europe section of the print edition under the headline "What do Europeans want?"

The politics of Brexit
Cabinet splits and party twists

Cabinet splits and party twists

Theresa May faces divides over Brexit—and little time to bridge them

Even if she can end a row over customs arrangements, a bigger problem awaits in Brussels

Print edition | Britain May 10th 2018

WHEN she became prime minister in July 2016, and again when she called an election last April, Theresa May hoped to unite both the country and her party. Yet almost two years after the Brexit referendum and just nine months before Britain is due to leave the European Union, the splits seem wider than ever. That is one conclusion from the latest outburst by her foreign secretary, Boris Johnson, who dubbed her preferred option for a customs partnership with the EU "crazy" and suggested it would betray the spirit of the referendum.

In truth, Mr Johnson's intervention is part of a power play by Tory Brexiteers, notably the European Research Group of 60-odd backbenchers led by Jacob Rees-Mogg. This group insists on the hardest Brexit, with a clean break from the EU's single market and customs union. Brexiteers want to stiffen the prime minister's resolve to stick to the red lines she drew in her first conference speech as leader—and to keep the threat that, if the EU is obstructive, Britain will walk away with no deal.

Yet in the past year Mrs May has found that negotiation in Brussels requires give and take, and that not all her goals are compatible. She knows a no-deal exit would be horribly disruptive. She has accepted that there will be a post-Brexit transition period in which nothing much changes, and agreed to pay a hefty exit bill. She hopes to stay in many EU agencies and in regulatory alignment for much trade in goods. And she wants a customs arrangement that minimises friction and helps avoid a hard border in Northern Ireland.

Brexiteers had swallowed all this as a price for the prize they covet. In March Mr Rees-Mogg called for Mrs May to have the space and time to pursue the best Brexit deal. It even seemed that he and his allies could live with ambiguity over customs. On this, Mrs May's red line was fuzzier than on leaving the single market. And her customs partnership, under which the government would apply EU duties to imports, but find some clever way of tracking and refunding them for goods destined only for Britain, was proposed last August and reaffirmed in March.

But suddenly the Brexiteers are rebelling. They know a majority of the cabinet's Brexit sub-committee, which now includes Sajid Javid, who is more Eurosceptic than Amber Rudd, his predecessor as home secretary, is against the customs partnership. Instead the committee leans to a so-called maximum facilitation option, which would minimise friction by relying on new technology, trusted traders and exemptions. David Davis, the Brexit secretary, has made his preference for this clear.

One of many surreal features of the whole argument is that the EU has dismissed both customs options as unworkable. Both rely on untried technology and untested computer systems. Maximum facilitation would be an invitation to smuggling and almost certainly against World Trade Organisation rules. Moreover, neither option would avert a hard border in Northern Ireland. That would require close alignment to most single-market regulations as well.

Brexiteers fear that, because of this, Mrs May's customs partnership would evolve into a customs union, dashing hopes of trade deals with third countries. Some even say being in such a union would be worse than staying in the EU. They are now trying to steer the prime minister away from the plan by hinting that, unless she changes tack, they might replace her with a true Brexiteer who is harder on Brussels.

May contains nuts

Yet this is unlikely to work. True, Mrs May might be too feeble to dismiss Mr Johnson. She was severely weakened by last year's election losses, and rattled by attacks over the customs union by Jeremy Corbyn, Labour's leader, at this week's question time. But she is stubborn. She has asked officials to rework the customs partnership. If the Brexit sub-committee demurs, she may seek full cabinet approval instead. She also knows that any new customs system will take years to put in place, so Britain is likely to have to stay in a customs union for some time in any case.

Unlike the Brexiteers, Mrs May also grasps how the parliamentary arithmetic has changed since the election. There is no majority for the hardest form of Brexit in either house. The Lords have now defeated the government no fewer than 14 times on its EU withdrawal bill, including votes on staying in the single market and the customs union. The Commons is likely to reject the first. But pro-EU Tories say that, with solid Labour support, there is a clear Commons majority for a customs union. Mrs May's customs partnership was devised in part as a ruse to head off such a vote. Ironically, the Brexiteers' uprising against it may make it more likely that Parliament forces a customs union through.

Mrs May could yet face a leadership challenge, especially if a Brexiteer such as Mr Johnson or Mr Davis were to resign. But nobody on either wing of the party can agree on who should replace her. And experience suggests that whoever brings her down is unlikely to wear the crown. In short, she is stronger than she seems, and her enemies are weaker. Her biggest problem is not them, but the shortage of time in which to negotiate in Brussels. And that is a problem that cabinet and party splits have done much to aggravate.

This article appeared in the Britain section of the print edition under the headline "Cabinet splits and party twists"

Exit the matrix

A database of suspected London gangsters has been widely shared

Over a third of those named in it have no serious convictions

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IMAGINE your name has been put on an official database, without consent, notice or explanation. As a result, it may be harder to go to college or rent a flat. It may even increase the odds of being deported. That, according to a report by Amnesty International, a charity, may be the fate of thousands of young men in London.

The database in question is the "gang violence matrix", maintained by the Metropolitan Police. Launched after riots in the capital in 2011, it keeps track of suspected and known gang members. The most recent data show that it included 3,806 names in October 2017, each with a score indicating the risk of the individual committing violence. To add someone to the database, police require two sources of information demonstrating links to a gang. The evidence can be thin: family ties, say. A third of those on the list have never been convicted of a serious crime.

The database informs police tactics, such as where to perform stops and searches. But information from it can also be shared with other authorities, like schools and council housing services. The idea is to improve co-ordination of anti-gang efforts. Yet Amnesty fears that this sharing of information may encroach on people's lives. One man lost his college place when the college discovered he was listed as being involved in a gang. Being stopped and searched can become the norm. For some, it may feel "akin to living in a police state", says Patrick Williams, a criminologist at Manchester Metropolitan University.

Amnesty notes the high proportion of ethnic minorities in the database. Black people make up 78% of its names. It is hard to know how well this reflects the make-up of London's gangs, not least because the Met's definition of a gang is not clear. But only 27% of the perpetrators of violent crime against young people in London are black. A gang database used by police in Manchester shows a similar skew towards minorities, according to a report in 2016 by Mr Williams and Becky Clarke, another Manchester criminologist.

Does the matrix reduce violence? The Met says it is a useful intelligence tool. A nationwide rise in violent crime in the past two years, and a surge in murders in London, have put gangs on the agenda. Yet the London mayor's office found that in 2016 only 5% of the capital's knife crime which resulted in an injury was linked to gangs.

There may be less intrusive ways for public services to share data. Richard Garside of the Centre for Crime and Justice Studies points to a programme in Cardiff, where hospital staff share anonymised data with the police about where victims were attacked. The model has cut crime while protecting privacy.

The mayor is reviewing the Met's approach to gangs, as part of an inquiry into knife crime. Meanwhile the Information Commissioner's Office, a watchdog, is considering whether the force is in breach of data-protection laws. If it is, that could mean more limited access to the matrix.

This article appeared in the Britain section of the print edition under the headline "Exit the matrix"

Away-from-home run

Major League Baseball makes a pitch to Britain

Another American sport crosses the pond in search of new fans

Print edition | Britain May 10th 2018

THE two most famous teams in baseball, the Boston Red Sox and the New York Yankees, will duke it out in a regular-season two-game series in London in June 2019, it was announced this week. It is a home run for Major League Baseball (MLB), which controls the game in America, and Sadiq Khan, London's mayor. These will be the first MLB games to be hosted in Europe. They are due to be played at the London Stadium, a venue for the 2012 Olympic games that is now run by the mayor's office.

The baseball players will be following their counterparts in America's National Football League (NFL), which has been playing regular-season games in London since 2007, and the National Basketball Association, which started playing there four years later. All three franchises have crossed the Atlantic for the same reason: a perception that they cannot expand much further at home, so future growth will have to come from abroad.

With revenues of about $10bn a year, Major League Baseball is the second-richest sports league in the world, behind the NFL but ahead of England's football Premier League. It is already popular in a few countries in Asia and Latin America. But in the United States, attendance is falling. Last year fewer than 73m fans went to games, the fewest since 2002. The league is therefore scouting for new fans in Europe. MLB says it wants to establish a "long-term footprint" in London.

The Red Sox/Yankees game is likely to be a loss leader. MLB will hope that the long-term commercial gains of building a new audience will eventually offset the initial losses of flying the teams over and advertising the contest. For Mr Khan, the game is a chance to fill a loss-making stadium in the football off-season.

If the NFL's British experience is anything to go by, the event will prove popular. Last year 84,592 spectators watched the Jacksonville Jaguars defeat the Baltimore Ravens at Wembley Stadium. The NFL also has a growing TV audience, with about 800,000 British viewers watching a highlights show (although football's equivalent, "Match of the Day", draws 4m). About 40,000 Britons now play the game, double the number in 2010.

This does not necessarily mean the NFL's hard work has won over British hearts and feet. A YouGov poll earlier this year showed that 59% of Britons who had watched the sport considered it "very" or "quite" boring, behind only golf. Perhaps baseball's similarity to cricket might help, but don't count on it. In the same poll, 58% of respondents rated England's summer game as equally boring.

This article appeared in the Britain section of the print edition under the headline "Pitching to the Brits" easySchool

Can a £52-a-week private school work in the rich world?

The idea presents a challenge to both the private and the state sector

Print edition | Britain May 10th 2018

TUCKED away behind a dark, low-slung church lies the Independent Grammar School: Durham (IGSD). Its rooms are airy and pleasant, but plain—far from the grandeur of many private schools. If the Department for Education grants the school permission to open this September, those rooms will become the setting for a radical educational experiment. Its founders hope that IGSD will be the first in a chain of low-cost private schools. Fees for its pupils, aged at first between four and nine (and, if all goes to plan, later to 18), will be just £52 ($70) a week.

The idea is imported from the slums of the developing world, where cheap private schools have emerged in response to the failure or absence of the state, often with excellent results. James Tooley, one of IGSD's founders and an academic at Newcastle University, who has long studied and invested in private schools in countries such as Ghana and India, believes that there is similar demand for "no frills" private education in Britain.

That might seem odd given the distinct lack of shanty towns in Durham, where local state schools provide a decent enough education free of charge. But the founders of IGSD aim to cater to parents who have been priced out of the private sector. According to the Independent Schools Council, which represents private schools, average fees among its members have risen to £17,200 a year, up from £11,300 in 2008. Over the same period the proportion of pupils in England at independent schools has fallen from 7.2% to 6.7%.

IGSD's backers also believe there is unmet demand for a back-to-basics education. "Appropriate authority is a very important thing in a child's life," says Chris Gray, the school's head teacher. The sales pitch on its website promises parents "a traditional curriculum in a traditional style". Another unspoken selling point is the cachet of attending a private school, even a cheap one. At the moment the north-east of England has relatively few schools in the independent sector, notes Susan Hamlyn, director of the Good Schools Guide education consultancy.

But many educationalists are sceptical that IGSD's fees of £2,700 a year will be enough. It is far less not only than the amount charged by other private schools but also than the average funding received by state schools. In 2015-16 the average primary school in England received funding of £4,900 per pupil per year, and the average secondary school £6,300, according to the Institute for Fiscal Studies, a think-tank. IGSD is asking parents to cough up for an education that will have a leaner budget than one they could get from the state at no cost at all.

The school's founders are undaunted. The lack of grand facilities like swimming pools and huge sports halls will cut costs, they say, allowing the majority of fees to be spent on hiring the best teachers, who may be given a share in future profits. The school could employ fewer managers and support staff than the state sector. And although it will not be academically selective, the fees will have the effect of excluding pupils from the most deprived backgrounds, who are often the costliest for the state to teach.

Still, the experiment will be a big test of the school's leaders. Mr Gray was previously head teacher of Grindon Hall Christian School, a role he inherited from his mother, its founder. He stepped down in 2016 following a damning official inspection, which criticised the school's leadership and worried that "pupils show[ed] a lack of respect and tolerance towards those who belong to different faiths, cultures or communities." Mr Gray disputes this judgment and says that during his previous 14 years as head the school was regularly given the thumbs-up by inspectors. The criticism came after the school moved from the private to the state sector in 2012, tripling its pupil roll.

The opening of IGSD has already been delayed by a year. Officials from the Department for Education are expected soon to reach a decision on whether to give it the go-ahead. The school's founders are hopeful of being given permission, and also of further expansion. Mr Tooley's chain in Ghana was running 35 schools four years after opening its first. The pace of growth in England will not be quite as fast, he thinks, but he is already scouting out locations for future branches.

This article appeared in the Britain section of the print edition under the headline "easySchool"

A new storey

Britain’s housing supply is perking up at last

Last year planning permission was granted for around 350,000 new homes, the most since records began in 2006

Print edition | Britain May 10th 2018

IN THE past four decades average house prices in Britain have more than quadrupled in real terms, a bigger increase than in any other G7 country. Costly housing constrains economic growth and poisons politics. A big cause of this sorry state of affairs is inadequate housebuilding, especially in London and the south-east. Governments of all stripes have pledged to get Britain building. But the last time the country put up more than 250,000 houses a year, which is what most economists reckon is the bare minimum to constrain house-price growth, was in 1979.

Yet there are some surprising signs of progress at last. As the economy has recovered from the financial crisis in 2008-09, the number of planning permissions granted to builders has returned to pre-crisis levels (see chart). Indeed, it has gone further: last year more planning permissions were granted than in any year since comparable records began in 2006. If they translate into actual housebuilding at the same rate as now, then Britain may soon meet the 250,000-a-year target.

Housing experts appear optimistic that the trend will continue. The Tories are increasingly aware that Britain’s housing mess is costing them votes; over half of private renters voted for the Labour Party at the general election last year. Sajid Javid, who was promoted to home secretary last month, made wonkish reforms in his previous two years as secretary of state for housing. What at first looked like modest tweaks could add up to create a further boost to supply.

The first relates to the thorny issue of planning policy. Rules implemented by David Cameron’s governments in 2010-16 made it easy for local authorities to limit housebuilding on their patch. Determining how much local housing was needed was the responsibility of councils themselves. Local bigwigs had every incentive to lowball the figures to avoid the wrath of NIMBYs, says Neal Hudson of Residential Analysts, a consultancy.

Recently Theresa May’s government has tweaked this approach. Central government is getting greater power to determine where houses are built. In November Mr Javid identified 15 councils that had failed to adopt a “local plan” for housebuilding (lately the 15 have been building 20% slower than the average council). In March three of them were in effect taken into special measures. York council may soon vote in favour of a local plan, which would be the city’s first in over 60 years. Across the country last year, 80% of minor residential planning applications were dealt with within eight weeks, the most since records began in 2004.

The government is exploring other ways to gee up housebuilding. In November the budget detailed plans to raise a cap on local authorities’ borrowing. The change will allow them to invest more in social housing. The department is also helping housing associations (non-profit providers who generally let homes at below-market rates). It appears to be scrapping two other Cameron-era policies: annual cuts of 1% in the rents that housing associations may charge, and a plan to give housing-association tenants the right to buy their home. The move will strengthen housing associations’ finances, allowing them to build more houses.

There is plenty more that James Brokenshire, Mr Javid’s successor, could do. Boldest would be to allow more building on the “green belt” land that encircles cities (and often isn’t very green). Giving councils an incentive to grant development, by allowing them to keep more of the council tax that is generated, would also help. But for the first time in years, he will at least be building on firmer foundations.

This article appeared in the Britain section of the print edition under the headline ”A new storey”

Politics and entomology

The Cockroach Party: Britain's Lib Dems cling on

The great survivors celebrate a successful night at the polls

Print edition | Britain May 10th 2018

"COCKROACHESQUE" is an unusual compliment, unless you are a Liberal Democrat. Tim Farron, a Lib Dem MP and former leader, uses the term to describe his party's performance in local elections on May 3rd, when it again showed its knack for survival in hostile conditions. Since near-wipeout in the general election of 2015, when they lost 86% of their MPs and 66% of their voters, the Lib Dems have battled to stay alive. Yet they emerged from this month's local polls as the only party justified in calling the night a success.

They gained four councils: Kingston, Richmond, South Cambridgeshire and Three Rivers, in Hertfordshire. They even came within a few hundred votes of snatching Hull, demonstrating that the Lib Dems have some appeal outside Remain-voting enclaves in the south. One analysis estimated that the party would have taken 14% of the vote if the elections had taken place nationwide.

The party's strategy looks faintly contradictory. On the one hand, the Lib Dems are trying to position themselves as the natural home for the "none of the above" voter. Mr Farron hopes to find more supporters like the man who said he would back the Lib Dems because "Tories are evil, Labour can't add up and you are all right". "People spend millions on branding that is less succinct than that," Mr Farron says.

On the other hand, the party is cheerfully divisive on the subject of Brexit, which it is dead against and would like to reverse via a referendum on the final deal. This approach gives the Lib Dems the advantages of sincerity, unity and clarity, none of which can be said of Labour or the Conservatives when it comes to the EU. But becoming a one-issue party—a sort of UK Independence Party for Remainers—has risks, not least alienating the 17m people who voted for Brexit. Bold policies in other areas, such as raising income tax to fund the National Health Service, give the party something else to talk about.

It will be the Lib Dems' ability to win over wavering Tory voters that will decide whether the party has a viable future. The Lib Dems finished second in 38 constituencies at last year's general election. In 29 of these, it was the Conservatives who beat them. But translating local success into a national breakthrough is not easy, as the Lib Dems have long known. Two-party politics has returned. The wide ideological gulf that has opened up between Labour and the Conservatives may make a vote for the Lib Dems seem risky at the next general election, due in 2022.

This leaves the Lib Dems with a Douglas Adams dilemma. In "The Hitchhiker's Guide to the Galaxy", Mr Adams described a planet on which lizards ruled over people, even though it was a democracy. People repeatedly voted for lizards because otherwise "the wrong lizard might get in." The Lib Dems offer another way: forget the lizards, vote for the cockroaches instead.

This article appeared in the Britain section of the print edition under the headline "Comeback of the Cockroach Party"

Bagehot

People without degrees are the most under-represented group

As other marginalised groups are advancing, the degree-less are in retreat

Print edition | Britain May 12th 2018

THIS is an age of inclusion. Right-thinking people are supposed to do everything they can to include the excluded and mainstream the side-streamed. But one group has been forgotten: people without university degrees. The degree-less make up 70% of the population but a small minority of MPs. They underperform when it comes to every measure of political participation, from joining parties to voting. They are retreating at a time when other under-represented groups are advancing. The proportion of women MPs has increased from 3% in 1979 to 32% today, as the share of degree-less MPs has fallen from 40% to 30%.

Two great institutions used to provide the uneducated with elevators to the top. One was the Labour Party, the other the trade union movement. Ernest Bevin, perhaps the greatest foreign secretary of the 20th century, left school at 11 and rose to fame in the Dockers' Union. Today Labour has roughly the same proportion of university graduates as the Conservatives among its MPs. A fascinating book by Mark Bovens and Anchrit Wille, "Diploma Democracy", shows that what they call political meritocracy is advancing across the rich world.

Why should this bother us? There are two polite arguments why it shouldn't. Degree-less citizens aren't being prevented from voting in a post-industrial version of Jim Crow. The proportion of young people who go on to university has risen from less than a tenth in 1980 to nearly half today. There is also a rude argument: that stupid people vote for stupid things. Only 59% of the electorate turned out in 2001, electing a Labour government that poured resources into tackling poverty. Fully 72% voted in the Brexit referendum, with less educated voters tipping the balance in favour of leaving the EU, which is likely to make the poor poorer.

Let's take these arguments in rising order of smugness. The less educated may not encounter formal barriers to participation, but they face informal ones. Call-centre workers can't take a few weeks off to campaign for office. People are less inclined to vote if they don't see people like themselves in Parliament: the gap in turnout between more and less educated voters increased from five percentage points in 1987, when there were still many working-class MPs, to 37 points in 2015. Even though access to higher education has expanded, working-class people are still less likely to go to university than the middle class. As to the idea that stupid people make stupid decisions, many of the biggest disasters of recent years, from credit-default swaps to the democratisation of the Middle East, were dreamt up by clever people.

The most powerful argument for worrying about the number of less-educated people in Parliament is the same as the case for worrying about the number of women or ethnic minorities: that some groups have experiences in common that give them a claim to representation. Degree-less people have different outlooks to graduates because they have different experiences. They are more worried about making ends meet and clearing up crime, and more supportive of redistribution and protectionism.

Boosting their representation could improve decision-making. There is an abundance of evidence that groups with diverse views and cognitive styles make better decisions than homogenous ones. Increasing the representation of the degree-less might also promote political stability. Britain is caught in a dangerous cycle of disillusion and anger. First, the less educated lost interest in politics, with voter turnout falling from 75% in the 1980s to 59% in 2001. Then, they decided to give the establishment a good kicking by voting for Brexit.

The best way to break this cycle is to reconnect those who don't have degrees to the political process. One way to do this is to get more of them into the House of Commons. Possibilities range from reserving them places as candidates to helping them with the cost of fighting elections. Another way would be to reinvent the House of Lords as a bulwark against meritocratic triumphalism. That could mean allocating membership by lottery (a House of Lots) or giving slots in the Lords to occupational groups. If seats are reserved for bishops, why not Uber drivers?

Listing these possibilities might suggest that reforming the system is neither possible nor desirable. A House of Lots might be even less legitimate than the House of Lords, for example. Fortunately, softer forms of intervention, like persuading candidate-selection committees not to reject people simply because they haven't been to university, might have big effects, given the delicate balance of power between the two biggest parties. The most obvious way to break the deadlock is to re-engage the degree-less masses who gave up on politics during the Blair-Cameron years but briefly re-emerged to vote for Brexit.

Degrees of separation

Both the main parties seem to be waking up to this fact. The Tories are trying to use a combination of Brexit and hostility to Jeremy Corbyn's hard-left views to attract patriotic voters. Labour is reinventing itself as a mass-membership party, with its subscribers surging from fewer than 200,000 in 2010 to more than 500,000 today. It is also trying to deploy local candidates rather than parachuting in Oxbridge-educated clones. The last is a particularly worthy strategy: Angela Rayner, who won

Ashton-under-Lyne in 2015 despite leaving school with no qualifications and a baby on the way, has far more interesting things to say about the welfare state than her university-educated contemporaries.

It is unclear who will win this emerging battle for the 70%. The Conservatives' campaign last year failed to attract degree-less voters in large numbers, while simultaneously repulsing graduates in places like Battersea and Canterbury. At the same time, Mr Corbyn's liberal approach to immigration and hard-left foreign policy are alienating traditional-minded voters. One thing is clear: thanks to Brexit and the collapse of the Blair-Cameron consensus, the forgotten citizen is finally being remembered.

This article appeared in the Britain section of the print edition under the headline "The forgotten citizen"

Paying for blood (1)
Thicker than water

Vein attempts

Bans on paying for human blood distort a vital global market

The market in life-saving blood-plasma products depends on Americans who are paid for it

Print edition | International May 10th 2018

A WILLING buyer in a market with plenty of willing sellers, Barzin Bahardoust is finding life surprisingly hard. For years he has been trying to pay Canadians for their blood plasma—the viscous straw-coloured liquid in blood that has remarkable therapeutic powers. When his firm, Canadian Plasma Resources (CPR), tried to open clinics in Ontario in 2014, a campaign by local activists led to a ban by the provincial government on paid plasma collection. Undeterred, he tried another province, Alberta—which also banned the practice last year. Then, on April 26th, when CPR announced a planned centre in British Columbia, its government said it too was considering similar legislation. CPR has managed to open two centres, in far-flung Saskatchewan and New Brunswick. Even these have faced opposition.

The global demand for plasma is growing, and cannot be met through altruistic donations alone. Global plasma exports were worth $126bn in 2016—more than exports of aeroplanes. But paid plasma raises ethical, social and medical concerns: that it will lead to health catastrophes, as in the 1980s when tainted blood spread HIV and hepatitis; that it exploits the poor; and that it reduces the supply of "whole" blood, which is almost all donated voluntarily.

None of these worries is well-founded. But Canadian reservations about paid plasma are shared across most of the world. America, China, parts of Canada and some European countries are among the few places that permit it. Those countries are extremely effective in securing supplies: three-quarters are collected in America alone, and another 10% in China, Germany, Hungary and Austria, where payment is also allowed. Of over 1,000 plasma-collection centres worldwide, 700 are in America (see article). Jan Bult, head of a trade association representing companies that manufacture more than half of the world's plasma products, says none collects plasma in countries that have banned compensation.

Only countries that pay for plasma are self-sufficient in it. (Italy, where donors are given time off work, is close to self-sufficiency.) Half of America's plasma is shipped to Europe—20m contributions-worth. Canada imports 80% of its plasma products from America. Australia imports 40% of its plasma products, too.

Drug firms from countries that have banned pay-for-plasma do much of their collection in America. Three of the largest collection companies are European: Grifols of Spain, Shire of Ireland and Octapharma of Switzerland. The parent company of another big collector, CSL Behring, is Australian. Together these four firms run nearly eight out of ten plasma-collection centres. Some of their manufacturing capacity is in America, but much is located elsewhere. Switzerland, which collects very little plasma, exported $26bn-worth of plasma products in 2016.

Exported plasma is used to manufacture pharmaceuticals and is distinct from the plasma that, with red and white blood-cells and platelets, is used for transfusion. That saves lives when blood is lost, say, in traumatic accidents or surgery. But whole blood is rarely traded across borders, and very rarely involves payment. The World Health Organisation's safety guidelines recommend voluntary donations.

Happily, demand for transfusions is declining. Blood-bank management and modern medicine have both grown more efficient. Kevin Wallis, who has managed blood stocks at a holding-centre in south London for nearly 20 years, says that hospitals once used three units of blood for a hip operation, but these days often use none. Despite population growth, the number of red blood-cell units used by hospitals in England has dropped from 2m a year 15 years ago to 1.4m now.

Pharmaceutical plasma is different. It is heat-treated or bathed in chemicals to sterilise it, reducing associated risks. It has all manner of uses. If blood fails to clot properly, as in haemophiliacs, a plasma product helps. A plasma product can restore an immune system weakened, for example, by chemotherapy. A complication known as Rhesus disease, in which the blood type of a fetus is incompatible with the mother's was responsible for 10% of stillbirths in America as recently as the 1960s. These days plasma products can save the child.

Historically, these products were derived from plasma collected when volunteers donated whole blood. But demand has outpaced donation. So the proportion of plasma products derived from whole blood has declined from 40% in 1990 to 13% in 2015. Plasma today is mostly collected via apheresis, a process where whole blood is extracted, spun in a centrifuge, and the plasma is skimmed off. Red blood-cells are then mixed with an anticoagulant and transfused back into the donor. Blood-donation can take just 10-15 minutes. Apheresis usually takes at least an hour.

Plasma replenishes more quickly than red blood-cells. So donors can give more at one session, and far more frequently. In most countries whole-blood donors can give around 500ml of blood, which yields just 250ml of plasma, at most once every two months. Plasma donors can give up to 800ml of plasma—and in America are allowed to do so twice a week. This quickly adds up. In a year a plasma donor could give over 80 litres of the stuff, compared with just 1.6 litres from a whole-blood donor. Mr Bult says paid repeat donors, who have been intensively screened, help keep plasma products safe.

But a stigma about paying for blood lingers. Sue Lederer, of the University of Wisconsin, dates it to 1970, when Richard Titmuss published "The Gift Relationship", a book suggesting paid blood was both ethically wrong and less effective than a voluntary system. Often American donors would be compensated not in cash but in chits redeemable at nearby liquor stores, an insalubrious practice nicknamed "ooze for booze". Prisoners could also trade plasma for days off their sentences.

Then, in the 1980s, half of the world's tens of thousands of haemophiliacs were infected with HIV or hepatitis by contaminated plasma products. Thousands died from AIDS-related illnesses. Many argued that paying for blood had encouraged donors to lie about dangerous behaviour, such as risky sex or drug use. Official inquiries took place in Canada and Ireland. In France and Japan, health officials and businessmen were jailed. In America, pharmaceutical companies settled class-action lawsuits. The scandal has cast a long shadow. The British government announced an independent inquiry last November.

It remains legal to pay for whole-blood donation in America today. But hospitals refuse to accept it. Today's plasma, however, is safe from the contamination risks of the past. Modern screening and sanitisation are extremely effective. Graham Sher, chief executive of Canadian Blood Services, a non-profit, says plasma products from paid donors are "as safe as those from our unpaid donors".

Other prejudices against pay-for-plasma are equally deep-seated. Some data, for example, lend weight to the suspicion that it preys on the poor. American plasma centres are concentrated in less well-off bits of the country. Typically they are in postal districts where 27.4% of the population are poor, according to *The Economist*'s analysis of census data. This is much higher than the average American poverty rate of 16.5%.

The other worry, shared by Dr Sher, is that paying for plasma may lead to a reduction in whole-blood donation. But, if that were true, the problem would be intensifying, as pay-for-plasma centres have nearly doubled worldwide in the past five years. But Peter Jaworski, of Georgetown University, is sceptical, suggesting that, anecdotes aside, the evidence shows paid plasma donation "does not crowd out voluntary blood-donation". Americans, for example, continue to donate as much voluntary blood per head as do Canadians.

The aversion to paid-for plasma carries its own risks. According to Grifols, the geographic imbalance puts supplies of plasma products at risk. At the plasma industry's main annual conference, held this year in Budapest in March, over-reliance on imports from America was a hot topic. Representatives from several countries (including Canada) recognised they must do more to diversify their supplies. Making it legal to pay for plasma is an obvious first step.

This article appeared in the International section of the print edition under the headline "Thicker than water"

Vital fluids

America's booming blood-plasma industry

Paid-for plasma is both less exploitative than often recognised, and invaluable

Print edition | International May 10th 2018

TODAY Derek From is a successful lawyer in Canada. Twelve years ago, he was roughing it in Arizona, trying to break into the recording industry. So he started selling his blood plasma. Twice a week, he sat for an hour in a Grifols Biomat centre, as an apheresis machine whirled, siphoning the plasma out of his blood. For this, he took home $45. "As a poor person" at the time, he found that "a huge economic benefit".

It was also part of a thriving industry. Blood products made up a remarkable 1.6% of American exports in 2016. Since 2005 blood-plasma collections have nearly quadrupled. To critics, this is evidence of a rapacious industry coercing the poor to auction bits of themselves to make ends meet. In fact, plasma, 90% of which is water, is quickly replenished. Giving it has no obvious negative health effects—though the long-term consequences of repeated siphoning have not been fully studied. Strict testing (and later heat-treating) of the extracted plasma ensures that those with communicable diseases who might lie about risky behaviour for cash—like drug addicts—are quickly discovered, and the tainted blood products are not shared.

To focus on the perceived hardship of plasma donors, moreover, is to ignore the needs of the patients it helps. Consider Jim Crone, who as a 25-year-old man suddenly fell ill with Guillain-Barré syndrome, an autoimmune disorder where the body begins attacking its own nerves. Within days, he was confined to hospital, breathing through a ventilator and nearly completely paralysed—able to communicate only by blinking. He was treated with intravenous immunoglobulin, and nearly a decade later, is now in remission. "Without it, I would be laid up in a hospital bed in intensive care and fighting for my life, quite frankly," he says.

The World Health Organisation lists immunoglobulins and coagulation factors—both plasma-derived products—as essential medicines. Yet poor countries are often desperate for them and rich countries rely on American imports. Without financial incentives, supplies are hard to come by. "It's not in people's nature", says Mr From, "to let a phlebotomist poke a needle in your arm and suck your blood out."

This article appeared in the International section of the print edition under the headline "American exceptionalism"

America's shale-oil producers
In the light, sweet spot

In the light, sweet spot

American shale-oil producers are on a roll

Surprisingly, they have not yet roiled the oil markets

Print edition | Business May 10th 2018

JUST over a year ago Harold Hamm, billionaire boss of Continental Resources, one of the biggest shale-oil producers in America, issued a stern warning to his fellow frackers. Drill with restraint or we will "kill the market", he said. This month the 72-year-old Mr Hamm, son of an Oklahoma cotton sharecropper who went on to become one of the founding fathers of the shale revolution, had a different message. Restraint is working.

The price of West Texas Intermediate (WTI), the light, "sweet" (or low-sulphur) crude that is a benchmark for American producers, rose to $71 a barrel on May 9th, its highest level since November 2014. OPEC, which Mr Hamm once called a "toothless tiger", is successfully leading efforts to balance the market. Oil prices are partly rallying because President Donald Trump this week pulled America out of the nuclear deal with Iran and said he would reimpose sanctions on a big oil producer. Meanwhile a free fall in Venezuelan production may be further exacerbated by the move of ConocoPhillips, a large American producer, to freeze some Caribbean assets of PDVSA, Venezuela's state oil company, as part of a long-running legal dispute.

But arguably the most remarkable development is that the rise in the oil price has not yet unleashed a flood of new shale-oil supply, as many market experts had predicted (and Mr Hamm had feared). The reasons for this are threefold: pressure from shareholders more interested in a steady stream of dividends than a gush of oil; production bottlenecks in pipelines and ports in America; and the fast depletion of shale wells after bountiful beginnings.

The question, as producers begin to savour higher profits and investors' appetite for them increases, is whether the restraint will endure. Bobby Tudor of Tudor Pickering Holt, an oil-and-gas investment bank, says that as oil prices are rising, so are animal spirits. That could perpetuate the age-old pattern of overexpansion in commodities markets. If he is right, the impact of higher supply will be felt throughout global oil markets.

Bringing home the Bakken

Mr Hamm's Continental is a decent place to start to understand the countervailing forces at play in the shale industry. Like many of its peers, the company has demonstrated the grit and discipline that has brought the shale industry back from the edge of disaster since 2014-16. Now the good times have returned, and with them the temptation to slip the leash.

Continental is a wildcatter's dream. Started by Mr Hamm when he was 21, a decade ago it was still drilling just 7,000 barrels a day (b/d) in the Bakken, a 9,000 square-mile formation in North Dakota and Montana where it pioneered a combination of hydraulic fracturing ("fracking") and horizontal drilling; last quarter production reached as much as 161,000 b/d. In 2014 Continental suffered a severe blow when Mr Hamm rashly unwound its oil hedges in the mistaken belief that falling oil prices would swiftly bottom out. Once again it is unhedged, but this time that means it is benefiting more from the current oil-price rally than conservative peers.

Unlike many rival shale producers, it has stuck with the Bakken and with shale deposits in Oklahoma, rather than chasing the more fashionable reserves of the Permian Basin in west Texas and New Mexico. For the past few years this has been a millstone, but now "the Bakken is back—and booming," executives say. The firm's production there grew by a whopping 48% in the first quarter of 2018, compared with the same period a year earlier, amid overall growth in its portfolio of 37%. Hess, a rival, is also doing well there. "The notion that you have to be in the Permian to be appreciated no longer holds up," Mr Tudor says.

Reassuringly for shareholders and creditors, the growth is partly being used to shore up corporate finances. For years the shale-oil industry has been seen as a money pit. According to Bernstein, a research firm, ever since 2012 shale producers on average have spent more than they earned; by the first quarter of 2016 they were burning through more than three times as much cash as they produced. But since last year they have been living within their means, with profit margins rising to about 10% with oil at $55 a barrel—and going even higher now.

Some companies, such as Pioneer Natural Resources, Devon Energy and Anadarko, have used their rising returns to give more cash back to shareholders, through higher dividends, share buy-backs or both. Continental, which plans to generate $1bn of cash this year, is prioritising debt repayments, and is nearing its goal of net debt below $6bn.

Yet amid this Boy Scout good behaviour, the wildcatter spirit remains—all couched in typical industry hyperbole. Continental, for instance, says it plans to invest in a vast new 350-well project in Oklahoma, called Project SpringBoard, which will be drilled and developed so efficiently it will be like “mowing the lawn”. Devon Energy says it has recently drilled wells in the Permian’s Delaware Basin that have the best initial production rates in the basin’s 100-year history. Pioneer, the most successful producer in the Permian, talks of Permian 3.0, a new type of well technology that it says will produce a third more oil than previous wells. Parsley Energy, a small producer, said it started pumping oil from more wells in the Delaware Basin in the first quarter of 2018 than during the whole of 2017. Its average production was up by 57%.

To keep cautious shareholders happy, the industry insists that such drilling will only be focused on high-return projects; that spending discipline will be maintained; and that their goal is return of capital, as well as returns on it. Several exogenous factors are also helping to keep the flow of oil in check for now, notes Roy Martin of Wood Mackenzie, an energy consultancy. These include higher costs of fracking crews, a shortage of truck drivers and the steep price of inputs such as water in dry places like Midland, Texas, which strain even in-the-money shale producers.

In the Permian, pipeline constraints are making it harder to get oil to the main hubs such as Cushing or the refineries and export terminals on the Gulf coast (see map). This has caused a big discount for crude stranded in Midland, in the heart of the Permian, compared with that in Cushing. For those without firm transport contracts, that reduces the incentive to drill.

Moreover, the productivity of shale wells is becoming harder to improve. Already some of them extend two miles underground. Increasingly new ones are drilled close to prolific wells, which can quickly drain reservoirs. “Some of these companies couldn’t ramp up production if they wanted to. This is helping them tell their story of capital discipline to Wall Street,” Mr Martin says. But he notes that next year new pipelines will be completed to ship more oil out of the Permian, which will ease the bottlenecks. If oil prices rise further, Mr Hamm’s strictures on discipline may again be ignored.

This article appeared in the Business section of the print edition under the headline ”In the light, sweet spot”

Bentonville, meet Bangalore

Walmart takes a second shot at the Indian market

Its $16bn purchase of Flipkart is India's biggest foreign acquisition

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BUSINESS news does not repeat itself but it sometimes rhymes. In 2007 Walmart, America's biggest grocer, crowed that it would crack the coveted Indian market by being the first global retailer to set up shop there, pipping envious rivals in the process. On May 9th it announced much the same thing: its time in India has come, this time by virtue of paying $16bn for a majority stake in Flipkart, India's largest e-commerce outfit, which had also been coveted by its vast online rival, Amazon.

The sense of déjà vu owes to the fact that its original foray proved a disappointment. Walmart's hopes of somehow circumventing rules to protect local shopkeepers, which have long prevented most foreign retailers from opening stores, have been repeatedly dashed. A decade on it has a meagre 21 wholesale stores in India, generating just 0.1% of its $500bn in global revenues and a small loss to boot. Somehow that has not dissuaded the beast of Bentonville from undertaking the biggest foreign acquisition in Indian history.

The Indian e-commerce market is as different from America's brick-and-mortar retail landscape as Walmart's Arkansas home is from Bangalore, the collection of traffic jams where Flipkart is based. Walmart probably has too many stores in its mature home market. Flipkart operates online and in quasi-virgin commercial territory: 95% of Americans shop at Walmart at least once a year, but only 5-10% of Indians have ever bought anything online.

The deal is a departure in other ways, too. Walmart has already swooped on companies it thinks will help it grow its e-commerce presence. In 2016 it paid out $3bn for Jet.com, a putative rival to Amazon in America; it has also bagged Bonobos, a purveyor of tailored trousers. But Flipkart, which was founded in 2007 by two former Amazon employees, is in a different league in terms of price tag. Walmart will own around 77% of the company, which is valued at over $20bn in total.

Even for Walmart, that is a lot of money: $20bn is roughly the cash it generates every year net of capital expenditure, say, or 8% of its market capitalisation (which fell by 4% on the news). Connoisseurs of the Indian tech scene have raised eyebrows at the price tag, given that Flipkart raised money at a valuation of under $12bn just a year ago. SoftBank, a Japanese telecoms and internet giant which became its biggest shareholder after investing $2.5bn just nine months ago, stands to walk away with $4bn (see Briefing).

Walmart's new acquisition will not produce quick returns. Analysts reckon Flipkart loses money on each shipment. At one point it was thought to guzzle $2m a day subsidising shipping and using discounts to lure buyers, though the figure has probably come down. Margins are unlikely to improve soon given Amazon's incursion into the market (having committed $5bn to India, it probably ranks a close second to Flipkart, which is thought to account for just under half of India's online sales). Paytm Mall, a newish rival backed by Alibaba of China, is also ambitious.

The hope is that growth will in time deliver profits worth the whopping price tag. But India's e-commerce market as a whole is worth a puny $15bn or so, compared with nearly $500bn in America and double that in China. It has failed to live up to the hype once bestowed upon it: after years of rapid growth until 2015, the entire sector was flat in 2016 and grew at perhaps 20% last year. That is slower than Walmart's online sales growth in America, which is itself less than stellar. (The firm's shares tumbled in February after it announced domestic online sales had increased by just 23% in the fourth quarter of 2017; Amazon's sales grew by 33% in North America last year.)

The sluggishness is partly because Indian regulations dictate that e-commerce sites must sell stuff mainly from third-parties (like eBay does in America) rather than from their own inventory. The authorities are mindful of foreign companies swamping the local startup scene, not least because Flipkart itself was among those complaining that Amazon et al were "dumping capital" in India by financing growth there with profits made overseas. (Never mind that Flipkart is incorporated in Singapore.)

Losing one of its prize breeds to a global mastodon will rankle for some in India. But the sale will provide a handsome payout for providers of venture capital there, who had started to gripe about the lack of exits from dozens of investments in the once-frothy Indian startup scene. If Walmart's prior experience is anything to go by, they may have got themselves the better end of the bargain.

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Little rice, lots of dough

Xiaomi eyes a giant Chinese IPO

The world's fourth-largest smartphone-maker may achieve an $80bn valuation

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IN CHINA no company achieved $1bn in annual revenue as quickly as Xiaomi did, in the year following the launch of its first smartphone in 2011. Chinese media initially nicknamed Xiaomi the "Apple of the East" (its literal translation is "little rice"). That was a stretch, even in good times. But within another two years the affordable-handset-maker became the world's most valuable startup, worth $46bn.

Analysts reckon that it now wants to raise up to $10bn in an initial public offering (IPO) on Hong Kong's stock exchange which was announced on May 3rd. (Its filing documents disclose neither the valuation that it is seeking, nor a fundraising target.) That could afford it a very generous valuation of as much as $80bn—not far off the $91bn market capitalisation of Baidu, China's biggest search engine and one of the country's three "BAT" tech titans alongside Alibaba and Tencent.

Yet only 18 months ago such talk would have seemed outlandish. In 2016 Xiaomi's sales fell sharply and it tumbled from first to fifth place among Chinese handset-makers. Lei Jun, its founder, blamed clogged supply chains at a time of rapid growth. Many thought it had overstretched, launching internet-connected gadgets, from rice cookers to drones, to create an ecosystem of devices that could be controlled from smartphones. Sales of these gizmos and Xiaomi's low-cost but high-specification handsets accounted for 91% of its $18bn in revenues last year, yet they made only wafer-thin gross profits of 8.8%, a small fraction of the 39% that Apple makes on its iPhones.

Since then, Xiaomi has bounced back again. At a launch event in Shanghai in March for the MIX2S phone, Mr Lei strode on stage in gleaming white trainers in a stadium filled with Mi-Fans, as the company calls its devotees, claiming that his newest smartphone had "crushed" Apple's iPhone X. There was much cooing at the unveiling of the Mi Gaming Laptop, which allows users to place a food-delivery order mid-game with a programmable button.

A resurgent Xiaomi wagers that its Mi-Fans, to whom it has regularly turned online for ideas and feedback, are loyal, and that "amazing products" at "honest prices" will encourage more people to snap up its phones. It says that already 1.4m users own more than five of its hardware products. By 2022 it expects to generate $10bn in annual revenues from 1,000 physical Mi stores that sell its phones, laptops and some of its 300-odd lifestyle gadgets (mainly built by startups in which Xiaomi has stakes). Last month Mr Lei announced, to the horror of some potential investors, that he would aim to keep overall net profit margins for all of this hardware under 5%. For a long time his approach has been to make money on internet services by luring users into the Xiaomi universe with unbeatable handset prices.

The firm does indeed make its fattest gross margins, of 60%, through services and ads on Xiaomi-developed apps that are pre-loaded on to its home-grown MIUI operating system, a tweaked version of Android. These include Mi Music for streaming audio, for instance, and its own Mi App Store. The average revenue per user of MIUI doubled between 2015 and 2017. A banker who has helped prepare its listing sees big moneymaking potential in India, where Xiaomi overtook Samsung at the end of last year as the country's top-selling smartphone-maker, a major reason for its bounce-back. Last year 28% of Xiaomi's sales came from foreign markets, up from 6% in 2015. Remarkably, in the first quarter of 2018, it made over half of its sales abroad, among the first of China's firms to do so.

Possible snags abound. Huawei, a domestic rival, grew faster than Xiaomi in India in the first three months of this year. Neil Shah of Counterpoint Research in Mumbai says that in foreign markets, where Google's services are not blocked (unlike in China), Xiaomi will find it hard to sustain its services-based profit model. Mr Lei had been hoping to take his phones to America this year, but as troubles mount for Chinese peers such as Huawei and ZTE, it is "now unlikely to pour resources into such a tough market", says Shelly Jing of IDC, another market-research firm. At home it will be under pressure to increase the average price—and quality—of its phones (currently 881 yuan, or $138) as veteran smartphone buyers are tempted by its rivals' higher-end models. Excluding one-time charges, Xiaomi's net income was a relatively modest $700m last year.

If the latest estimates are accurate, this flotation will be the biggest IPO since Alibaba fetched $21.8bn in New York in 2014. Xiaomi is eager to prove to investors that it is an internet company, and so deserves higher valuations than a simple hardware firm. It claims that more than 100m devices have been connected to its "internet-of-things" platform. Its array of investments in over 210 companies lend it the air of an incubator. Fu Sheng, who founded Cheetah Mobile, a leading maker of utility apps for smartphones, says that BAT may soon become "ATM". M for Xiaomi would replace B for Baidu.

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The payers' revolt

Americans, tired of high-priced drugs, are fighting back

Whatever Donald Trump says, pharma firms should feel queasy

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IF ONE concern unites Americans, it is the high prices of prescription drugs. One incident in particular tarnished much of the pharma industry: in 2015 the price of an antiparasitic drug, Daraprim, jumped from $13.50 to $750 per pill. But large price increases remain stubbornly commonplace (see chart). According to IQVIA, a health-data firm, the wholesale prices of leading drugs such as Humira, Enbrel and Lyrica increased by more than 120% between 2012 and 2017. Other data show that cancer-drug prices rose from about $10,000 to over $100,000 per year in just over a decade to 2012. Further ahead, a new generation of cures, such as a gene therapy for haemophilia, may cost more than $1m.

President Donald Trump, never one to avoid stoking a grievance, has waded in, accusing the pharma industry of "getting away with murder". This week, as *The Economist* went to press, he was scheduled to deliver a speech outlining a strategy to lower prescription-drug prices. Whatever he says, though, a quiet revolt over drugs is already under way, led by insurance firms, pharmacy-benefit managers (PBMs), employers and patients themselves.

For sure, there is plenty for government to do to help keep prices under control. It could take aim at the system of rebates, huge incentive payments that prescription-drug manufacturers provide to middlemen such as PBMs, but which do not usually trickle down to patients. It could try to tackle the lack of competition, by cracking down on the tactics pharma firms employ to delay the use of generics and biosimilar drugs. It could also make changes to Medicare, a programme for the elderly; the options here include giving it a bit more flexibility over the drugs it must provide, as well as moving drugs administered in doctors' offices into programmes that have some power to negotiate prices.

The risk is that sensible solutions to such problems will be overshadowed by a misguided "America First" strategy that has little bearing on the domestic-price problem. Alex Azar, the health secretary, recently accused foreign governments of "free-riding" on American health-care innovation when they negotiate to pay lower prices for their drugs than Americans do.

Whatever the federal government ends up doing, however, others are finding their own ways to reduce drug bills. That is not always to the good of patients. They have been forced by insurers to contribute more to the cost of their medicines, and have received less access to expensive drugs. For instance, they have struggled to get hold of ground-breaking but costly new cholesterol-lowering drugs known as PCSK9 inhibitors. But the fact remains that pharma firms are under increasing pressure to back down on pricing.

On May 1st Express Scripts, a PBM, announced it had won a large discount on the $14,600 price of a PCSK9 drug made by Sanofi/Regeneron, a pharma alliance. The new price is somewhere between $4,500 and $8,000 a year, in line with recommendations made by the Institute for Clinical and Economic Review (ICER), an influential drug-evaluating group based in Boston. The price reduction comes in the form of a large rebate that will be split between Express Scripts and insurers, and should eventually end up reducing the price of health insurance. Patients will also pay less in out-of-pocket costs.

Employers, who sponsor most of the country's health-insurance plans, are also making inroads. The Health Transformation Alliance (HTA), which was created in 2016 to curb rising health-care costs, particularly drug prices, has grown to cover 40 large employers, including American Express, Coca-Cola and Verizon, and collectively spends about $27bn on health care. It is using this heft to extract better contracts from PBMs and to demand more say over the drugs that are covered. The HTA says that in 2018 it reduced members' drug costs by a median of 15%.

States, too, are fighting back. On April 26th, in a case being followed with interest nationwide, New York's Medicaid board demanded a hefty 70% discount from Vertex, a pharma firm, on its costly cystic-fibrosis drug, Orkambi. A new report from ICER suggests Orkambi should cost something like $83,000 a year (rather than $250,000). So even without action from Mr Trump, there is a meaningful pushback on drug prices. A new report from IQVIA says that although list prices for branded drugs increased by 6.9% in 2017, after discounts and rebates, net growth was only 1.9%. Pharma firms should be feeling queasy.

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Struck down

Air France-KLM is being brought to its knees by its unions

Europe's fourth-largest airline group is becoming unmanageable

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AIR FRANCE likes to present itself as a cut above other European airlines. Offering fancy French food and free champagne in economy class on long-haul flights, the company's strategy is to justify its high ticket prices by offering a premium service. But facing intransigent unions at home and competition from abroad, the airline's financial fizz is rapidly going flat.

A drawn-out fight with its unions has toppled the boss of its parent group, Air France-KLM, yet again. On May 4th Jean-Marc Janaillac, its chief executive, resigned after its workers voted against a pay rise of 7% over four years. His predecessor, Alexandre de Juniac, left two years ago after two executives had their shirts violently ripped off by a mob of angry workers over a restructuring plan. The latest resignation is more serious because investors are also losing their rag. Air France-KLM's shares have halved in value since January; over the same period those of rival carriers such as IAG and Ryanair have risen.

Air France's trade unions are demanding an immediate pay rise of 5.1%. That looks bearable set against profits of €1.5bn ($1.8bn) last year. But a decent-looking performance in 2017 owed much to low oil prices. Its finances are weakening fast. Mr Janaillac had warned of a big drop in profits this year. A series of 14 one-day strikes has already cost Air France at least €300m in recent weeks.

The threat of Air France's inflated cost base swelling further scares investors, says Daniel Roeska of Bernstein, a research firm. Some Air France pilots may earn two to three times as much as those at Europe's biggest low-cost carrier, Ryanair. Since 2012 Air France has made much less money than its rivals (see chart). Rising fuel costs, only half of which are hedged, and a squeeze on fares caused by airline overcapacity in Europe threaten to plunge Air France into the red sooner than its peers. A huge debt pile also leaves the group looking vulnerable. Ross Harvey of Davy, an investment firm, says its net debt last year (including leases) was 2.4 times gross operating profits, compared with 0.4 for Ryanair and 0.7 for easyJet and Lufthansa.

Other flag-carriers across Europe have also been squeezed, on short-haul routes by the rise of low-cost outfits and on long-haul routes by carriers from the Middle East and China. But their answer has been to slash costs to return to the black. IAG has forced through big cuts to jobs and pay at British Airways and Iberia of Spain, as has Lufthansa in Germany. Facing intransigent unions, Alan Joyce of Qantas in Australia even grounded his airline until they caved in. All have launched their own low-cost carriers to take the fight to their new rivals.

Unable to make much headway against the unions, Air France's management chose another track. After cancelling Mr de Juniac's proposed restructuring, Mr Janaillac launched a plan to cover the airline's costs by improving service and by lobbying in Brussels against low-cost and Middle Eastern competitors.

Neither will save the airline in the long run, says Andrew Charlton of Aviation Advocacy, a consultancy based in Geneva. Most flyers these days choose airlines on price, using comparison websites, and not on service. And competition from other EU carriers is now a greater threat than those from the Gulf. Cheaper carriers such as easyJet, Norwegian and IAG's low-cost outfits are expanding at Air France's main hubs in Paris. It is years behind IAG and Lufthansa in building up a low-cost arm.

The need to deal with the unions and revamp the airline's strategy at the same time means that replacing Mr Janaillac—who was supposedly an expert in dealing with difficult French unions—is like finding the "impossible man", reckons Mr Roeska. But whoever it is will at least have support from the French state, which owns 14.3% of the airline. The idea that it would always bail out the carrier is changing. On May 6th France's finance minister, Bruno le Maire, refused to "soak up Air France's losses" and said the airline "will disappear" if it does not become more competitive.

The group is unlikely to go bust. Air France is propped up by profits at KLM, whose unions have compromised on pay. But the government wants Air France to be firm with its unions, partly to thwart opposition to reforms it is pushing through elsewhere. It is already in a fierce battle with the rail unions over President Emmanuel Macron's flagship reforms and does not want to budge an inch in this confrontation. Flyers and investors in Air France should brace for more strikes.

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A hard day’s Fortnite

The latest video-game fad shows off a DIY ethic

“Modding” is bigger than music sampling and fan-fiction

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TWENTY years ago schoolyard fads revolved around clothes and music. Now they are as likely to involve video games. The latest must-have is “Fortnite Battle Royale”, a lighthearted multiplayer shooter in which up to 100 players parachute onto a continually shrinking playing field, hunt each other down and compete to be the last one standing.

It is wildly popular. One estimate is that it had 45m players in March. A match broadcast on YouTube, and featuring some of that site’s stars, attracted more than 1.1m concurrent viewers, making it one of the most watched streams ever. Other big publishers, such as Activision-Blizzard, are pondering jumping in with clones of their own. Parents blame it for unfinished homework and for corrupting their children’s oh-so-pure minds. Some schools have tried, mostly in vain, to prevent students from playing.

Moral panics are tedious things. But “Fortnite” is interesting for a good reason. It shows the long-established influence within video-gaming of hands-on tinkering, in which players take existing products and splice together “mods”, or modifications, which change how the game is played.

The “Quake” series of first-person shooting games, the earliest of which was published in 1996, were some of the first programmed with mod-friendliness in mind. Fans transmogrified them into everything from a snowboarding simulator to a video-game version of “The Matrix”, a science-fiction film. Some mods become as popular as the original games on which they are based.

Just occasionally a mod eclipses its parent game. One example is PlayerUnknown’s Battlegrounds (PUBG), which started life in 2013 as a modification of ARMA 2, a military simulation. The mod was written by Brendan Greene (aka PlayerUnknown), an Irish graphic designer, and became so popular that it was released in 2017 as a stand-alone game. It made more than $100m in its first three months on sale. “Fortnite” is the most popular of a rash of PUBG clones—more popular, in fact, than PUBG itself.

It is not the first time this has happened. One of the most popular games of the past decade is “League of Legends”, which boasts more than 2m daily players and professional tournaments that offer millions of dollars in prize money. Its roots also lie in “modding”. And almost two decades after it was first released, about 440,000 people a day play “Counter-strike”, a tactical shooting game built atop a game called “Half Life”.

This tinkering culture is not unique to video games. Music has remixing and sampling; publishing has fan-fiction. But modding is bigger than either in its scope. Big mods are serious software projects, requiring programmers, artists, level designers and more, all of whom give their time free. Many in the games business got their start in modding, disassembling their favourite games, sculpting them into something new and learning about digital artistry along the way. Worried parents might reassure themselves with the thought that, if their children get interested enough, their hobby might one day turn into a career.

This article appeared in the Business section of the print edition under the headline ”It’s been a hard day’s Fortnite”

Fifty shades of Greyhound

How Flixbus conquered the European coach market

America is its next target

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MANY Europeans see long-distance coach travel across America as glamorous. That may be a legacy of a Clark Gable film from 1934 called "It Happened One Night", about a romance between two passengers on a bus travelling from Florida to New York. Modern Americans see it as anything but alluring. It is looked down on as something used only by time-rich, money-poor people who cannot afford to travel by car, train or plane.

Flixbus, a German coach startup which is launching in America on May 15th, wants to change that. On the firm's flagship route from Nuremberg to its hometown of Munich, winding between snow-capped peaks and picture-book villages in Bavaria, its bus passengers look distinctly affluent. Many on board play on tablets to pass the time; shirts and ties are common. One discerning traveller reads *The Economist*. Since Flixbus was founded in 2013, its efforts to encourage more people to try coach travel have helped it to seize 90% of the market in Germany. But it could find the going tougher in America.

Flixbus was originally founded to take advantage of Germany opening up its coach market to competition in 2013, says Jochen Engert, co-founder and co-chief executive of the firm. Before then Germany and many other European countries blocked operators from scheduled intercity routes in order to protect state-run, subsidised railways. A bus leaving Munich would have not been allowed to go to Berlin, for example, as it would have clashed with the national rail firm, Deutsche Bahn.

When the German government swept away such regulations, Flixbus was one of 13 firms to enter the bus market. Increased competition meant more routes and cheaper fares, which enabled the industry to grow from 26m seat-kilometres in 2012, the year before liberalisation, to over 220m by 2015. Bus firms increased their share of the long-distance travel market from 2.2% to 15%. But it was Flixbus that destroyed the competition. After a merger in 2015 with Meinfernbus, a rival startup from Berlin, it has conquered nearly the entire German market. By the end of last year it was carrying 100,000 people a day to 1,700 destinations in 27 countries across Europe.

Mr Engert attributes Flixbus's rapid ascent to its asset-light strategy, which he compares to Uber, a ride-hailing app. Staying out of the messy and capital-intensive business of running buses, it contracts them out to local coach firms under its brand. Flixbus then markets and sells the tickets for them via the internet. "It is less a bus company", says Christoph Gipp of IGES Institute in Berlin, "than an IT firm." Flixbus likes to present itself as a quirky tech startup. Mr Engert's office is filled with surfboards and yoga balls; outside his door a children's slide gives employees a shortcut to their desks on the floor below.

Yet for all this tiresome razzmatazz, the model is not new. Bosses at National Express, a veteran coach firm that won the battle for market share in Britain after deregulation in the 1980s, say that Flixbus has copied its blueprint. Like its German rival, it contracts out 80% of its coaches and makes two-thirds of its revenue online.

Flixbus's success could be due more to its venture-capital owners, says Gerald Khoo of Liberum, a bank. Flixbus's rivals, from National Express to Deutsche Post of Germany, were publicly listed. Their investors, unlike Flixbus's, were unwilling to sustain losses in the short term to grab a bigger share of new markets in Europe. For Flixbus's backers, patience has been a virtue. It has been profitable in Germany since 2016, the point at which it had grabbed 80% of the market.

Flixbus has avoided trying to disrupt the idea of the conventional schedule. Other startups are trying on-demand "Uber for buses"-style services. But they are likely to work only on high-demand routes where enough people are willing to travel at a certain time, says Shwetha Surender of Frost & Sullivan, a consultancy. Finding such routes is hard. Authorities in Helsinki shut down a trial of such a service in 2015 as it lost so much money. Firms such as Rallybus of America and Sn-ap of Britain, which launched its third intercity route last month, have yet to scale up.

Boom and bus

Flixbus hopes it has the winning formula to revive the industry in America. Since a peak during the second world war, the American intercity bus market has lost over 40% of its passengers, mainly to airlines and private cars. But unlike in Europe, the competition is likely to put up a big fight. Since 2008 much of America's bus industry has been owned by two viciously competitive Scottish firms: Stagecoach, which owns Megabus, and First Group, which owns Greyhound, the biggest operator. Over that period both firms have helped to raise passenger numbers by bringing the sort of digitisation that National Express pioneered to America. Greyhound says it is unfazed by the arrival of Flixbus: when Megabus launched in America, its flashy advertising did as much to boost demand for its rival's services.

Flixbus thinks there is room for growth. There are many intercity routes in the west of the country below its "sweet spot" distance of between 200km and 500km that are still underserved by buses. Falling car ownership among the young is raising demand for bus travel. But analysts warn that all that will be for nowt if the bus industry cannot shed its grimy reputation and recreate some of the glamour of a Clark Gable movie."We'll see what we can do about that," says Mr Engert.

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Argentina's economic woes
The crisis of Macrinomics

Macrinomics

Argentina's economic woes

A plummeting currency prompts Argentina to seek a credit line from the IMF

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ON MAY 8th, as the peso continued to tumble, Mauricio Macri, Argentina's president, addressed his nation on television. His government had opened negotiations with the IMF for a credit line in order to "avoid a crisis like those we have faced before in our history". That steadied the peso. But it also brought back painful memories for Argentines, highlighted doubts about Mr Macri's approach to mending Argentina's economy and cast a shadow over the reformist president's future.

Argentines have bitter memories of the last time their government sought the IMF's help. Many blame the fund for imposing austerity in return for loans and then pulling the plug in 2001, tipping their country into a devastating $82bn sovereign default. It was followed by widespread unemployment, a sharp rise in poverty and the *corralito*, in which the government froze bank accounts for a year to halt a run. Argentina's economy had been battered by the lunatic policies of a succession of populist governments. But most Argentines still hold the IMF responsible for their own Depression. To turn to it for help was, therefore, politically risky, but Mr Macri was running out of alternatives.

Argentina's peso has fallen by a fifth against the dollar since the beginning of the year (see chart). The central bank's frantic efforts to halt the slide failed. Between April 23rd and May 4th it sold $5bn of currency reserves and raised interest rates in stages by 12.75 percentage points. As part of the effort to reassure investors, Nicolás Dujovne, the treasury minister, cut the target for this year's primary budget deficit from 3.2% to 2.7%. It had reached 3.9% in 2017. But each new step brought only brief respite before the peso started to fall again.

Like other emerging markets, Argentina is suffering from the strengthening dollar and higher American interest rates. On April 24th the yield on ten-year Treasury bonds rose above 3% for the first time since January 2014. That fuelled a sell-off, which gained fresh impetus on May 8th when Jerome Powell, chairman of the Federal Reserve, spooked investors by saying, in effect, that interest-rate policy would be set without taking much notice of the impact on emerging markets. The Turkish lira, Mexican peso and Polish zloty all fell.

But Argentina is unusually vulnerable. Inflation expectations for this year have risen to 22%, well above the central bank's target of 15%. Investors are worried by foreign-currency debt that has risen to 40% of GDP, up from 26% in 2015, and by large fiscal and current-account deficits. High interest rates and underdeveloped capital markets mean Argentina has been unable to find the financing it needs locally and in its own currency, as some developing countries have done.

Squabbles over the speed of deficit reduction have created fractures in Mr Macri's coalition. An emboldened opposition is seeking to derail his economic reforms. "Investors are questioning whether the government is willing to assume the political costs required to sustain its long-term economic strategy," says Dante Sica of Abeceb, an economic consultancy.

Mr Macri has taken a cautious approach to cleaning up the mess he inherited from his predecessor, Cristina Fernández de Kirchner. When he took office in December 2015, the economy was in complete disarray. The national statistics institute produced fictitious inflation figures to disguise annual price rises of more than 40%. The central bank printed money to finance the deficit, which swelled to 5.4% of GDP in 2015. Currency controls artificially inflated the peso. Export taxes encouraged farmers to hoard grain. A dispute with bondholders meant that Argentina was locked out of international credit markets.

Mr Macri quickly lifted currency controls, cut export taxes and settled with holders of Argentina's defaulted debt. But lacking a majority in congress, and hoping not to stifle economic growth, he decided to reduce the deficit slowly. Subsidies on transport and utilities were withdrawn only gradually in order to avoid a spike in inflation. Low international borrowing costs allowed the government to plug the fiscal deficit cheaply. Foreign investors appeared to endorse the strategy. In June 2017 they snapped up Argentina's first 100-year bond, with an annual yield of 7.9%.

But then Mr Macri seemed to take his eye off the ball. Doubts first flared up in December, when the central bank loosened its inflation target for 2018 from 12% to 15%. It did so at the behest of the government, which was worried about the impact of high interest rates on economic growth. The bank then cut rates by 0.75 percentage points, causing inflation expectations to rise. Investors began to fret about its independence and its commitment to reducing inflation. In April, when the government introduced a capital-gains tax on Argentine bonds, the nerviness intensified.

With credit now prohibitively expensive, Argentina has little alternative but to turn to the IMF. It would no doubt have preferred an unconditional "flexible credit line". But the IMF offers such loans only to countries with "strong economic fundamentals and policy track records". Despite the progress made under Mr Macri, Argentina lacks both. On May 10th it confirmed that it was seeking a "stand-by" arrangement, which guarantees that credit will be available in exchange for whatever reforms the IMF deems necessary.

Things could be worse for Mr Macri. Argentines were not queuing to withdraw their deposits from banks, as they did in 2001. He does not face re-election until October 2019 and has until now enjoyed relatively good approval ratings. But he seems likely to pay a high political price for the crisis. A recent poll found that three-quarters of Argentines were opposed to approaching the IMF. Next year's election looks likely to be more competitive than expected, reckons Sergio Berensztein, a political scientist. Holders of Argentina's 100-year bonds have a nervous few months ahead of them.

This article appeared in the Finance and economics section of the print edition under the headline "The crisis of Macrinomics"

The great Indian trade-off

Sluggish exports leave India needing to curry favour with investors

Perennial domestic weakness, and America's recent protectionist turn, make it hard for India to sell more abroad

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IN THE spring of 1991, Indian officials desperate to fend off a balance-of-payments crunch secretly airlifted 20 tonnes of gold confiscated from smugglers into the vaults of UBS, a Swiss bank. That crisis prompted liberalising reforms that helped integrate India into the global economy. By 2013 India's exports as a percentage of GDP had nearly quadrupled, to over 25%, not far from the global average. But an exporting funk since then has pushed the figure to its lowest level in 14 years. Paired with a rise in imports, the trend has revived questions about the competitiveness of Indian firms—if not the government's ability to finance a growing current-account deficit.

A repeat of the 1991 drama is not in the offing. India's economy today is growing at a world-beating pace. Its central bank holds enough foreign reserves to pay for nearly a year's worth of imports. Foreign investors are on hand to finance both government and corporate borrowing. Yet economists are left pondering why India has been unable to boost exports even as the global economy has purred along.

In the 12 months to March 2018, $303bn of Indian goods ended up overseas. That was up on the previous year, but still short of the $310bn achieved in 2014, when the Indian economy was a quarter smaller. Imports, meanwhile, have increased to $460bn, pushing the merchandise deficit to $157bn last year, up from $109bn in 2016-17 and its highest level in five years. A surplus in services such as IT outsourcing helps reduce the overall trade deficit by around half, but even there imports are growing faster than exports.

The shortfall is swollen by the rising price of oil, lots of which India imports (and some of which is also sold on as refined products). The surge from around $30 per barrel in early 2016 to over $70 now goes a long way to explaining the rise in India's current-account deficit, which is expected to reach 2% of GDP this fiscal year, triple last year's reading. Gold imports, used for saving or jewellery, have their own unpredictable rhythms, but also deepen the deficit.

The current trade lull extends beyond gold and oil, however. Exporters across the economy are being squeezed by the poor implementation of a goods-and-services tax that came into force last July. Perhaps 100bn rupees ($1.5bn) of refunds due to exporters once they can prove they have shipped their wares abroad is being held up by sclerotic administration. That is working capital which small-time exporters cannot easily replace.

Worse, a $2bn suspected fraud by a diamond dealer in February has resulted in regulators banning certain types of bank guarantees that exporters use to ensure they get paid promptly, exacerbating their funding problems. These snafus come as many firms are still recovering from the ill-advised "demonetisation" of November 2016, when most banknotes were taken out of circulation overnight. The move snagged local supply chains, giving foreign rivals opportunities to fulfil orders that would have gone to hobbled Indian firms and to gain market share in India itself.

Those woes come on top of perennial frailties. Crippling red tape means most Indian firms are small: the country lacks the mega-factories hosting thousands of workers making T-shirts or mobile phones that are common elsewhere in Asia. All but a few firms lack the heft to participate in global supply chains. A relatively strong rupee in recent years has not helped.

Unwilling to enact labour and land-acquisition reforms that might foster larger firms, the Indian government is instead shielding its industry from foreign competition. In recent months it has imposed tariffs on a dizzying array of goods, from mobile phones to kites. Though those will no doubt help stymie imports, it is just as likely that trade measures imposed by other governments will hobble India's exports.

For it is India's misfortune that Donald Trump's America is its biggest source of trade surpluses. Mr Trump's administration has multiplied the salvos against India, whether decrying supposed export subsidies, making it harder for Indian IT workers to get visas or accusing India of artificially weakening its currency. Unlike many American allies, India has not been exempted from imminent steel tariffs.

India would be seriously damaged by any further escalation in trade conflicts. It needs hard currency from exports not only to finance imports and economic growth, but also to repay external debts. These have swelled to around $500bn, or roughly a fifth of GDP, more than 40% of which is due in less than a year. Economists at DBS, a bank, say that this, together with India's trade slump, has put "external financing risks back on the radar". Keen to woo the investors it needs to fill the gap between exports and imports, India recently made it easier for outsiders to buy short-dated bonds, a move it had previously resisted for fear that investors might pull out suddenly if sentiment turned.

In a benign global macroeconomic environment, none of this matters too much. But investors' appetite for funding emerging-market deficits ebbs and flows. A previous bout of monetary-policy tightening in America in 2013 led to a "taper tantrum" in which money rapidly sloshed out of emerging markets. India used to be shielded from such turns in global sentiment. But its poor trade record means it is becoming more exposed.

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IT, phone home

China tries to lure its tech firms into listing at home

There are pros and cons to listing in China but the political imperative trumps all

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FOR a country that is hugely proud of its high-flying tech firms, China has a funny way of showing it. None of its internet giants—not Alibaba, nor Tencent, nor Baidu—is listed on the domestic stockmarket. Rules that were supposed to help investors have had the perverse effect of forcing firms to go public abroad, mostly in America. The result is that most people in China cannot buy stocks in the country's biggest, most innovative companies. But change is finally at hand. In the coming weeks China is expected to start letting these firms list some of their shares at home. If handled well—a big if—it would be a boon for the young stockmarket.

China's tech darlings initially went abroad because it was their only real option. Chinese regulations forbid dual-class shares, a structure favoured by tech entrepreneurs because it means they can raise capital while retaining control. Companies must also have three years of profits before going public. This is a stumbling block for tech companies, which often burn through cash as they scale up.

But as tech has grown ever more important to China's economy, its absence from the stockmarket has become glaring. The fact that foreigners have easier access to China's most dynamic companies is a long-standing gripe for local investors.

So the government looked for ways to bring them home. It has not been a simple matter: their foreign corporate structures and dual-class shares violate local market rules. Officials finally settled on depositary receipts as the answer. The firms will keep their primary listings abroad but entrust banks with a small portion of their shares; the banks will then offer certificates in China backed by these shares.

The threshold for issuing Chinese Depositary Receipts (CDRs) will be high. Listed companies must have market capitalisations of more than 200bn yuan ($31bn). Companies going public abroad can offer CDRs at the same time if their market cap is expected to be higher than 20bn yuan. The first approvals could come as soon as June. Four companies are mentioned most often as candidates: Xiaomi, a smartphone maker that filed for a flotation in Hong Kong on May 3rd; Alibaba and JD.com, two e-commerce rivals; and Baidu, known for its search engine.

Companies could reap several benefits, says James Wang, the head of Goldman Sachs's equity business in China. CDRs will be good for marketing, because their legions of Chinese users will now be able to own part of them. They will make it easier to include shares in pay packages, which previously had been complicated by capital controls. And they will give companies one more avenue for raising cash, all the more useful since it will be yuan (bringing dollars in from overseas takes time).

Yet there is no doubt that the overriding motive will be political. Keeping regulators happy is a requirement for any company in China. Left to their own devices the tech firms would be in no rush to sell shares in China; foreign listings have served them well. But when the government asks them to do something, they cannot say no.

What might the downsides be? One risk is that, as local investors clamour to buy them, CDRs will trade at a huge premium to their foreign counterparts. Because of capital controls, there is no channel for arbitraging between onshore and offshore markets. If premiums are too high, companies might look exploitative. Sean Darby of Jefferies, an investment bank, says they will need to issue enough CDRs to satisfy pent-up demand. But regulators will want to cap CDRs for fear that cash will be drained from the rest of the market.

Another worry is that companies will have to comply with onerous extra rules after issuing CDRs. One example concerns follow-on offerings. Listed firms in developed markets can go from announcing extra share sales to completing them in a day; in China, the process can take two months since they must obtain shareholder and regulatory approval. Analysts had thought that China would ease rules such as these for CDR issuers, but it appears set to keep them in place. The upshot is that the tech firms that list in China will, for their troubles, face cumbersome new regulations. Welcome home.

This article appeared in the Finance and economics section of the print edition under the headline "IT, phone home"

Higher earning

Big investors are giving university digs an upgrade

Student digs have moved on a lot

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THE words "Unite Students" are emblazoned on Aston University's residence halls and on signs all over campus. They are the name of a firm that builds, buys and manages student accommodation across Britain. Last year Unite Students bought all 3,000 of Aston's on-campus bedrooms for £227m ($313m) in partnership with the Government of Singapore Investment Corporation, a sovereign-wealth fund. It was thought to be the largest ever one-off purchase of student housing.

Many readers will no doubt recall dingy halls of residence owned by universities, or squalid private digs owned by individual landlords. But student accommodation has got an upgrade. Private halls have sprung up as cash-strapped universities have outsourced to companies such as Unite. Some have grown into publicly traded brands offering thousands of beds across the globe. American Campus Communities owns more than 134,000 beds across America. Dubai's GSA has student housing in eight countries.

Some $16bn poured into the sector globally in 2016. Sovereign-wealth funds invested over 15% of their worldwide spending in student accommodation that year, up from less than 4% in 2011-15, according to the Sovereign Wealth Lab at IE Business School. The Canada Pension Plan Investment Board announced earlier this year that it had acquired a new portfolio of student housing in America for $1.1bn as part of a joint venture. The sector offers strong risk-adjusted returns, limited supply and stable demand, says Peter Ballon, who oversees the fund's property investments.

Some of this is a punt on the global middle class. As families in developing countries, in particular India and China, have become richer, the appetite for English-language degrees has grown. More than a fifth of university students in Britain are from abroad. America's foreign-student population grew by 40% over the past five years.

To serve the rich among them, developers now offer hot tubs, rooftop bars, cinema rooms and the like. But most of the action is in more affordable housing close to campus. According to Knight Frank, an estate agent, rising tuition fees in Britain seem counter-intuitively to make students willing to spend more on housing, since it is a smaller share of the total cost. Akshay Bagga is a typical customer. The 19-year-old from Birmingham spent his first year commuting to Aston before deciding he wanted the full university experience. He chose what he thinks is Unite's cheaper option and is happy with the convenience of living five minutes from the library.

Student accommodation has some specific risks as an investment. Students tend to move only at the beginning of academic years, so failing to find a tenant then may mean a vacancy for a full 12 months. Students are harder on properties than most renters. Students, parents and universities demand prompt repairs and tight security, particularly when the student is living away from home for the first time. And a nativist turn in both America and Britain has led to tighter rules on visas for foreign students, crimping their numbers.

Against that, yields are higher than in other sorts of residential property, according to Savills. In America the average is 5.9% for student accommodation, compared with 5.6% for private residential rentals. And student accommodation has a valuable countercyclical quality. In recessions, people tend to go back to school.

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Act of faith

The world's biggest Muslim country wants to boost sharia finance

Islamic institutions have a tiny share of the banking sector

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THE Indonesia Stock Exchange greeted its latest listing on May 9th: that of BRIsyariah, the Islamic arm of state-controlled Bank Rakyat Indonesia, the country's biggest bank by assets. The initial public offering (IPO) of 27% of BRIsyariah's equity raised around 1.3trn rupiah ($92m). Islam outlaws the payment of interest, the basis of conventional banking. Yet despite being home to an eighth of the world's Muslims—225m, in a population of 260m—Indonesia's Islamic banks are tiny. They account for just 5.8% of all banks' assets. In neighbouring Malaysia, which has been promoting Islamic finance for many years, Islamic banks' share exceeds 25%.

But Indonesia's are growing fast. According to the Financial Services Authority (OJK), the industry's supervisor, last year their assets rose by 19%, against 9.8% for conventional banks. BRIsyariah's IPO will help tackle what the OJK says is the biggest obstacle to their development: a want of capital. Indonesian regulation divides banks into four categories; the more tier-1 capital they have, the broader their range of permitted activities. Of the 13 Islamic banks run as separate entities from their conventional parents, none is in category 4—banks with capital above 30trn rupiah, which are permitted to operate globally. BRIsyariah expects to become only the second in category 3 (over 5trn rupiah and allowed to operate in Asia). Lack of capital, says the OJK, means fewer branches and dearer funding, which constrains Islamic banks to focus on retail rather than corporate customers.

To appeal, Islamic products must be competitive with conventional ones, says Mohamed Damak of S&P Global, a rating agency. But sharia banking is far from doomed to failure. Arsalaan Ahmed, the chief executive of the Malaysian subsidiary of HSBC Amanah, the bank's Islamic division, says that 65-70% of his retail customers are not Muslim.

Last year Indonesia's president, Joko Widodo, known as Jokowi, set up a committee to promote Islamic finance and establish Indonesia as a hub. In June the OJK published a two-year "roadmap". The supervisory body is also promoting awareness of sharia products: a survey in 2016 found that only 6.6% of Indonesians understood them. A council of Islamic scholars established several years ago may help avoid disputes over whether products meet sharia standards. Whether it will be as successful as Malaysia's, which is housed in the central bank and enjoys legal authority, is not yet clear.

Lack of scale, says Herwin Bustaman, head of sharia banking at the Indonesian arm of Maybank, Malaysia's biggest lender, bedevils all small banks, not just Islamic ones. But some banks' legal structures make matters worse. A bank may create either a separate entity for its sharia division (eg, BRIsyariah) or a "sharia business unit" (UUS) that uses the capital, branch networks and personnel of the parent (eg, Maybank). The latter, says Mr Bustaman, is much cheaper: he says he matches the returns and cost-income ratios of conventional banks. The UUSs' non-performing loans are just 2.5% of the total, against 4.6% at stand-alone entities. Their return on assets averages 2.4%, versus 1.2%.

It would be hugely helpful, says Mr Bustaman, if the OJK embraced the UUS model. A law from 2008, however, points the other way. A UUS must be spun off once its assets are half those of its parent (only a handful, including Maybank's, reach even 10%) or in any event by 2023. The OJK is preparing simpler regulation allowing subsidiaries to use their parents' branches, computers and people. Letting UUSs continue might be simpler still.

Regardless of legal form, the fastest route to scale may lie in Jokowi's ambitious infrastructure plans and in loans to big companies. Even handling a tenth of the many billions being splurged on roads, railways and so forth would double Islamic banks' assets, Mr Bustaman reckons. Indonesia is already the top international issuer of sovereign *sukuk* (sharia-compliant bonds), points out Bashar Al-Natoor of Fitch, another rating agency, and this year sold the first "green" *sukuk*, raising $1.25bn, although Malaysia issues far more *sukuk* in all through its domestic market.

The OJK says it indeed expects Islamic banks to play a bigger role in infrastructure. It also envisages a special role for them in financial inclusion, microfinance and supporting small businesses—which, it says, will differentiate Indonesia's model from those of Malaysia and the Gulf states. Yet financial inclusion is rising fast anyway. The share of Indonesians aged 15 and over with bank accounts leapt from 36% in 2014 to 49% last year, according to the World Bank. Conventional banks and Asia's technology companies will also vie to serve them. Islamic banks have their work cut out.

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Unbounded

A Canadian startup applies machine-learning to corporate bond issuance

Overbond's algorithms to estimate timing and pricing of new bonds shed light on an old-fashioned part of finance

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WITH the exception of a few governments big enough to run their own auctions, anyone wishing to issue bonds must seek bankers' help. A hefty fee will buy assistance in calibrating the size, structure and timing of a bond issue, as well as connections to lots of buyers. And once a bank has agreed to underwrite an issue, it bears the risk of failing to get a good price for the bonds. But the process is old-fashioned and inefficient (the head of bond origination at one American bank jokes that "not a lot has changed since 1933"), and the accuracy of the advice is hard to gauge. Overbond, a financial-technology startup in Toronto, wants to change all that.

Investment bankers responsible for bond issuance still operate largely by feel, calling up asset managers to get a sense of demand, rather than by crunching numbers. Rules against insider trading mean they cannot talk directly with their trader colleagues. Data on existing bonds are more abundant. In America, for instance, information on the price, timing, yield and volume of all bond transactions must be reported publicly within 15 minutes. But so far, comparing primary and secondary markets has been difficult. By crunching a wide array of public data, Overbond seeks to provide a link between the two.

Its main offering is a set of machine-learning algorithms powered by neural networks, a type of artificial intelligence, that predict the timing and pricing of new bond issues. The service is already fully in place for the Canadian corporate-bond market, and partly so for the American one. The algorithms crunch through credit ratings and real-time data on secondary trading for a firm and its peers, among other things. Recent predictions for the yield on new bond issues have been, on average, off by less than 0.02 percentage points.

A subscription buys tailored estimates of demand for new bonds, including the interest rate the market is willing to bear. This helps corporate treasurers gauge market conditions and decide when to issue bonds and in what maturity. Of the 200 or so Canadian corporations that issue debt frequently, 81 are signed up.

Investors can use a basic version of the service without charge, partly because the firm collects data from them that then feed into the algorithms. They can, for instance, get estimates of the timing of the next bond issue to hit the market, using data on the timing of previous issues, issues by similar companies and balance-sheet data. Around half of Canada's institutional bond investors use it in some way.

Canada's corporate-bond market is a relative tiddler, with a total of 604 new bond issues in the past two years. Its investment-banking community is small, too; Overbond reckons that every new bond issue passes through one of just seven individuals. But the firm now hopes to break into America, the world's largest corporate-bond market with around 3,000 new issues annually. There, issuance is much more fragmented. Around 40 banks are active in bond origination, and no firm has more than a 12.5% market share, according to Thomson Reuters, a financial-data firm.

Vuk Magdelinic, Overbond's founder and chief executive, says that starting small in Canada gave the firm the chance to perfect its algorithms. It has refined its timing-prediction algorithm for the American market (see chart for an example on Microsoft). Some actively managed bond funds have already expressed interest. It has opened a New York office and is seeking funding from American investors.

Bankers, perhaps unsurprisingly, proclaim themselves sceptical that something as sophisticated as bond origination could be pried from their grasp by a fintech challenger. Instead, they think they spy an opportunity. Some have expressed interest in using Overbond's timing algorithm to help spot firms in need of financing before they come asking for it. In finance, as elsewhere, machines and humans may be more powerful together than either is alone.

This article appeared in the Finance and economics section of the print edition under the headline "Unbounded"

Steeling for battle

Europe must agree a common position to avoid Donald Trump's tariffs

Germany would rather strike a deal than risk tensions escalating

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DIPLOMATS are racking up the air miles, but the prospect of trade war has not receded. Negotiations between American and Chinese representatives in Beijing ended on May 4th without agreement. Indeed, the two sides' starting positions are so different that a mutually agreeable deal is hard to imagine. Talks will resume next week when Liu He, China's vice-premier, travels to Washington. Negotiators will need to work quickly. From May 23rd America can impose its first set of tariffs against China, on around $50bn of goods. The Chinese would soon retaliate.

America is edging towards trade conflict not just with an avowed rival but with its closest friends. In March, when President Donald Trump announced plans for tariffs on steel and aluminium, America's allies were granted temporary exemptions to allow time to negotiate deals. Those exemptions are due to run out on June 1st.

Many countries are already off the hook, having agreed to restrict shipments to America. South Korea will cap its exports of steel to 70% of the annual average during 2015-2017. Argentina, Australia and Brazil have reached agreements in principle. Exemptions for Canada and Mexico are linked to progress on renegotiating the North American Free-Trade Agreement; those talks restarted on May 7th. The big exception is the European Union. The European Commission, which negotiates on its behalf, says it is willing to discuss a deal but will not do so while being threatened.

EU countries that have a lot to lose are less keen on that principled stand. Peter Altmaier, Germany's minister for economic affairs, has said he would rather strike a deal than risk tensions escalating. In 2017 Germany exported €112bn ($133bn) of goods to America, substantially more than France and Italy combined. And if American tariffs are imposed, the commission would probably impose retaliatory levies on American goods, including bourbon and jeans. That might provoke a second round of American tariffs, which would probably take aim at cars, a big German export.

Europe has two ways to avoid an immediate trade war, reckons André Sapir of Bruegel, a think-tank. One is to offer broader trade talks. Deciding what to put on the table and reaching a deal in just three weeks is near-impossible, but that offer might be enough to gain a permanent exemption from metal tariffs. The EU would need to agree on a position first. Mr Altmaier favours a deal covering industrial goods; France wants to discuss public-procurement rules. The Italian minister for economic development told Bloomberg that quotas could be part of a deal that also covers cars, pharmaceuticals and textiles.

The alternative is for Europe to follow other allies' lead and accept quotas. The commission is rumoured to be thinking of offering a "100% quota"—in other words, to keep steel exports to America at or below their current level. That would be a departure from its principled insistence on multilateralism, but would avoid a climbdown of the sort that Mr Trump might take as incentive to try the same trick with other goods. Whether he would sign up to such a deal, though, is unclear.

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Buttonwood

Lessons to a columnist's previous self

Thinking outside the police box

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IN A British television show, "Doctor Who", the titular character is able to travel anywhere in time and space in his Tardis police box. Given access to that technology, what useful message would this columnist impart to his previous self, nearly 12 years and 550 columns ago?

The first lesson would be to avoid confusing the economy with the financial markets. If you looked at share prices alone, you might assume the intervening period had been calm; the S&P 500 index is around double its level when this column began in September 2006. But though the markets have long since recovered their sangfroid after the crisis of 2008-09, the trend growth rate of developed economies has never regained its strength. That is a bitter irony given that the crisis originated within the financial sector, bringing to mind a teenager who crashes their parents' car and leaves them with the bill.

In part, the market's resilience was owing to the remarkable strength of corporate profits, something else that would not have been obvious 12 years ago. Back then American profits were only just reaching a post-war high, relative to GDP. When they plunged in 2009, it looked like a return to normal. But the pre-crisis levels were rapidly regained and, indeed, surpassed. Explanations for the strength of profits include less competition in some industries, in particular technology, and the way globalisation has suppressed wage growth. In turn, this sluggish growth of real wages was a significant factor in the rise of populism, another big development of the past 12 years.

The second lesson would be never to underestimate the power of central banks. Readers would have scoffed if this column had forecast, back in 2006, that short rates would be cut to zero and below; that trillions of dollars of government bonds would trade on negative yields; and that even the ultra-cautious European Central Bank would join its peers in wholesale purchases of government debt. But quantitative easing happened without creating the inflation that many feared. And it perhaps averted another Depression.

Another timely tip back in 2006 would have been to relax about China. Those who worried about a banking crash or "ghost cities" full of vacant skyscrapers have yet to be proved right. China's economy may be growing a little more slowly, but it has not stalled. More broadly, there have been crises in specific emerging markets over the past decade, but nothing as widespread as the turmoil of the late 1990s.

Perhaps these were obvious monsters, like the Doctor's foes, the Daleks, who could be confused by the simple expedient of throwing a coat over their heads or (in early series) defeated by their inability to climb stairs. The greater financial dangers may be the equivalent of the Weeping Angels—living statues that creep up on you when you are not looking.

For example, experience has shown that there is no innovation, however seemingly benign, that the finance sector cannot overcomplicate and overextend. Securitisation was a good idea when first adopted, but ended with the mess of subprime loans that were sliced and diced into a dog's breakfast. Exchange-traded funds (ETFs) are an excellent idea—a low-cost way for investors to own a diversified portfolio. But there are now too many funds and too many unnecessary varieties, such as ones that bet on trends in volatility or invest in ETF providers.

One day, this overexpansion may turn out to be a problem, especially as some ETFs have a liability mismatch. They offer instant liquidity in assets, like corporate bonds, that are fundamentally illiquid. Market-makers known as authorised participants (APs) are supposed to step in and keep the price of ETFs and asset values aligned. But as Helen Thomas of Blonde Money, an economic consultancy, points out, it is not clear which APs back which fund, nor whether it is easy for them to hedge their risks. What will happen in a sharp market downturn?

Markets have recovered from the crisis of 2008. But some day a combination of high valuations, illiquidity and the withdrawal of monetary stimulus by central banks will cause a problem that takes more than the Doctor's sonic screwdriver to fix. Forecasting exactly when that will happen is the tricky bit and, sadly, Buttonwood's Tardis can only go backwards, not forwards, in time.

Indeed, the moment has come for a change. Eventually, after a few series, Doctor Who has to regenerate and be replaced by someone younger, and with a better script. The same is true of columnists. Thank you all for reading.

This article appeared in the Finance and economics section of the print edition under the headline "Thinking outside the police box"

Free exchange

Barriers to entry

The last in our series on the shortcomings of economics looks at the discipline's lack of diversity

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SCIENCE is supposed to be the ultimate meritocracy. People might sneer at a thinker's background or training, but there can be no arguing with a powerful new idea which explains the world better than its rivals do. In reality, academia is cluttered with odd cultures and practices which serve as barriers to entry—and, at times, as cover for discrimination. In economics, men receive tenure at a rate 12 percentage points higher than women do, after controlling for family circumstances and publication records. Women who clear that hurdle are about half as likely as men to be named full professor within seven years. Just 4% of doctoral degrees in economics were awarded to African-Americans in 2011 (compared with about 8% across all academic fields). Something is broken within the market for economists, and the profession has moved only belatedly and partially to address it. A lack of inclusivity is not simply a problem in itself but a contributor to other troubles within the field.

Though women in economics have long been aware of the discipline's biases, a growing body of research is making the problem harder for men to ignore. When decisions are made about tenure, men are not penalised for having co-authored lots of papers, whereas women who co-author with men are, according to work by Heather Sarsons, of Harvard University. That suggests women's contributions to such papers are discounted; in other fields, like sociology, this is not the case. Research by Erin Hengel of the University of Liverpool has shown that papers by women are better-written, on average, than those by men, but spend longer in peer review, suggesting that women are held to a higher standard. That makes female researchers less productive.

The climate within economics can be hostile as well. Economics Job Market Rumors, an anonymous website frequented by graduate students and used to discuss job openings and candidates, has long been notorious for threads that include derogatory or sexually inappropriate remarks. A recent newsletter of the American Economic Association (AEA) opens with an essay by Jennifer Bennett Shinall, of Vanderbilt University. On a flight home from the AEA's annual meeting, another attendee attempted to kiss her and suggested her career would be fine so long as she "made smart decisions". Ms Shinall says she considered keeping the incident to herself, because she did not yet have tenure and might need letters of reference from her attacker's colleagues. Such concerns surely stop other episodes of this sort from ever coming to light.

The profession's failings in this regard almost certainly influence the quality and focus of economic research. Putting women off careers in academic economics, and undermining the productivity of those who persist, means excluding good minds and good ideas. It also means excluding different viewpoints. Although individual women have all sorts of ideologies, surveys suggest that the views of men and women on some issues diverge, on average, in significant ways. Male economists are more likely to prefer market solutions to government interventions. Women are more likely to favour redistribution and environmental-protection rules. Were economics to include a broader array of views, its findings might well change, too.

Indeed, these biases may also inform views about bias. Women are far more likely than their male colleagues to say that gender gaps are rooted in inequities in the market. A survey of a random sample of members of the AEA, by Ann Mari May and Mary McGarvey of the University of Nebraska and Robert Whaples of Wake Forest University, found that hardly any men believed professional opportunities for economics faculty are tilted against women. Remarkably, about a third believe there is bias in favour of women. Many male economists seem to reckon the meritocracy is functioning perfectly well, with no problems to fix; men presumably dominate because of superior ability.

The lack of diversity within economics is not just a matter of women. Limited diversity of race and background at the top of the field can distort policy in worrying ways. For example, Narayana Kocherlakota, an economist and former president of the Federal Reserve Bank of Minneapolis, argued in 2014 that an absence of diversity at the Fed reduces the breadth of perspectives considered and undermines its effectiveness as a central bank. (Mr Kocherlakota was the first non-white person to be president of a regional Fed bank.)

Economists are taking some steps to address these problems. The AEA recently adopted a code of conduct obliging economists to carry on civil and respectful dialogue, and is working to set up its own forum for discussion of job openings and candidates. But there is far more to be done. Hiring committees should re-examine their recruitment and promotion practices. Economic journals could take a page out of sociology's book and list authors according to their contributions to papers, rather than alphabetically. Removing the barriers faced by underrepresented groups would not transform the profession overnight, but would inject a bracing gust of competition into the field's imperfect meritocracy.

Improperly identified

To generate lasting improvement, in its diversity and in other problem areas, economics could also do with a change in mindset. The profession has a strong sense of who an economist is and what one does; it is, as Axel Leijonhufvud once noted in an amusing paper, like a strange and insular tribe. This group identity is bolstered by the field's status and influence, which might be threatened by changes to its composition, ideas and methodologies. But as economists point out so persuasively in other contexts, to improve requires change. Economics, like the economy, cannot thrive without a little creative destruction.

Internship

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The Economist invites applications for the 2018 Marjorie Deane internship. Paid for by the Marjorie Deane Financial Journalism Foundation, the award is designed to provide work experience for a promising journalist or would-be journalist, who will spend three months at *The Economist* writing about finance and economics. Applicants are asked to write a covering letter and an original article of no more than 500 words suitable for publication in the Finance and economics section. Applications should be sent to deaneintern@economist.com by June 2nd. For more information, see www.marjoriedeane.com

Autonomous vehicles
Robotic rules of the road

Autonomous vehicles

How do you define "safe driving" in terms a machine can understand?

Writing the robotic rules of the road

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WHEN people learn to drive, they subconsciously absorb what are colloquially known as the "rules of the road". When is it safe to go around a double-parked vehicle? When pulling out of a side street into traffic, what is the smallest gap you should try to fit into, and how much should oncoming traffic be expected to brake? The rules, of course, are no such thing: they are ambiguous, open to interpretation and rely heavily on common sense. The rules can be broken in an emergency, or to avoid an accident. As a result, when accidents happen, it is not always clear who is at fault.

All this poses a big problem for people building autonomous vehicles (AVs). They want such vehicles to be able to share the roads smoothly with human drivers and to behave in predictable ways. Above all they want everyone to be safe. That means formalising the rules of the road in a precise way that machines can understand. The problem, says Karl Iagnemma of nuTonomy, an AV firm that was spun out of the Massachusetts Institute of Technology, is that every company is doing this in a different way. That is why some in the industry think the time has come to devise a standardised set of rules for how AVs should behave in different situations.

Can safe-driving rules really be defined mathematically? It sounds crazy; but if it could be done, it would provide welcome clarity for both engineers and regulators. A clear set of rules would free carmakers from having to make implicit ethical choices about how vehicles should behave in a given situation; they would just have to implement the rules. In the event of an accident, suggests Amnon Shashua of Mobileye, a provider of AV technology, an AV company would not be liable if its vehicle followed the rules. But if a sensor failure or software bug meant that the rules were broken, the company would then be liable. There would still be plenty of scope for innovation around sensor design and control systems. But the robotic rules of the road would be clearly defined.

Dr Shashua and his colleagues published a first attempt to devise such rules in a paper that came out late last year. Their framework, called "Responsibility-Sensitive Safety", lays down mathematical rules for various events, such as lane-changing, pulling out into traffic and driving cautiously when pedestrians or other vehicles are partially occluded. The framework covers all 37 pre-crash scenarios in the accident database maintained by NHTSA, America's car-safety regulator. Dr Shashua would like it to be adopted as the basis of an open industry standard. In the meantime, his company is already using these ideas in the autonomous-driving platform it is developing with BMW, Fiat Chrysler and several parts-makers.

Last month Voyage, another new AV company, made a similar proposal, called "Open Autonomous Safety". It also defines the correct, safe behaviour for vehicles in a range of circumstances, including pedestrians being in the road, nearby vehicles reversing and arrival at a four-way stop. In addition, Voyage has made its internal safety procedures, materials and test code all "open source", with the aim of providing "a foundational safety resource in the industry".

This is all a good start, says Dr Iagnemma, whose own company is also planning an announcement in this area. Bryant Walker Smith, a law professor at the University of South Carolina who studies driverless-car regulations, similarly welcomes the proposals from Mobileye and Voyage, but warns that it is too soon for regulators to "calcify dynamic conversations that are fundamentally technical in nature". It will take years rather than months for the industry to cohere around a standard, Dr Iagnemma predicts. But he is optimistic that this will happen eventually, because discussions are already under way and because many people working in the field of autonomous vehicles are recent recruits from academia, who consider sharing and open-sourcing to be second nature.

One area where sharing would speed up the development of a safety standard is so-called "edge cases"—rare events that tax the capabilities of autonomous systems, such as unexpected behaviour by other drivers, debris on the road, plastic bags blowing in front of a vehicle and so on. Because such events occur infrequently, and computers lack the common sense to decide how to respond, training AVs to cope with edge cases is hard. But by sharing with each other data from edge cases that have actually happened, AV firms can test their systems in simulators to see how they would respond, and adjust them where needed, benefiting from each other's experience. Normally, companies might be reluctant to help competitors in this way, notes Dr Iagnemma, but with AVs, "an accident affects the whole industry, and is bad for all of us".

That is because the road-safety debate about autonomous vehicles is driven by emotion, not logic. "If we're willing to say we're happy with humans killing themselves on roads, we don't have a principled basis to regulate AVs," says Mr Walker Smith, who thinks much more could be done with human drivers to improve road safety: reducing and enforcing speed limits, for example. But the truth is that AVs will always be held to higher safety standards than human drivers.

Just how much higher? A study published last year by the RAND Corporation, a think-tank, did the number-crunching. It found that deploying AVs even when they are only 10% safer than human drivers would save far more lives in the long run (more than 500,000 over 30 years in America alone) than waiting until they are, say 90% safer. But such stark utilitarianism sits poorly with how most people view the world, because AVs would still cause a lot of deaths. Indeed, Dr Shashua thinks a good target to aim for would be 99.9% safer—in other words, 1,000 times better than human beings. That would be such an obvious improvement that it would be difficult to argue against it. The wider point, though, is that even if it turns out to be possible to build AVs governed by mathematically rigorous rules of the road, the industry's progress would still be subject to the vagaries of human nature.

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Evolutionary psychology

The idea that women are cyclical cuckolders bites the dust

The attractiveness of men's faces is not related to ovulation

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ONE of the more intriguing findings in the field of evolutionary psychology over the past two decades has been that ovulating women are more strongly attracted to men with faces that have pronounced masculine characteristics, such as wide jaws and heavy brows, than to men who do not have such traits. Other research suggests men with highly masculinised faces have strong immune systems, a desirable trait in children, but also tend to form weaker long-term bonds with romantic partners, and are thus more likely to desert and leave the mother, both literally and metaphorically, holding the baby. Logic therefore suggests that a woman's ideal evolutionary strategy is to mate with such men in secrecy, while duping less masculine (but better bonded) males into believing that the resultant offspring are their own—thus garnering reliable help in raising them.

Nearly a dozen experiments have yielded results which seem to confirm this theory, yet sceptics have criticised many of these studies as flawed. Some had small sample sizes (many with fewer than 40 participants), so their results are statistically dicey. Some determined ovulation dates by asking women to report when they last menstruated. These are problematic both because cycle lengths vary and because women are often unsure about when their last cycle concluded. Some measured women's hormone levels only once, rather than several times, and then compared how different women at different stages of their cycles responded to faces, rather than comparing how the same women at different stages of their cycles responded.

To try to settle the question once and for all, Benedict Jones of Glasgow University has run an extensive study that tries to eliminate these flaws. The result, as he reports in *Psychological Science*, is that he has found no compelling evidence that women prefer different sorts of men during different parts of their menstrual cycles.

Dr Jones and his colleagues arranged for 584 heterosexual women who were having their menstrual cycles monitored to look at male faces that had either had their male features exaggerated or had had them minimised. This large number of participants meant that the issue of a small sample size yielding potentially unreliable results would be dealt with. To dispatch the problem of estimating women's hormone levels from self-reporting their position in the menstrual cycle, Dr Jones arranged for all of the women to have their saliva sampled and analysed for hormones between two and 15 times during the experiment. To make sure he was comparing like with like, he had his participants come in for between two and 15 weekly test sessions, so that the same women's preferences for masculine men at different points of their menstrual cycles could be compared directly.

As for the revealing of the faces themselves, women were presented with a paragraph asking them to imagine they were looking either for the type of person who would be attractive to them in a short-term relationship, like a one-night stand, or a long-term relationship, such as marriage. They were then shown a pair of faces (one more masculine than the other) and asked to rate which was more attractive.

All told, Dr Jones found that women's masculinity-preference scores were not related to their reproductive cycle. Specifically, he and his colleagues could not find any statistically significant relationship between the levels of any hormones and preferences for more masculine faces. The idea that evolution encourages women to engage in cyclical cuckoldry was certainly an intriguing one. But, as Benjamin Franklin put it, one of the greatest tragedies in life is the murder of a beautiful theory by a gang of brutal facts.

This article appeared in the Science and technology section of the print edition under the headline "Facing reality"

Oceanography

A better way to transmit messages underwater

Tiny acoustic modems will do the job

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RADIO waves cannot penetrate water, so cannot be used for submarine communication. That is why the sea is probed by sonar, not radar. But, as people and their machines venture ever farther into the deep, ways of building underwater communications networks would be welcome. And researchers at Newcastle University, in England, led by Jeff Neasham, think they have just the thing to build them with: an acoustic "nanomodem".

Existing underwater modems, which transmit and receive data via sound, are power-hungry (consuming up to two watts when receiving messages, and as much as 35W when transmitting) and expensive (costing between £5,000 and £15,000, or $7,000-20,000). Dr Neasham's nanomodems consume only ten milliwatts when listening, and 1W when broadcasting. They cost about £50 a pop. They are also, being about the size of a matchbox, a tenth as big and heavy as the conventional variety. But they suffer from no diminution in range. They are able, as an existing modem is, to broadcast over a distance of up to 2km. That range can, moreover, be extended by deploying a number of them as a network in which each talks to its neighbours, recording messages and passing them on. Existing modems can do this too, in principle. In practice their cost restricts the size of the network.

These paragons of underwater communication consist of a low-cost microprocessor (a baby version of the processor found in most smartphones) and two customised amplifiers—one to transmit signals and one to receive them. The transmission rate is a mere 40 bits per second, but that is a consequence of the spread-spectrum technique used to broadcast those bits, which trades speed for resistance to interference. The ocean is a noisy place, but broadcasting the same message on several frequencies increases the chance it will get through on at least one of them. Spread-spectrum broadcasting thus compensates for a nanomodem's low power.

Around 200 of Dr Neasham's nanomodems are already being tested, in several projects. One, which started in January, is a whale watch organised by the Natural Environment Research Council, a British government agency. The plan is to survey sites where offshore wind farms might be built, to assess the risk of any development there interfering with local cetaceans.

Such surveys are done by dropping sensors to the sea bed, to record the sounds made by whales and dolphins when they are navigating, hunting and talking to each other. This gives an indication of which species are present, and in what numbers. In the past, such surveys have been difficult and expensive. The sensors have had to log and store the animals' noises for weeks or months after deployment, and have then had to be recovered in order to have their data read. Adding a nanomodem to a sensor means the data it collects can be retrieved remotely, whenever convenient (a process made even easier when the modems are part of a network, and can thus pass their data to a single retrieval point). There is therefore no need to recover the devices when a survey is over.

Another use of Dr Neasham's nanomodems is on submarine drones, known as AUVs (autonomous underwater vehicles). One such, the ecoSUB, made by ecoSUB Robotics, a British firm, is less than a metre long, weighs about 4kg, and is intended to work in groups, called shoals, monitoring pipelines and other pieces of underwater infrastructure. Fitting a nanomodem to each drone in a shoal will let it talk to the others, permitting shoal members to co-ordinate their activities.

Navigating such a shoal to its target, though, is a problem. It will tend to drift with the current and, when underwater, an AUV cannot listen to the radio signals transmitted by the satellite-based Global Positioning System (GPS) which most navigation now relies on. But Terry Sloane, ecoSUB Robotics' boss, has an acoustic answer to this, as well. He plans to add a surface drone to the shoal, to pick up GPS signals and then broadcast its position acoustically to the underwater drones. The AUVs will thus know where they are.

Nanomodems could also help chart the ocean floor. Some 95% of the sea bed is unexplored, so Shell, a large oil company, is sponsoring a prize (the Ocean Discovery XPRIZE) for better ways to map it. One of the finalists in the competition, Team Tao, includes members from the nanomodem group at Newcastle. The Team Tao scheme involves an unmanned surface vessel releasing dozens of torpedo-like Bathypelagic Excursion Modules (BEMs), each 1.3 metres long. The BEMs drop to the sea bed as a shoal, scan the area with sonar, and return to upload their data and recharge their batteries. When underwater, they remain in the proper formation by exchanging information through their nanomodems.

Team Tao's members estimate that their approach will cost a hundredth as much as a conventional survey ship, deploying a conventional AUV, would require to do the same job. That could open vast reaches of the sea floor to science and commerce.

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Natural selection

Evolution sometimes leads up blind alley

As one American butterfly has found out the hard way

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This picture is of an Edith's checkerspot butterfly laying her eggs on some blue-eyed Mary, the plant usually eaten by its caterpillars. This week's *Nature*, however, describes the fate of a population of the insect in Nevada that evolved to prefer ribwort plantain, a weed introduced from Europe that is common in American cattle pastures. This particular group of checkerspots was studied for 25 years by Michael Singer and Camille Parmasan of the University of Texas at Austin. The pair watched the insects evolve gradually over the decades until they would lay their eggs only on the alien invader, which provided more abundant feeding for their larvae than blue-eyed Mary did. Dr Singer and Dr Parmasan then saw the whole population vanish within a year, when a change of land use caused ribwort to disappear, even though blue-eyed Mary was still available. The butterflies had been trapped in an evolutionary cul-de-sac.

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Markets and society
Sale of the century

Sale of the century

Don't shrink the role of markets—expand it

So argues an arresting if eccentric manifesto for rebooting liberalism

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Radical Markets: Uprooting Capitalism and Democracy for a Just Society. By Eric Posner and E. Glen Weyl. *Princeton University Press; 368 pages; $29.95 and £24.95.*

ACCORDING to its detractors, and even some of its acolytes, the philosophy of liberalism has run its course. Populist critics of capitalism and democracy have been emboldened by the financial crisis and amplified by social media. Liberals have struggled to respond. Many are insecure about their intellectual—or geographical—blind spots, apparently exposed by Donald Trump's election victory and the Brexit referendum. They feel like conductors of a train that has veered off the tracks. Amid this disorientation, an important possibility may have been overlooked: that the rich world's problems do not stem from an overdose of liberal principles, but from their insufficiently bold application.

In "Radical Markets" Glen Weyl, an economist at Microsoft, and Eric Posner, a law professor at the University of Chicago, argue that the ideals of thinkers such as Adam Smith, John Stuart Mill and Henry George can still inspire radical change. Such luminaries were unafraid of challenging the status quo. Following suit, Mr Posner and Mr Weyl want to expand and refine markets, putting them to work for society as a whole.

In truth, the policies they advocate are so radical that they are unlikely ever to be adopted. But they may help jolt liberals out of their hand-wringing, and shape a new line of market-oriented thinking, as Milton Friedman's "Capitalism and Freedom" did almost six decades ago. That too was an idealistically pro-market book, unconcerned with the feasibility of its proposals. The authors of "Radical Markets" open with a Friedman quote.

Yet they distance themselves from the "market fundamentalism" inspired by him, Friedrich Hayek and George Stigler. Such thinking is more concerned with protecting property rights than with correcting market failure. By contrast, their primary concern is to mount an onslaught against market power. That does not just mean the overweening clout of the tech titan or the oil baron. It includes the power intrinsic to the very property rights that market fundamentalists often defend. This power, the authors say, prevents markets themselves from being truly free.

Mi casa, su casa

Take land. An owner of a valuable plot in, say, the Bay Area of California is inherently a monopolist. Should an entrepreneur need a lot of space to build an office block or houses, the owner of a single parcel can hold her to ransom. Property may not be theft, but it is monopoly.

The authors think this applies to all property, not just land. Their solution is a new wealth tax. Every individual would put a value on each item she owned, down to the last pencil (potentially a laborious exercise), and would be taxed on her total declared wealth. The twist: she must stand ready to sell any item at its declared value, should a buyer emerge. To see off interested purchasers, she would have to set the value high, and thus incur a hefty tax that would compensate society. If she set the price low, to minimise her tax burden, her assets would be bought up.

The tax would enable property to be put to its most profitable use, while raising revenue efficiently, perhaps to fund a universal basic income. Because rich people own the most stuff, it would be drastically redistributive. Most important, people would come to see property as rented from society, rather than as conferring exclusive ownership. Radical collectivism would replace property-owning democracy. The authors are ready with responses (some more convincing than others) to obvious objections, such as the notion that the poor would live in fear of the rich stripping them of their assets. Still, the scheme will baffle anyone who sees property rights as the foundation of law, even of civilisation, and as crucial to individual flourishing.

Rethinking property rights from scratch might seem sufficiently ambitious for one book. But it is just one of several big ideas. The next is to overhaul electoral systems. Democracy, the authors argue, has never found the right balance between conflicting aims. Minority rights must be protected from tyrannical majorities. But this introduces the same hold-out problem—where small groups can exert undue influence—as bedevils property markets. Policies with diffuse benefits and concentrated costs, such as environmental regulation, are hard to implement in systems that erect too many hurdles to legislation.

Their solution is to import market principles to the ballot box. They would scrap "one person one vote". In its place, everyone would get an income of credits, to be used to buy votes in elections or referendums. The more influence voters exerted over any single issue, the less they would be able to wield elsewhere. Crucially, the price of a vote in any given election would be the square of the number bought. One vote would cost one credit; two votes would cost four; three votes, nine. Minorities which cared a lot about a particular issue, or feared their rights were under threat, could decide to spend their credits heavily to face down a majority. But it would be expensive. That would make it harder for hobbyhorses to stand in the way of social progress.

Prophets in the wilderness

The authors say their book is intended to refresh liberalism. But their animating philosophy is really utilitarianism: the idea that doing good means maximising the overall level of happiness. They seem relatively unconcerned with individual rights. At the end of the book, they suggest that the logical extension of their property tax would be to apply it to human capital—ie, to require citizens to declare a wage at which they would work, tax them on the basis of that number, and force them to accept any job offers that materialised. They shy away from this idea not because it resembles the enslavement of individuals to society, but because it is impractical.

In another chapter they argue that every citizen should be given the chance to sell a visa directly to an immigrant, whom they would house and help find low-wage work. They say the economic gains to all would be worth the inequality and power imbalances this would produce. At the end of their chapter on voting, they calculate that their proposed electoral reforms could boost GDP by 20%—as if that, rather than the fair allocation of power, is what matters in electoral systems.

“Radical Markets” is refreshing and welcome in its willingness to question received wisdom. Yet it will do little to mollify those who say liberal capitalism has neglected human needs beyond the yen for economic advancement—for community, say, or a sense of wider belonging. Such critics will understandably protest that market principles would sully institutions, such as property rights and elections, that confer dignity on individuals.

Readers who suspect that economic progress cures most ills will be more sympathetic. But even they may view Mr Posner and Mr Weyl in the way radicals are often perceived: as somewhat eccentric. Still, liberals must find some antidote to populism and protectionism. A little outlandishness may be necessary.

This article appeared in the Books and arts section of the print edition under the headline ”Sale of the century”

High crimes

How to impeach a president

Those keen on ousting Donald Trump may not have reckoned with the process

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To End a Presidency: The Power of Impeachment. By Laurence Tribe and Joshua Matz. *Basic Books; 304 pages; $28.*

FOR obvious reasons, interest in the process of impeaching an American president is soaring. But public understanding of what that would entail is not. The constitution calls for removal from office upon "Impeachment for, and Conviction of, Treason, Bribery, or other high Crimes and Misdemeanors." The House of Representatives has the "sole power" to determine whether there will be a trial in the Senate, where conviction requires a two-thirds majority. The House has voted to impeach two presidents—Andrew Johnson in 1868 and Bill Clinton in 1998. Richard Nixon averted impeachment by resigning. No president has ever been convicted. Johnson escaped in the Senate by a single vote; Mr Clinton was acquitted after 50 senators, all Republicans, voted against him.

In 1970 Gerald Ford, then a congressman, observed that "an impeachable offence is whatever a majority of the House" believes it to be. The unclear language of the constitution, the paucity of cases and the role played by partisan politics (unanticipated by the Founding Fathers) make Ford's remark both plausible and unsatisfactory. A firmer definition is required. Laurence Tribe of Harvard Law School and his co-author Joshua Matz conclude that an impeachable act must involve corruption, betrayal or abuse of power, criminal or otherwise—an intentional evil deed that might inflict great injury on the nation.

In "To End a Presidency", Mr Tribe and Mr Matz have written a powerful, clear and even-handed guide to the legal and political aspects of impeachment, which, as they point out, is "neither a magic wand nor a doomsday device". Previous commentators have focused on the definition of an impeachable act, then assumed that justified suspicion of such conduct means a trial in the Senate. Mr Tribe and Mr Matz explain that the definition is but the "tip of the iceberg". Other steps towards impeachment include public hearings on alleged misconduct; investigations; establishing a committee to consider a president's removal; debates and votes by the committee and then the House; setting the rules for the Senate trial and conducting it; and voting by the senators on each charge. Just the investigative stage in the House inquiry into Nixon took ten months.

The authors emphasise that at every stage politicians have the discretion to nix the process. The constitution confers the power, not the duty, to proceed. They discuss the dangers to democracy of whichever course is chosen. Even a justified impeachment poses great risks, they note. Fans of the president (and in Donald Trump's case, they would number tens of millions) are likely to regard the process as an illegitimate coup and might resist. If a putative impeachment effort were to fail, the country could be left "with a corrupt tyrant and his angry, vengeful supporters".

"To End a Presidency" urges that "in assessing whether (and when) to impeach, we all must reckon with broader risks to the democratic system we're trying to save." Ultimately, the authors say, that calculation may sometimes "cut in favour of impeachment". For all the acrimony of a trial and the possible backlash, allowing corruption or betrayal in the White House is "exceptionally risky" too.

Still, those ardently hoping for Mr Trump's ousting, regarding him as irresponsible and impulsive, may not fully have considered the consequences. Would they really want to impose the enormous and extended pressure of an impeachment on such a man while he retains control over his vaunted nuclear button? Is the relatively brief benefit worth the jeopardy?

The question is academic: there seems to be no possibility that Mr Trump would be convicted by two-thirds of the Senate. That does not diminish the value of this enlightening book. It is the definitive treatment of a vital subject and will remain so long after this presidency.

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The talking cure

Rachel Cusk experiments with new ways to tell stories

“Kudos” is the final part of an exhilarating trilogy

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Kudos. By Rachel Cusk. *Farrar, Straus and Giroux; 240 pages; $26. Faber & Faber; £16.99.*

THE protagonist of “Kudos”, the exhilarating finale of Rachel Cusk’s magnificently unclassifiable trilogy of novels, is once again a British writer named Faye. During the course of one of the many intense conversations and reflections of which the book is composed, she discusses author photographs with her publisher. The one adorning her last book is over 15 years old; the publisher relays another writer’s insistence on keeping the photo from an early novel, unrecognisable though it has become. “Why should her photograph be accurate?” the other, unnamed author argues. “The whole point of her profession, she said, was that it represented an escape from reality.”

In her writing Ms Cusk (pictured) pursues a reality of her own, which is often dauntingly bleak. Her trilogy is made up of virtuosic, morally discursive works that eschew narrative in favour of what, initially, appears to be a stream of introspection from a Greek chorus of characters. Their formal ambition is on a par with Karl Ove Knausgaard’s autobiographical “My Struggle” series, or Krzysztof Kieslowski’s impressionistic “Three Colours” films. Faye shares the elusiveness of Julie, the central figure in the first of those films, another woman forced to remake her life in the wake of a traumatic event.

In “Outline”, the first in Ms Cusk’s sequence, Faye is just divorced, on her way to teach a creative-writing course in Athens, having left her two sons with their father. In that book she is little more than a remote observer, a silhouette. “Transit”, which followed, saw her re-engage with the world, renovating a dilapidated apartment, dealing with aggressive neighbours, meeting lovers and friends. Now, in “Kudos”, her sons have grown up and left home, and Faye is once more travelling, this time to an unnamed European city for a literary festival. She has remarried, although like many details of her life, this fact is mentioned only once, obliquely.

The novel is set shortly after the Brexit referendum; unease and feelings of shock and statelessness are apparent among the people Faye meets. With her typical acerbic wit, Ms Cusk skewers the pretensions of the literary world while simultaneously upholding the intrinsic value of literature—no small feat. Most of her characters are awful yet sympathetic in their compulsive unburdenings. A strong undercurrent of violence lurks beneath their elaborate accounts of relationships ending, desire for freedom that turns out to be misconceived, and demanding or rivalrous children. One of Faye’s sons makes an emotional phone call to her towards the end of the book, a welcome affirmation of love in the midst of others’ seething despair.

“People enjoy combustion!” Faye’s world-weary publisher remarks of the tendency for culture to recycle old forms and ideas to the point of exhaustion. “It may be time itself”, he adds enigmatically, “that we are burning.” Readers of Ms Cusk’s novel, a daring bonfire of hypocrisies and emotions, will not be wasting theirs.

This article appeared in the Books and arts section of the print edition under the headline ”The talking cure”

A salmon’s lament

The secret life of fish

Helen Scales’s new book brings readers nose to snout with them

Print edition | Books and arts May 10th 2018

Eye of the Shoal: A Fishwatcher’s Guide to Life, the Ocean and Everything. By Helen Scales. *Bloomsbury Sigma; 320 pages; $27.00 and £16.99.*

THOSE who lack gills typically meet members of the ichthyic kingdom *à la meunière* or packed in oil. “So much of the brilliance of fish goes unseen and unknown,” says Helen Scales, a serendipitously named marine biologist. “They live hidden beneath the waves.” In “Eye of the Shoal”, Ms Scales, whose previous book, “Spirals in Time”, explored the world of seashells, brings readers nose to snout with fish *in situ*.

This, after all, is mostly their world. Water covers 70% of the planet. Fish, the most abundant and diverse of the vertebrates—there are 30,000 species—are one of the great evolutionary success stories. Some can withstand sub-zero polar waters (a natural anti-freeze in the blood of Arctic cod enables them to survive) or a 34°C pool in California’s Death Valley (home to the Devils Hole Pupfish). The Walking Catfish, faced with a shrinking pond, uses its front fins to amble over to safer waters. Torpedo-shaped tuna have retractable pectoral fins to lessen drag. Weaverfish, lionfish and stonefish deploy venomous spines to avoid becoming another fish’s dinner.

Colours provide camouflage—a Warty Frogfish adjusts its hue to blend into the background—or to signal a sex (flamboyance is typically a male attribute). There are deep-sea fish that flash, glow and shimmer to communicate, lure prey or illuminate their way. Most magical of all aquatic habitats is the coral reef, home to galaxies of fish in marzipan tones like the Lemonpeel Angelfish, or stunning patterns like the Picasso Triggerfish (pictured).

Alas, reefs are perishable, vulnerable to ocean acidification, overfishing and global warming, which provoke a chain of events that bleaches coral dead white. A World Wildlife Fund report predicts that, if not checked, global warming will lead reefs to disappear by 2050. Meanwhile, the United Nations Food and Agriculture Organisation estimates that nearly a third of commercial stocks are overfished. Ms Scales might have devoted more than a few pages of her engaging and informative bouillabaisse to these perils.

Do fish have feelings? Can they think? As evidence that they can, Ms Scales cites examples of cognition and tool use. Tusk fish open clams by smashing them against rocks; sharks have been taught to press a target for a reward of food. They seem to be able to feel pain, too. Farmed salmon exhibit symptoms of depression. The temperature of Zebrafish rises when they are confined in a small net.

Empathy for the plight of fish might not be so far-fetched. Consider *Tiktaalik*, one of the transitional species that made the long, slow leap from water to land some 375m years ago. Humans’ so-called “inner fish”—in the words of Neil Shubin, a palaeontologist at the University of Chicago and part of the team that discovered *Tiktaalik* in 2004—is reflected in the fossil’s finned lobes, which feature a bone structure analogous to human limbs. “Man still bears in his bodily frame the indelible stamp of his lowly origin,” Darwin wrote in “The Descent of Man”. People, in other words, may simply be fish out of water.

This article appeared in the Books and arts section of the print edition under the headline ”A salmon’s lament”

No ears for cryin’

The story of one of the last slaves imported to America

Zora Neale Hurston’s devastating “Barracoon” is finally being published

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Barracoon: The Story of the Last. By Zora Neale Hurston. *Amistad; 208 pages; $24.99. HQ; £12.99.*

MOBILE, Alabama, lies at the raggedy end of the American mainland, amid a boggy landscape of swamp and forest where five rivers empty into the sea. The air smells green, and secrets lurk in the creeks, rills and tree-shrouded coves. Buried somewhere in the muck of Mobile Bay is the burned wreck of the *Clotilda*—the last ship known to have brought slaves from Africa to America.

One of those slaves was named Kossula in Africa, but became Cudjo Lewis in Alabama. Over three months in late 1927 and early 1928 he was interviewed at his home by Zora Neale Hurston, who later won acclaim as a novelist. Cudjo was among the last survivors of the *Clotilda*, and thus among the last living Americans to have been transported as a slave. Hurston described their encounters and his life in a book, “Barracoon”. The name refers to the barracks in which captives were kept before their buyers took possession of them.

“Barracoon” is now being published for the first time. How it came to languish for decades in an archive, and its place in Hurston’s embattled writing career, are interesting stories in themselves. Because of its extraordinary circumstances, Cudjo’s own story is highly unusual among accounts of American slavery. It is also heartbreaking.

Grief so heavy

Almost all American slave narratives were composed by people born in the country, and thus contain no first-hand recollections of capture and transportation. Cudjo, who was enslaved as a teenager in 1859, recalls the calamity vividly.

In his and Hurston’s telling, soldiers from the Kingdom of Dahomey (present-day Benin) surround his town, beheading some prisoners, preserving others to sell. On the march to Dahomey he watches the murder of his king; he sees the soldiers smoking the heads of his countrymen. He calls out for his parents but—in a dialect that Hurston transcribes—he remembers that “de soldiers say dey got no ears for cryin’.” As he recounts the forced march, he falls silent. He “was no longer on the porch with me,” Hurston writes. “He was squatting about that fire in Dahomey…gazing into the dead faces in the smoke.”

After the raid Cudjo’s captors bring him to Ouidah, a town on the coast from which hundreds of thousands left in chains. There he sees white men and the ocean for the first time. He boards the *Clotilda* with victims from several other nations. After nearly two weeks at sea he is brought above decks: “We doan see nothin’ but water. Where we come from we doan know. Where we goin we doan know.”

The voyage took 70 days. Bill Foster, the *Clotilda*’s captain, scuttled her in Mobile Bay because in 1860, when she returned with her human cargo, importing slaves had been illegal for 52 years, and was theoretically punishable by hanging. Timothy Meaher, a prominent businessman, had reputedly bet that he could defy the ban, and financed the journey and the purchase. But federal officials got wind of the scheme, so on their return Foster towed the *Clotilda* up Mobile Bay in the dead of night, offloaded the 110 captives aboard onto a steamer, and torched the ship.

After they are smuggled into America, the Africans are separated again. “We cain help but cry…Our grief so heavy look lak we cain stand it. I think maybe I die in my sleep when I dream about my mama. Oh Lor’!” They joined the more than 45% of Alabama’s population who were enslaved.

Upon emancipation in 1865, at the end of the civil war, some of the slaves who have been pressed into the Meaher family’s service ask for land in recompense for their bondage. “Fool,” Meaher replies in “Barracoon”; “do you think I goin’ give you property on top of property?” So they pool their money and buy a plot of land. “We call our village Affican Town,” Cudjo explains, “‘cause we want to go back in de Affica soil and we see we cain go. Derefo’ we makee de Affica where dey fetch us.”

Africatown was among the hundreds of settlements across the South founded by freed slaves after the civil war. Hurston herself grew up in another (Eatonville, Florida). But it was the only one established by Africans, with living memories of their homeland, memories that haunt Cudjo and make “Barracoon” a devastating document of suffering and cruelty.

His trials continue after he is freed. He loses his daughter and all five of his sons. One is killed by a deputy sheriff, another by a train. His wife dies, too. He mentions his loneliness often, and sees Hurston as a lifeline to the wider world: “I want tellee somebody who I is, so maybe dey go in de Afficky soil some day and callee my name and somebody dere say, ‘Yeah, I know Kossula’.” On one of her last visits she asks to photograph him. Cudjo emerges from his house in his best suit, without shoes. “I want to look lak I in Affica,” he says, “‘cause dat where I want to be.”

Hurston submitted “Barracoon” to publishers in 1931. Two rejected it, and she withdrew it from a third, who asked that she rewrite Cudjo’s dialect. She declined, and the manuscript was put aside. But dialect was an essential element of all Hurston’s work. She trained as an ethnographer before embarking on a literary career, and was a first-rate listener who revelled in her subjects’ natural cadences. In Cudjo, himself a gifted storyteller and crafter of parables, she found an ideal interlocutor.

Not one word from the sold

There were some doubts—not unusual for biographies—about how much of “Barracoon” was Cudjo’s story and how much Hurston’s (a short article she had written about him earlier showed signs of plagiarism). She also drew criticism from her peers in the Harlem Renaissance because of her aversion to politics, particularly from Richard Wright, author of “Native Son” and at the time a dedicated communist. But in “Barracoon”, as in “Their Eyes Were Watching God”, a humane novel of black life in Florida that she published in 1937, her neutrality serves her well. It puts Cudjo’s voice, rather than her views, at the book’s heart. That was the point: “Of all the millions transported from Africa, only one man is left,” Hurston writes in her introduction. “All these words from the seller, but not one from the sold.”

Although Hurston continued writing and travelling throughout the 1930s and 1940s, her star waned. In 1950 she took a job as a maid in Miami. Ten years later she died and was buried in an unmarked grave. The writer Alice Walker began to restore her reputation in the mid-1970s; today “Their Eyes Were Watching God” is a mainstay of America’s school curriculum. “Barracoon” may belatedly become one as well.

For his part, Timothy Meaher escaped serious punishment for his crime. His family remained prominent in south Alabama. At the northern shore of Mobile Bay, in the vicinity of the *Clotilda*’s likely resting place, is Meaher State Park, named after a relative of the slaver.

As for Africatown, these days it is a proud but poor part of northern Mobile. The city annexed it in the 1950s, after two paper mills were built there, generating both tax revenue and toxic sludge. A neighbourhood called Lewis Quarters still runs between two lumberyards, leading to the Lewis homestead. Local legend says that the lumber firms tried to buy the family out, but they refused to leave.

Down a narrow side street stands the school that Cudjo founded; his family’s memorabilia sit in a private museum inside. Along bustling Africatown Road is the Baptist church he helped establish, which still throngs with worshippers on Sundays and has a bust of him out front.

Across the street is the modest graveyard where he and the other stolen Africans are buried. On Cudjo’s memorial stone visitors routinely place heads-up dimes, which locals hint has something to do with the Yoruba religion. The headstones on the Africans’ graves face east, looking toward a homeland they never returned to, and never forgot.

This article appeared in the Books and arts section of the print edition under the headline ”No ears for cryin’”

Johnson

To master a language, start learning it early

New evidence suggests a drop-off in results after the age of 17

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THOSE who want to learn a foreign language, or want their children to, often feel they are racing against the clock. People seem to get worse at languages as they age. Children often learn their first without any instruction, and can easily become multilingual with the right exposure. But the older people get, the harder it seems to be. Witness the rough edges on the grammar of many immigrants even after many years in their new countries.

Scientists mostly agree that children are better language learners, but do not know why. Some posit biological factors. Is it because young brains have an extreme kind of plasticity? Or, as Steven Pinker, a Harvard psychologist, argues, an instinct for language-learning specifically, which fades as the brain ages and (in evolutionary terms) is no longer needed? Others think children have special environments and incentives, not more conducive brains. They have a strong motivation to communicate with caregivers and imitate peers, and are not afraid of making mistakes in the way adults are.

Some believe any "critical period" may only apply to the sounds of a foreign tongue. Adults struggle with accents: eight decades after immigrating to America and four after serving as secretary of state, Henry Kissinger still sounds fresh off the boat from Fürth—in what is nevertheless elaborately accurate English. (An alternative explanation, runs a joke about Mr Kissinger, is that he never listens.)

But grammar is different, and some researchers have reckoned that adults, with their greater reasoning powers, are not really at a disadvantage relative to children. One study found that when adults and children are exposed to the same teaching materials for a new language for several months, the adults actually do better. Most such research has had to rely on small numbers of subjects, given the difficulty of recruiting them; it is hard to know how meaningful the results are.

Now a large new study led by Joshua Hartshorne of Boston College (with Mr Pinker and Joshua Tenenbaum as co-authors) has buttressed the critical-period hypothesis. The study ingeniously recruited 670,000 online test-takers by framing the exercise as a quiz that would guess the participants' native language or dialect. This made it a viral hit. The real point was to test English-learners' knowledge of tricky bits of grammar, and to see how this correlates with the age at which their studies began.

Do younger beginners do better because their earlier start gave them more learning time, or because they learned faster in early years? It can be hard to tease apart these two questions. But testing a huge amount of data against a number of possible learning curves allowed Mr Hartshorne to do precisely that. Many previous researchers had posited a drop-off at around puberty. The new study found it to be rather later, just after 17.

Despite that later cut-off, learners must begin at around ten if they are to get to near-native fluency. If they start at, say, 14, they cannot accumulate enough expertise in the critical period. Unfortunately, 14 or so is precisely when many students, especially in America, are first introduced to a new language. (Even worse, this is an age when children are acutely sensitive to embarrassment in front of peers.)

Children who start at five don't do noticeably better than those who start at ten over their lifetimes. But there is still reason to begin in the first years of school, as in Denmark and Sweden. Because mastery takes a long time—perhaps 30 years until improvement ceases—those who begin at five and are obliged to read and write English at university will by then have made much more progress than those who took the plunge at ten, even if their level is roughly the same by 40.

The existence of the critical period is not a reason for anyone 11 or older to give up. Some people remain excellent language students into adulthood. And Mr Hartshorne tested some truly subtle features of grammar that take years to master. A language learned even to a lower level can still be extraordinarily useful at work or enjoyable while travelling.

But for policymakers, the implication is clear. Earlier is better. Students outside the English-speaking world will eventually face English in the classroom or at work: they'll have a better shot if they start younger. As for the Anglophone countries, getting foreign languages into the tender years is a hard sell. Many bureaucrats can hardly see past reading and maths. That is a mistake for many reasons. This study demonstrates one of them.

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Output, prices and jobs

Print edition | Economic and financial indicators May 10th 2018

Markets

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Trade, exchange rates, budget balances and interest rates

Print edition | Economic and financial indicators May 10th 2018

The Economist commodity-price index

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The Economist poll of forecasters, May averages

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Bassam Ghraoui
Of war and chocolate

Of war and chocolate

Bassam Ghraoui died on May 1st

Syria's premier chocolate-maker was 63

Print edition | Obituary May 10th 2018

BEFORE Damascus was associated with the tyranny of the Assads, father and son, it was known for roses and for the tiny perfumed apples that grew in Zabadani, to be sold in season in baskets made of paper. Long before Aleppo became a bombed-out ruin, it was famous for pistachios. And Ghouta, now a place of horror and chlorine gas, meant orchards of peaches, apricots, pears and almonds that supplied Damascus with sweetness.

From those peaches and apricots, picked when tiny, boiled in syrup and sun-dried, Bassam Ghraoui's workers made candied fruits so jewel-like that they were packed in silver boxes. Larger fruits were stuffed with Aleppian pistachios and dipped in dark chocolate. Almonds from Ghouta were ground and blended with chocolate for ganache, or flavoured with rose water to make marzipan roses. These sweets, especially the chocolate, were often rated the best in the world. Mr Ghraoui supplied the Queen of England and Jacques Chirac, when President of France. In his flagship shop in central Damascus (there were ten others), his prize certificates covered every wall. Smiling girls in uniforms picked out samples with silver tongs and wrapped everything in the orange paper that was the trademark of the house.

He was not seen often in the shop, for he was a businessman of wide interests, an immaculately tailored mover and shaker among the merchant classes of Damascus. It was more his style to attend the Salon du Chocolat in Paris, where his chocolate won the Prix Spécial d'Honneur in 2005, or the Chocolate Fashion Show in Moscow, where models appeared in chocolate-studded dresses. But when visitors came he would breeze with passionate energy through his factory in Ghouta, exulting in its world-class machinery. Switzerland and Belgium had nothing to compare with Syria's abundance. Apart from the cocoa, everything he used was local. His favourite worker was the aged Bilal, who after 60 years still shelled the walnuts picked two days before in the orchards all around.

Engineering was his first career, and he busied himself for years with industrial projects. The chocolate business was an act of homage to his father Sadek, who in 1931 had brought back chocolate samples from Paris and tested them on sceptical Syrians. The Ghraouis had been traders since 1805 in sugar, tea, coffee and dried fruits, building on an ancient Damascene tradition of supplying Silk Road camel-caravans with non-perishable sweets. Chocolates and desert heat seemed not to go together, but Sadek packed them in stylish boxes with silver scissors on top, and they caught on. A French chocolatier was hired for 12 years to teach his workforce. By the end of the 1930s Ghraoui chocolate was sold in Harrods.

Bassam inherited a liking for luxurious touches and a sense of chocolate as art: his boutiques gleamed with gold, glass and marble. He learned early, too, the perils of business in Syria. In 1961, when the country was in brief union with Egypt, Nasser nationalised its factories and trading companies, including his father's. In 1965 the Baath regime did the same. He remembered his mother crying; again, they had lost everything. For decades the business was reduced to one small shop in Damascus. Bassam's interest, always on a bigger scale, did not flower until 1996, when Syria began reopening to the world. Under him Ghraoui took off; by 2010, 60% of production was exported. Then, in 2011, war came.

Politics was not his domain. He neither resisted Bashar al-Assad, nor felt the desire of many in the Damascene elite to cosy up to him. He simply hoped things would improve. They did not. Rebellious Ghouta felt the force of the president's anger: the orchards became a battleground, and nothing grew on blasted trees. The factory was destroyed, trade dried up; the main shop limped on, selling chocolates only for cash. On a trip to Paris in 2012, Mr Ghraoui and his wife Rania decided not to go home.

To leave Syria was heartbreaking. He could justify it only by persuading himself that it would save the business and the name. In 2015 he decided he would settle in Hungary, where he had gone as an engineer to look at cooling systems for power stations. The family moved to Budapest and soon opened a shop on Andrassy Avenue, beside the opera house. A huge factory was planned, with 540 workers.

Cardamom and cinnamon

He had taken citizenship and, if anyone asked, said he was Hungarian. He did not speak the language, but would if given time. This country was now to be his "chocolate empire". Special lines were devised for his new clientele: a milk-chocolate "Coeur de Budapest", and hand-painted pralines as a tribute to Queen Sisi of Austria-Hungary. He dreamed of outlets all over western Europe and in Asia before he died, and was buried, in exile.

His flagship shop was inspired by a Cartier boutique in Paris, and was by the same designer. But Hungarians were puzzled by it. The gilt and marble suggested a palace of chocolate of the usual kind. But those scents of cardamom and cinnamon, those trays of glistening candied fruits, recalled the markets in Damascus, as Mr Ghraoui had also insisted. And the extraordinary peaches and roses that rioted on the walls were surely never seen in a Hungarian chocolate shop; only in the gardens of Damascus, and the orchards of Ghouta.

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