

# The Economist

Brassed off with Donald Trump

China's forgotten migrant workers

Pushing the limits of luxury

Alibaba's Amazon envy

NOVEMBER 30TH-DECEMBER 6TH 2019

# Inequality illusions

Why wealth and income gaps are not what they appear



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# The world this week

Politics this week

## Politics this week

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AP

Opposition candidates won a stunning victory in **Hong Kong's** local elections, a result that activists claimed as an endorsement of protesters' demands for full democracy. A record turnout saw 3m voters go to the polls. Carrie Lam, the territory's beleaguered leader, promised to "seriously reflect" on the outcome. China warned America of "firm counter-measures" in response to Donald Trump's signing of two bills showing support for democracy in Hong Kong. See [article](#).

**China** has 276 embassies and other diplomatic offices, more than any other country, according to the Lowy Institute, a think-tank. It passed America, which has 273, this year. France, Japan and Russia took the next three spots on the list.

The BJP chief minister of Maharashtra, **India's** second-most-populous state, resigned after holding office for just three days, when the supreme court said he must face a vote of confidence. He had, in effect, been installed in the job by the national BJP-led government in Delhi following a contentious election in October and political shenanigans to form a coalition. See [article](#)

### Next in line

Trade unions and student groups have led large protests and two national strikes in **Colombia**. Their complaints include proposals by the government to raise the pension age and the slow implementation of a peace deal with the FARC guerrilla group. A student was killed by a tear-gas canister, increasing the anger.

Luis Lacalle Pou, a candidate of the centre-right, apparently won **Uruguay's** presidential election. His narrow victory, if confirmed by the country's electoral court, will end 15 years of rule by the centre-left Broad Front coalition. Mr Lacalle Pou has promised to fight crime and slash the government's large deficit.

### Oh dear, Jeremy Corbyn

**Britain's** chief rabbi, Ephraim Mirvis, expressed concerns about what a Labour government led by Jeremy Corbyn might mean for Jewish people. He said the party's claim that it had investigated every allegation of anti-Semitism among its members was a "mendacious fiction". In a TV interview Mr Corbyn repeatedly failed to apologise for his failure to deal with the problem. See [article](#).

Britain's political parties published their **manifestos** for the forthcoming election. Labour promised an additional £83bn (\$107bn) of day-to-day spending by 2024 (around 4% of GDP). The Liberal Democrats would have a surplus, despite splashing out

more than £50bn a year. The Tories were the stingiest, promising just an additional £3bn. All parties would take government spending to over 40% of GDP, reversing a decade-long trend of shrinking the state. See [article](#).

**Malta** was rocked by a spate of high-level resignations, two years after the murder of a journalist who had been investigating corruption on the island. The tourism and economy ministers stood down. The prime minister's chief of staff was arrested. See [article](#).

The European Parliament voted to confirm the new **European Commission**, which will now take office under its president, Ursula von der Leyen. Britain declined to nominate a commissioner, but the process moved ahead anyway. See [article](#).

### Clinging on

**Israel's** prime minister, Binyamin Netanyahu, faced a challenge to his leadership after being charged with bribery, fraud and breach of trust in three corruption cases. Mr Netanyahu called the indictment an "attempted coup". But Gideon Saar, a high-ranking member of Mr Netanyahu's own Likud party, said the prime minister should go. See [article](#).

The authorities in **Egypt** raided the offices of *Mada Masr*, the last big independent media voice in the country. Since taking power in a coup in 2013, President Abdel-Fattah al-Sisi has cracked down on dissent and free speech. *Mada Masr*, an online publication, had recently published an article criticising Mr Sisi's son, who is a senior intelligence official. See [article](#).

Several people, including health workers combating the Ebola virus, were killed in protests in the **Democratic Republic of Congo** amid rising public anger directed at the UN's peacekeeping mission over its inability to protect civilians from Islamist rebels. Their latest attack killed at least 19 people.

**Tanzania's** ruling party won 99% of the seats it contested in local elections that were boycotted by the opposition, which accused the government of manipulation. The local poll is a worrying prelude to national elections next year. The government has locked up members of the opposition and journalists.

A collision between two helicopters in **Mali** killed 13 **French** troops fighting jihadists in the Sahel. The incident was the single biggest loss of life suffered by the French armed forces since the 1980s.

### Money can't buy you love

**Michael Bloomberg** belatedly entered the race to be the Democrats' presidential candidate, joining a contest that has been hostile to billionaires. He spent \$31m on TV ads in just one week, a record. Although Mr Bloomberg has toyed with running for president before, this is his first official campaign. He is pursuing a risky strategy, not campaigning in the early primary states in order to focus on delegate-rich Super Tuesday in March. See [article](#).

The Trump administration ousted **the secretary of the navy**, Richard Spencer, in a row over a navy SEAL who had been convicted of taking a picture next to a dead jihadist in Iraq and threatened with expulsion from the service. Ostensibly, Mr Spencer was fired for not telling Mark Esper, the defence secretary, about his dealings with the White House. But the top brass are furious with Donald Trump for reinstating the disgraced SEAL's rank. See [article](#).

A federal judge ruled that senior advisers to Mr Trump must comply with **subpoenas** issued by committees conducting an impeachment inquiry into the president, and ordered Don McGahn, a former White House counsel, to testify to Congress. "Presidents are not kings," said the judge. The administration is to appeal against the ruling. See [article](#).

## Business this week

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In the biggest-ever takeover in the luxury-goods industry, LVMH, a French global conglomerate, announced its acquisition of **Tiffany**, an American jeweller founded in 1837 and known for its flagship store on Fifth Avenue in New York. LVMH is paying \$16.9bn, more than the roughly \$14.5bn that was suggested when the transaction was first mooted in late October. The deal represents a success for Bernard Arnault, LVMH's boss and controlling shareholder, who had courted Tiffany for some time. See [article](#).

### The magic trick

The flotation of **Alibaba's** shares on the Hong Kong stockmarket raised \$11.2bn, making it the most valuable share offering this year, ahead of the \$8.1bn that Uber raked in at its IPO in May. The stock rose by 6.6% on the first day of trading in what is a secondary listing in Alibaba. Its shares are also listed in New York. See [article](#).

**Uber** lost its licence to operate in London, again. The ride-hailing company has 45,000 drivers in the city, one of its biggest markets. London's transport regulator raised more concerns about safety, including 14,000 fraudulent trips by unauthorised drivers. Uber is appealing against the decision and can continue to operate while it does so. See [article](#).

The chief executive of **Westpac** resigned and the chairman said he would step down next year, as Australia's second-largest bank faced mounting criticism about its response to a money-laundering scandal. A regulator has accused Westpac of failing to monitor more than 23m suspect transactions, some of which enabled child exploitation in the Philippines. The bank has found itself in politicians' cross-hairs. Australia's treasurer said it had been indifferent to the scandal; the attorney-general noted that it was an "unbelievably serious" matter. Westpac has reportedly cancelled its Christmas party.

**Charles Schwab**, America's biggest discount broker, struck a \$26bn deal to acquire **td Ameritrade**, a rival. The pair had recently been engaged in a price war, both ditching the transaction fees they charged customers. The combined group will have around \$5trn in client assets. See [article](#).

The **Brazilian real** fell to a new low against the dollar, after Brazil's finance minister said he was "not worried" about a strong greenback. The slide prompted a brief intervention by the central bank to prop up the currency. The country's current-account deficit has risen sharply this year, and interest rates have tumbled.

**Google** reportedly fired four employees who had been active in organising protests at the company and had apparently tried to gain access to private internal documents. The tech giant pioneered an office culture that mixes politics with work, which it may now regret. Vocal staff have pressed management to drop an AI contract for the Pentagon and have walked out over sexual harassment and a search-engine project for the Chinese government. Their latest gripe is Google's work for immigration enforcement. Google has told employees to tone it down and reduced staff meetings to one a month.

In an effort to boost profits and its feeble share price, **Telefónica** announced a plan to hive off its operations in Spanish-speaking Latin America and focus on its core markets in Spain, Brazil, Germany and Britain, where it brands itself as O2. The telecoms group also wants to expand its business in the internet of things and cloud computing.

On the lookout for new superdrugs that will replenish its portfolio, **Novartis** offered to buy **The Medicines Company** for \$9.7bn. TMC's crown jewel is inclisiran, a treatment that has been found to be highly effective in drug trials at reducing "bad" cholesterol, and which a patient needs to inject only twice a year. See [article](#).

America's Federal Aviation Administration said it alone would inspect the **737 MAX** before it is returned to service, relieving Boeing of the exercise and signalling that it will sign off each jet individually. That could potentially extend the time frame that Boeing has in mind for resuming deliveries of the grounded aircraft to airlines.



AP

**Tesla's** share price struggled to recover from the drubbing it took after an unforeseen event at the launch of its new Cybertruck, which has been described as a cross between a futuristic car from "Blade Runner" and a SpongeBob SquarePants character. The vehicle's supposedly armoured-glass windows shattered when a steel ball was hurled at them during a demonstration. "Maybe that was a little too hard," said a startled Elon Musk, Tesla's boss.

### **Sedol, going, gone**

Lee Sedol, a Go champion, who in 2016 lost a celebrated match against AlphaGo, an **artificial-intelligence** program, announced his retirement. AI programs now compete in tournaments. Mr Lee reflected: "Even if I become number one, there is an entity that cannot be defeated."

## KAL's cartoon

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Economist.com

Kal

## Egalitarianism

Inequality illusions

### Egalitarianism

## Inequality could be lower than you think

*But there is plenty to do to make economies fairer*

[Print](#) | Leaders Nov 28th 2019



John Holcroft

EVEN IN A world of polarisation, fake news and social media, some beliefs remain universal, and central to today's politics. None is more influential than the idea that inequality has risen in the rich world. People read about it in newspapers, hear about it from their politicians and feel it in their daily lives. This belief motivates populists, who say selfish metropolitan elites have pulled the ladder of opportunity away from ordinary people. It has given succour to the left, who propose ever more radical ways to redistribute wealth (see [article](#)). And it has caused alarm among business people, many of whom now claim to pursue a higher social purpose, lest they be seen to subscribe to a model of capitalism that everyone knows has failed.

In many ways the failure is real. Opportunities are restricted. The cost of university education in America has spiralled beyond the reach of many families. Across the rich world, as rents and house prices have soared, it has become harder to afford to live in the successful cities which contain the most jobs (see [Free exchange](#)). Meanwhile, the rusting away of old industries has concentrated poverty in particular cities and towns, creating highly visible pockets of deprivation. By some measures inequalities in health and life expectancy are getting worse.

Yet precisely because the idea of soaring inequality has become an almost universally held belief, it receives too little scrutiny. That is a mistake, because the four empirical pillars upon which the temple rests—which are not about housing or geography, but income and wealth—are not as firm as you might think. As our [briefing](#) this week explains, these four pillars are being shaken by new research.

Consider, first, the claim that the top 1% of earners have become detached from everyone else in recent decades, which took hold after the “Occupy Wall Street” movement in 2011. This was always hard to prove outside America. In Britain the share of income of the top 1% is no higher than in the mid-1990s, after adjusting for taxes and government transfers. And even in America, official data suggest that the same measure rose until 2000 and since then has been volatile around a flat trend. It is easily forgotten that America has put in place several policies in recent decades that have cut inequality, such as the expansion of Medicaid, government-funded health insurance for the poor, in 2014.

Now some economists have re-crunched the numbers and concluded that the income share of the top 1% in America may have been little changed since as long ago as 1960. They argue that earlier researchers mishandled the tax-return data that yield estimates of inequality. Previous results may also have failed to account for falling marriage rates among the poor, which divide income around more households—but not more people. And a bigger chunk of corporate profits may flow to middle-class people than previously realised, because they own shares through pension funds. In 1960 retirement accounts owned just 4% of American shares; by 2015 the figure was 50%.

The second wobbly pillar is the related claim that household incomes and wages have stagnated in the long term. Estimates of inflation-adjusted median-income growth in America in 1979-2014 range from a fall of 8% to an increase of 51%, and partisans tend to cherry-pick a figure that tells a convenient story. The huge variation reflects differences in how you treat inflation, government transfers and the definition of a household, but the lowest figures are hard to believe. If you argue that income has shrunk you also have to claim that four decades' worth of innovation in goods and services, from mobile phones and video streaming to cholesterol-lowering statins, have not improved middle-earners' lives. That is simply not credible.

Third is the notion that capital has triumphed over labour as ruthless businesses, owned by the rich, have exploited their workers, moved jobs offshore and automated factories. The claim that inequality is being driven by the rich accumulating capital was a central thesis of Thomas Piketty's book, "Capital in the Twenty-First Century", which in 2014 made him the first rock-star economist since Milton Friedman improbably filled auditoriums in the 1980s. Not all Mr Piketty's theories caught on among economists, but it is widely assumed that a falling share of the rich world's GDP has been going to workers and a rising share to investors. After a decade of soaring stock prices, this has some resonance with the public.

Recent research, however, suggests that the decline in labour's fortunes is explained in most rich countries by exorbitant returns to homeowners, not tycoons. Strip out housing and the earnings of the self-employed (which are hard to divide between capital and labour income), and in most countries labour shares have not fallen. America since 2000 is an exception. But that reflects a failure of regulation, not a fundamental flaw in capitalism. American antitrust regulators and courts have been unforgivably lax, allowing some industries to become too concentrated. This has enabled some firms to gouge their customers and book abnormally high profits.

The last pillar is that inequalities of wealth—the assets people own, minus their liabilities—have been soaring. Again, this has always been harder to prove in Europe than America. In Denmark, one of the few places with detailed data, the wealth share of the top 1% has not risen for three decades. By contrast, few deny that the richest Americans have sprinted ahead. But even here, wealth is fiendishly difficult to estimate.

### **Not so rich pickings**

The campaign of Elizabeth Warren, a Democratic presidential contender, reckons that the share of wealth owned by the richest 0.1% of Americans rose from 7% in 1978 to 22% in 2012. But a plausible recent estimate suggests that the rise is only half as big as this. (For connoisseurs, the difference rests on the factor by which you scale up investors' wealth from the capital income they report to the taxman.) This imprecision is a problem for politicians, including Ms Warren and Bernie Sanders, who want wealth taxes, since they may raise less revenue than they expect.

The fact that dubious claims are made about inequality does not reduce the urgency of tackling economic injustice. But it does call for ensuring that the assumptions on which policies are based are accurate. Those, like Britain's Labour Party, who favour the radical redistribution of income and wealth ought to be sure that inequality is as high as they think it is—especially when their policies bring knock-on costs such as deterring risk-taking and investment. By one estimate, Ms Warren's wealth tax would leave America's economy 2% smaller after a decade.

Until these debates are resolved, it would be better for policymakers to stick to more solid ground. The rich world's housing markets are starving young workers of cash and opportunity; more building is needed in the places that offer attractive jobs. America's economy needs a revolution in antitrust enforcement to reinvigorate competition. And regardless of trends in inequality, too many high-income workers, including doctors, lawyers and bankers, are protected from competition by needless regulation and licensing, and senseless restrictions on high-skilled immigration, both of which should be loosened.

Such an agenda would require governments to take on NIMBYs and corporate lobbies. But it would reduce inequality and boost growth. And its benefits do not depend on a set of beliefs about income and wealth that could yet turn out to be wrong.

Democracy and the internet

## How to police political advertising

*Lawmakers, not tech bosses, should take the lead*

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Dave Simonds

THE NEW YORK TIMES noted in 1859 that the telegraph was doing a lot to clean up politics. “The telegraph gives the speaker in the furthest East or West an audience as wide as the Union,” it wrote. That made it harder for politicians to promise to relax drinking laws in one city and impose Prohibition in another.

A century and a half later the internet, the telegraph’s distant descendant, has once again transformed politics. Social networks have become the platforms of choice for politicians hoping to get their messages out and to give their opponents a kicking. The results can be seen in both the American and British elections. Online advertising, modest a decade ago, now accounts for around half the total.

This time there is less happiness about the results. Elizabeth Warren, a contender for America’s presidency, has accused Facebook of “taking money to promote lies”, referring to the social network’s decision not to pass judgment on the content of the political ads it shows to its users. (To demonstrate her point, Ms Warren bought an ad stating, falsely, that Mark Zuckerberg, Facebook’s boss, had endorsed Donald Trump for re-election.) In Britain the ruling Conservative Party has embraced disinformation. During a televised debate on November 19th, the party’s Twitter account rebranded itself as “factcheckUK”, in an attempt to present party-political talking-points as disinterested truth. All this is merely one part of a greater worry that the internet, far from being a benevolent source of useful information, has become a swamp of lies, misdirection and conspiracy theories that is harming politics.

Spooked—especially by the irritation of American politicians, who regulate them—some tech firms have changed their rules. Twitter is to ban nearly all political advertising. Google, which owns YouTube, says it will ban ads that make egregiously false claims, and restrict the precision with which political ads can be aimed at specific groups of people. For now, Facebook is sticking to its guns, saying it will not regulate political speech—though there are signs it is wavering (see [article](#)).

Mr Zuckerberg is an unpopular man these days. Yet in this case he is right. The rules of digital democracy should not be set by unaccountable bosses in the boardrooms of a handful of American firms—let alone, in future, Chinese ones. If politicians want to change the behaviour of candidates, the levers are in their hands. It is their job to make the laws under which everyone else—technology firms included—must operate.

Partisan rancour and short-term self-interest, particularly in America, may make that difficult. But history offers hope. Politicians have agreed in the past on whether and how to regulate other media technologies such as radio, television and newspapers. The rules created for analogue democracies offer a relatively uncontroversial starting-point for digital ones. In

America, for instance, the source of political television ads must be disclosed. The same should be true online. Facebook's decision to stand back looks more in keeping with the traditions of American democracy than Twitter's or Google's commitment to step in. Britain is much stricter. Political advertising is mostly banned on television and radio, with the exception of a limited number of tightly regulated "party-political broadcasts". Again, it is not clear why the rules for online videos should be more relaxed than those for pitches that appear on television.

New media offer new possibilities and hence raise new dangers. One is the ability to run "microtargeted" ads, aimed at small groups thought to be most receptive to their message. To the extent that it helps politicians deal with particular worries among voters, this can be beneficial. If abused, though, it could amplify exactly the sort of two-faced campaigning the telegraph was supposed to have banished.

It is too soon to limit microtargeting. Not only would it be hard to draw clear lines but, more important, politicians should be reluctant to ban each other's speech. As a first step, they should enforce transparency, ensuring that even narrowly targeted ads are available for anyone to examine. Rival politicians will have incentives to dig up evidence of foul play by their opponents, helping keep everyone honest. The tech giants are already making similar moves voluntarily. That could make it easier to convert them into legal requirements.

Another difference between old media and new is that the tech firms are planet-spanning in a way that newspapers and television never were. Democracy, though, remains a local affair. America and Britain have different traditions; those of France, Australia or India are different again. If governments decide to tighten the rules around online advertising—and perhaps attempt to drain the digital swamp more broadly—the result will be a profusion of local laws for the tech firms to comply with. That will be a burden, but it is the price of success. ■

A clarion call

## Hong Kong's elections were a rebuke to its government

*The chief executive, Carrie Lam, and her backers in Beijing must draw the right lesson*

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AP

DISTRICT ELECTIONS in Hong Kong are normally about rat control and bus routes. The polls on November 24th were a vote on Hong Kong's future as a liberal Chinese enclave. The question, in effect, was whether ordinary people support the government and its backers in Beijing in their illiberal methods. The answer was a resounding no. The turnout, of over 70%, was higher than any recorded in any kind of election in Hong Kong in which the public has a say (see [article](#)). Pro-democracy politicians almost swept the board.

For Hong Kong's leaders and China's Communist Party, this is a rebuke—compounded three days later when President Donald Trump signed into law a bill that supports Hong Kong's democracy. Irked by months of protests, but unwilling to use troops to crush the demonstrators, they had hoped ordinary Hong Kongers would turn against the black-clad pro-democracy protesters. The election result destroys that dream. The “silent majority” turns out to back the protesters' cause, despite the violent tactics of some.

In a true democracy a vote in which opposition candidates took control of 17 out of 18 councils, having previously held none, would end political careers. But Carrie Lam, Hong Kong's hugely unpopular chief executive, shows no inclination to give in to the protesters by stepping down. That is a pity. Even though Mrs Lam's successor would be chosen in effect by the Communist Party, a change of leader would allow both sides to draw a deep breath. Concessions are easier to make when they do not involve a climbdown by the person offering them. Mrs Lam has too much at stake.

Whoever leads Hong Kong has to seek the Communist Party's approval when making important decisions. So it is in Beijing that the next crucial steps for Hong Kong will be worked out. An obvious one would be to launch an independent inquiry into police conduct since the unrest began in June. This has long been one of the protesters' main demands—they allege that the police have been brutal, just as the police accuse the protesters of dangerous aggression. Mrs Lam has approved an investigation, but only by a body that tends to side with the government. She would not have to shift much to win a cheer from the streets.

The next, harder, step should be to restart a public debate about political reform. This was suspended in 2015 after pro-democracy legislators rejected a party-backed proposal that would have let the chief executive be chosen for the first time by popular vote, but from candidates picked by a committee stacked with the party's supporters. Were the offer revived, the democrats should consider it favourably. Such an arrangement, though far from ideal, would encourage chief-executive candidates to appeal to ordinary Hong Kongers. Sunday's elections show that voters would spurn a party yes-man.

Sadly, there is no sign that leaders in Beijing are contemplating any concessions. The Communist Party's media have depicted the district elections as unfair. They say pro-establishment politicians were intimidated by the "black terror" unleashed by protesters whom officials accuse of being trained and paid for by America and Britain. They point to the roughly 40% of voters who went for pro-government candidates, and say this suggests that many people are repulsed by the protest movement.

Some Hong Kongers are indeed sickened by the violence and fed up with the loss of business that the protests have caused. But disaster will follow if the party concludes that Hong Kong welcomes its relentless encroachment, or that it should never be trusted with democracy because votes can produce embarrassing results. The vote halted the unrest. China's leaders should seize the moment, not assume that the lull will last. ■

**The twilight of the WTO**

## The trading system's referee is about to leave the field

*Disputes are bound to get nastier*

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Alamy

ONE WAY of thinking about the world's trading system is as a sports match featuring a sprawling, brawling international cast of players, each with their own tactics and tricks. The game works best when there is a referee, and for nearly 25 years a group of seven judges at the World Trade Organisation (WTO) has done the job. But on December 11th this body will cease to function, because America is blocking new appointments to it. The referee's departure will make cross-border commerce unrulier and, in the long run, invite an anarchy that would make the world poorer.

The WTO's appellate body is one of those institutions that most people have never heard of, but which will be missed when it is gone. Set up in 1995, it hears appeals over trade disputes and grants the right to limited retaliation where there has been wrongdoing. Some 164 countries and territories follow its rulings, and the body has prevented some of the nastiest rows from spiralling into outright tariff wars—for example, the epic spat between America and the European Union over subsidies for Boeing and Airbus. Since it was created, it has been the enforcer-of-last-resort for over 500 cases (see [article](#)).

Before 1995 the system was less stable and less fair. The General Agreement on Tariffs and Trade, the WTO's predecessor, had rules but no judges to enforce them. Big countries had bullying rights. The legal clarity and independence provided by the appellate body is one reason why trade rose from 41% of world GDP in the year before it was created to 58% in 2017.

The immediate cause of the judges' downfall is the Trump administration's refusal to appoint new judges to replace those who are retiring, a symptom of the president's suspicion of multilateral institutions. But it is a mistake to blame everything on him. The WTO's troubles expose deeper problems.

Most countries like independent arbiters, until they suffer a critical ruling. American unease predates Mr Trump. The Bush and Obama administrations tried to influence outcomes by blocking the reappointment of judges. The WTO is also unwieldy. Ideally the rules would be updated every decade or so, giving countries a chance to modernise them and take on judgments they dislike. But the WTO's membership has doubled since 1995, and because each country has a veto it has been impossible to update the rules to reflect, say, the disruption caused by China's state-led model (it joined the WTO in 2001). Instead, grumbles have festered.

What happens from December 11th? Some WTO members are trying to concoct an unofficial appellate body, drawing on retired judges, to resolve disputes. A new president elected in 2020 might reverse America's stance, although several Democratic presidential contenders are lukewarm on free trade.

Most likely, the appellate body will die, or remain dormant for years. If so, expect a deterioration in conduct—Japan and South Korea are already in an ugly spat. Some Americans believe that their country's size gives them the raw clout to impose rules on others, but it has yet to wrest any big concessions from China.

Indeed, as the legal framework for trade decays, even America will be vulnerable to escalating tensions. So far, trade frictions have not caused a global recession. But trade has stopped growing and long-term investment by multinational firms dropped by 20% in the first half of this year. If there is a recession, the temptation of tit-for-tat tariffs will rise across the world. When the referee leaves the field, anything goes. ■

A bid for better batteries

## Power storage is the missing link in green-energy plans

*Why batteries are essential to fighting climate change*

Print | Leaders Nov 30th 2019

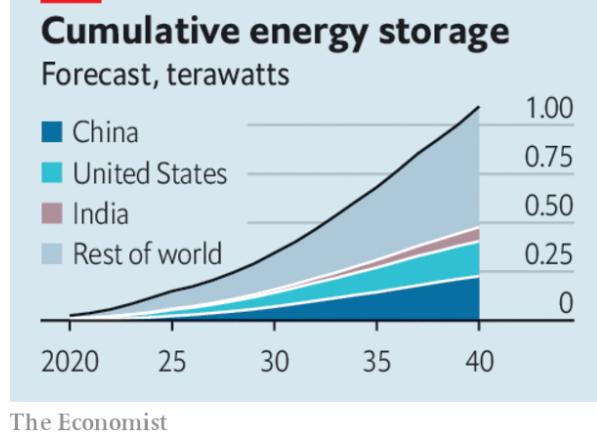


Getty Images

**S**OLAR AND wind power are the glamorous twins of the clean-electricity revolution. It is thrilling to see a field of glistening panels absorbing the sun's energy or a vast turbine twirling above the ocean. Stationary power storage does not have quite the same allure—think of a large metal shed stuffed with piles of big batteries. Nonetheless, the ability to stockpile energy on a massive scale will be of supreme importance if the world is to wean itself off filthy fossil-fuel power plants. The technology is gradually getting cheaper and attracting investment (see article). But more needs to be done to ensure that it sparks.

To see why storage is important, work backwards from the most common strategy to limit climate change. Plans typically reduce emissions from electricity generation by switching it away from fossil fuels, then electrify other carbon-belching activities, such as driving cars and heating buildings. Abundant, reliable, clean electricity is the foundation on which many green investments and policies rest. And to work well, clean electricity in turn depends on storage.

Nuclear plants could supply steady clean power, but they attract fierce opposition and are beset by cost overruns. Solar and wind are the fastest-growing alternatives. Today they account for 7% of global generation, twice the share in 2013. But the sun does not always shine and the wind may not blow. As the share of intermittent sources rises, so will demand for energy to offset swings in supply. In the short run, dirty coal and gas will have to provide flexibility. Eventually, however, storage must play that role, and the sooner the better. The aim is to capture solar and wind power when it is plentiful and release it as needed.



Today pumped hydropower is the most common way to store energy. When it is sunny or windy any excess electricity from solar and wind farms can be used to pump water uphill into reservoirs, to be released later to generate hydropower. But lots of places lack mountains, rain and room. Batteries are an alternative. They can smooth jumps and drops in supply and store renewable energy when it is abundant, as in California on a sunny afternoon, and then release it in the evening, when demand rises. They could transform big emerging markets that still plan to expand their use of fossil fuels. The International Energy Agency reckons that, excluding coal projects already planned, batteries have the potential to cut the number of coal plants built in India after 2030 by three-quarters.

If batteries are to realise their potential, they need to become cheaper and better. Progress is being made. Lithium-ion batteries have become 85% less expensive since 2010, as firms have poured capital into factories to mass-produce batteries for electric vehicles. Investment in storage capacity will hit about \$9bn next year, predicts BloombergNEF, a data firm, four times the level in 2017. But technical problems persist. For example, lithium-ion batteries are bad at storing energy for long periods, which is important in countries with rainy seasons. Happily, firms are experimenting ([see article](#)). Tycoons, including Jack Ma of Alibaba and Jeff Bezos of Amazon, have invested in startups that are pursuing energy storage using everything from novel battery designs to molten salt to pressurised water pumped underground.

For firms and capital markets to work their magic, a policy is needed—if only because, more than in other industries, the state sets the rules in power. Vested interests and out-of-date thinking lead to a bias against batteries. Last year America's energy department granted \$28m in research awards for long-term storage—a pittance compared with, say, the \$150m the country spent on a tax break for coal royalties. Many places offer subsidies or mandates for wind and solar power, but not for the storage it will depend on to work at its best.

All too often storage technologies do not enjoy the same access to power grids and customers as dirtier sources of power do. Last year America's federal electricity regulator ordered the country's regional power markets to be opened up to storage, but implementation has been sluggish. The shift to clean energy will not happen unless it can be more easily stored. It is time for a high-voltage jolt to help an essential technology thrive. ■

# Letters

## Letters to the editor

On diversity, Palm Beach, America's army, AI writers, meat, genes, Emmanuel Macron

On diversity, Palm Beach, America's army, AI writers, meat, genes, Emmanuel Macron

## Letters to the editor

*A selection of correspondence*

[Print](#) | [Letters](#) Nov 30th 2019

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



### All inclusive

The advice you gave to make companies more diverse did not mention people with disabilities, even once (“Diversity memo”, November 9th). As Diversish, a satirical campaign, puts it, “If disability is not on your agenda, neither is diversity.” Research shows that hiring people with disabilities confers the same kinds of benefits mentioned in your article: increased creativity and innovation, improved productivity, decreased staff turnover and improved job satisfaction. A report by Accenture in 2018 looked at 45 American firms that employed the disabled and found that they had higher revenues and profit margins and outperformed their peers in terms of shareholder returns.

Globally, one in seven people has a disability. Yet the employment rate for people with disabilities is only half of that for people without disabilities, and the gap is widening. Disability is seldom discussed in boardrooms and executives rarely or never discuss it in their workplace.

YAZMINE LAROCHE

Canada's deputy minister of public service accessibility

Ottawa

For a “Hard-headed guide to diversity”, you had very little to say on what targets are needed, or why. The supposed benefits to companies or the reduced groupthink are, as you admit, unconfirmed hypotheses. And you did not consider whether the skills and attitudes that businesses need are equally common in all target groups.

RASMUS FOGH

Cambridge, Cambridgeshire



Michael Kagdis

### Planting the seeds

In “The lap of luxury” ([November 9th](#)), Les Standiford attributed the rise of Palm Beach to the Florida East Coast Railway line, built at the start of the 20th century. Palm Beach’s beginnings go back a little further. Palms are not endemic to that part of America, but in January 1878, a 150-tonne Spanish brig, the *Providencia*, carrying a cargo of coconuts from the Caribbean to Spain, foundered soon after leaving Cuba. It finally ran aground on the Florida coast, spilling its cargo along the beach. Local residents feasted off the nuts, and then planted the hundreds that were left over, giving the area its palms and its name.

ROBIN LAURANCE  
*Oxford*



KAL

### Sugar-coated wars

America’s military is in many ways a self-licking ice-cream cone, and this exacerbates the problem of political accountability ([Lexington](#), [November 9th](#)). It serves functions separate from whether it wins or loses wars, or whether there is any clear

mission in the first place. Many see the armed forces as part of the social safety net, providing recruits with a sense of belonging, discipline and educational opportunities. Veterans serve as mascots for citizens, politicians and sometimes themselves, in order to validate the national civic culture and patriotism. Group identities require myths, myths require epic struggles and heroes.

A war's legitimacy and efficacy matter comparatively little. The marine corps' birthday message, promulgated by top brass in 2015, was: "You fight for the corps first...God may come second. Country can come third." How do you hold that kind of institutional self-idolisation accountable to any external criteria? Voter apathy is only part of the puzzle.

DAN BRENDL

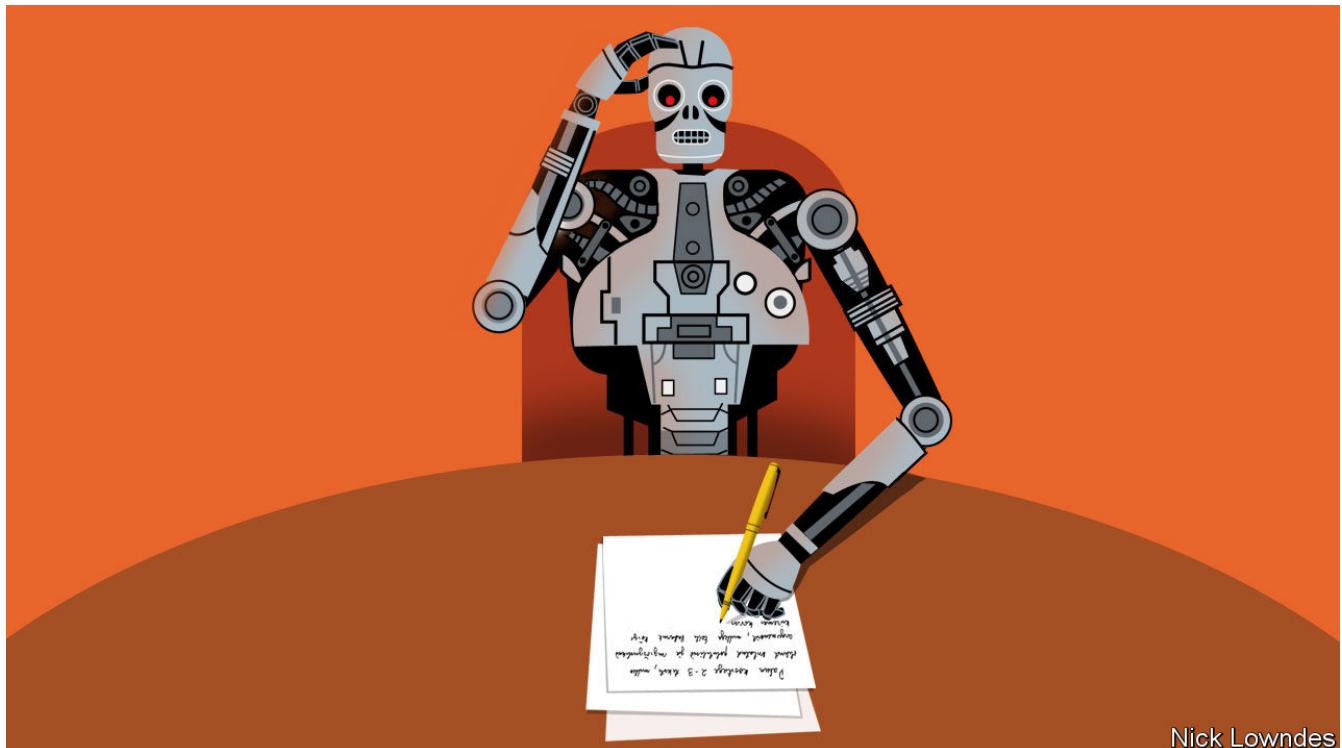
*Oceanside, California*

One way to re-establish citizens' links to the armed forces would be to require national service for all residents in the age range of the previous draft. This would apply to both sexes and could be in either the army or civilian service. The latter might involve programmes like Volunteers for America, the Peace Corps, AmeriCorps, and so on, as well as ideally, a reincarnation of the Civilian Conservation Corps from the 1930s. That programme made a significant impact on alleviating unemployment during the Depression and completed many infrastructure projects.

GREGORY FIRMAN

Captain, United States Naval Reserve (Ret.)

*Springfield, Massachusetts*



### Creative writing programs

In his column on computer-generated writing, Johnson took a jab at a favourite punch bag: post-modern academics in the humanities, and how they were fooled into accepting handwritten bogus papers in their journals ([November 2nd](#)). However, *Nature* reported in February 2014 how publishers had to withdraw "more than 120 gibberish papers" in the sciences. "Computer-generated papers" apparently found their way into 30 published conference proceedings between 2008 and 2013. Sixteen appeared in publications from Springer and more than 100 were published by the Institute of Electrical and Electronic Engineers. The works were generated by SCIGen, a computer program that three students at MIT created to generate fake computer-science papers.

As a computer scientist, I take a certain perverse pride that computers can clearly do a better job at generating bogus research papers than humans.

ERIC HAINES

*Somerville, Massachusetts*

Johnson claimed that artificial intelligence can't emulate creativity. This hasn't been my experience. I have used OpenAI's GPT-2 to interview hundreds of fake humans. Each "human" has something important to say about their unlived lives. True, these interviews had some human input; I edited and curated the content myself. But this isn't much different from how literature is delivered now. AI text generators produce a lot of meaningless dross, but so too do humans. In both cases we rely on humans to curate the prose that is worth reading. Artificial writers will occasionally say something poetic or insightful, and are worth reading even if they didn't emerge from a human brain.

JULIAN KOPLIN

### A meaty issue

\* I was dismayed to see your Daily chart on “How much would giving up meat help the environment?” (November 15th). The axes were distorted (from log to linear), and you removed a most concerning datapoint, for sugar-sweetened beverages, from the original that called the paper it referenced into question. The result was that the original figure’s message was distorted to more conveniently serve your headline. This is important, because the environmental impact of health-care use is significant (10% of greenhouse gases in the United States), and food choices that increase health-care use, such as sugary beverages, would mitigate any emissions savings from moving away from unprocessed foods, including meat. The health impact data that the original paper is based on has been largely called into question following the publication of the NutriRECS papers on October 1st. Finally, you did not question the original paper’s use of relative risk measures, versus absolute risk. Relative risk magnifies perceived harms and is often used when the actual increased risk of a behaviour is not as great.

I describe the changes in this graphic. I’d also like to point out that your chart discussion implies that dietary choices are the major determinant of personal emissions. They are not. Transportation and fossil fuel use are far more significant. To support this fact, another study has shown that the elimination of all animal agriculture from the United States would reduce greenhouse gases by 2.6 %, with the resulting widespread malnutrition.

DR TED EYTAN  
*Washington, DC*



### Macron's Balkan mess

Emmanuel Macron labelled Bosnia as Europe’s ticking time-bomb (“Emmanuel Macron in his own words”, November 7th). That is inflammatory, unfounded and hypocritical. Mr Macron forgets that France is the largest single source of European fighters in Iraq and Syria. Although there are Bosnians who have unfortunately made the same decision to fight, Bosnia has imprisoned the returning fighters. Mr Macron was behind the recent decision at the European Union to block membership talks with Albania and North Macedonia. His statements about Bosnia and the Balkans in general will only serve to increase disillusionment about the EU among the Balkan countries, and in turn further embolden bad actors in the region and other powers vying for influence, such as Russia, China and Turkey.

The Balkans may well be a problem on the EU’s doorstep, but not for the reasons Mr Macron highlights.

NEDIM BAZDAR  
*London*

Europe “is on the edge of a precipice,” says Mr Macron. In the 1960s the leader of then-communist Poland, Wladyslaw Gomulka, proudly announced on television that “A year ago we were on the edge of a precipice. Since then, we have made a great leap forward.”

JERRY CZARNECKI  
*La Habra, California*

*\* Letters appear online only*

## Inequality

Measuring the 1%

Measuring the 1%

### Economists are rethinking the numbers on inequality

*An academic disagreement has big real-world implications*

Print | Briefing Nov 28th 2019



The Economist/Getty Images

OVER A DECADE before thousands of protesters gathered in Zuccotti Park in New York in 2011, a little-known researcher in France sat down to write about income inequality in a new way. “The focus of our study consists in comparing the evolution of the incomes of the top 10%, the top 1%, the top 0.5%, and so on,” Thomas Piketty wrote in a paper in 1998. With his long-term co-author, Emmanuel Saez, Mr Piketty pioneered the use of tax data over survey data, thereby doing a better job of capturing the incomes of the richest. He revealed that “the 1%” had made out like bandits at the expense of “the 99%”. His research gave Occupy Wall Street its vocabulary.

What followed was an explosion of research into the causes and consequences of a surge in inequality across the rich world. In “Capital in the Twenty-First Century”, a bestseller first published in 2013, Mr Piketty argued that under capitalism rising inequality was the normal state of affairs.

Mr Piketty’s research, and more like it, became part of the political discourse in America and much of the West. Two leading candidates for the Democratic nomination for the American presidency, Elizabeth Warren and Bernie Sanders, have proposed taxes on wealth to tackle inequality—pledges cheered on by Mr Saez and Mr Piketty’s other co-author, Gabriel Zucman. In a new book, “Capital and Ideology” (currently available only in French) Mr Piketty calls for a 90% tax on wealth, such is the scale of the inequality crisis.

Many things have indeed gone wrong with contemporary capitalism. In many countries social mobility is falling; too many companies enjoy excessive market power; and housing is too pricey. All these factors and more also help explain why economic growth in the rich world is weak.

Yet just as ideas about inequality have completed their march from the academy to the frontlines of politics, researchers have begun to look again. And some are wondering whether inequality has in fact risen as much as claimed—or, by some measures, at all.

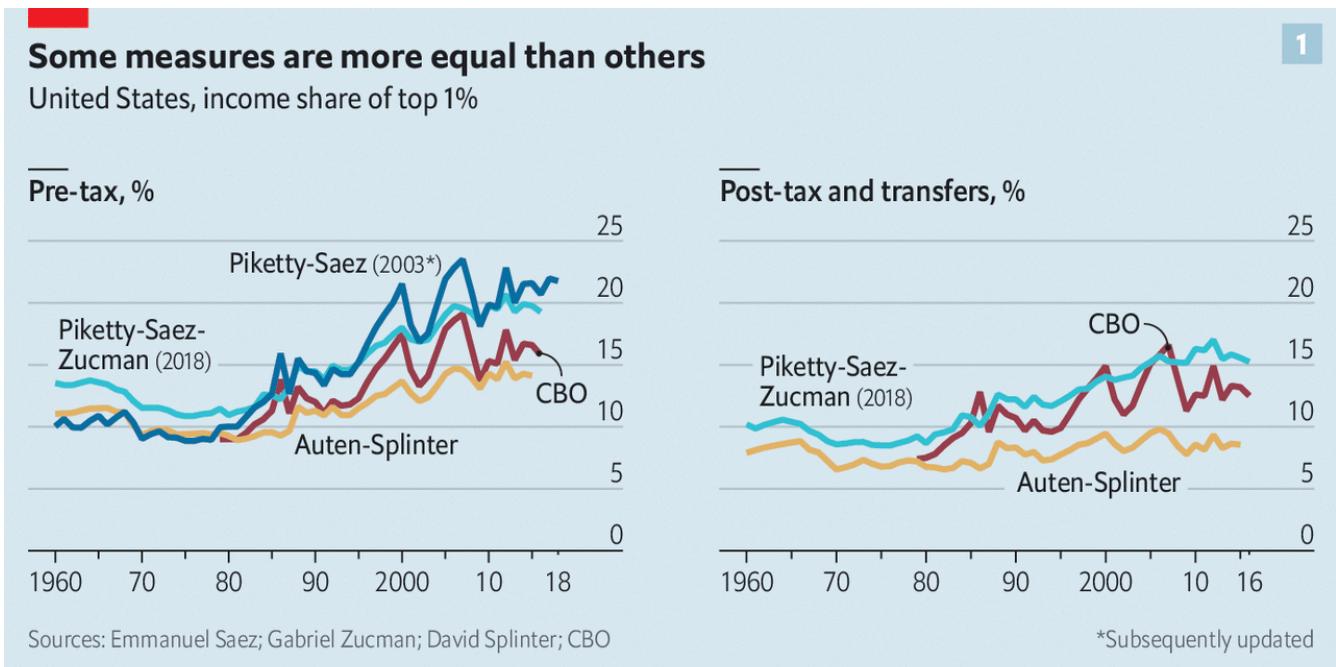
It is fiendishly complicated to calculate how much people earn in a year or the value of the assets under their control, and thus a country's level of income or wealth inequality. Some people fail to complete government surveys; others undercount income on their tax returns. And defining what counts as "income" is surprisingly difficult, as is valuing assets such as unquoted shares or artwork. Legions of academics, not to mention government officials and researchers in think-tanks, are devoted to unpicking these problems.

### Money, it's a gas

The conventional wisdom to have emerged from these efforts revolves around four main points. First, over a period of four to five decades the incomes of the top 1% have soared. Second, the incomes of middle-earners have stagnated. Third, wages have barely risen even though productivity has done so, meaning that an increasing share of GDP has gone to investors in the form of interest, dividends and capital gains, rather than to labour in the form of wages. Fourth, the rich have reinvested the fruits of their success, such that inequality of wealth (ie, the stock of assets less liabilities such as mortgage debt) has risen, too.

Each argument has always had its doubters. But they have grown in number as a series of new papers have called the existing estimates of inequality into question.

Start with top incomes. The idea that they have surged has always been shaky outside America. In Britain the share of after-tax income of the top 1% is no higher than it was in the mid-1990s. Across Europe the ratio of the post-tax income of the top 10% to that of the bottom 50% has changed remarkably little since the mid-1990s, according to Thomas Blanchet of the Paris School of Economics and his colleagues.



The Economist

In America the story seemed more solid, based on the analyses of tax data produced by the likes of Messrs Piketty, Saez and Zucman. However, a recent working paper by Gerald Auten and David Splinter, economists at the Treasury and Congress's Joint Committee on Taxation, respectively, reaches a striking new conclusion. It finds that, after adjusting for taxes and transfers, the income share of America's top 1% has barely changed since the 1960s (see chart 1).

They are not the first to have adjusted for taxes and transfers. America's Congressional Budget Office (CBO) does the same; its statistics show that top incomes rose a lot in the 1980s and 1990s. Typically, after-tax-and-transfer figures are greatly affected by the growing provision of means-tested health insurance. In 1997 the Children's Health Insurance Programme (CHIP) expanded federal funding for health insurance for many youngsters. In 2014 Barack Obama's health-care reform expanded eligibility for Medicaid, a health-insurance programme for the poor, in most states. According to the CBO's data, Medicaid and CHIP account for over 80% of the growth in real-terms means-tested transfers to poor households between 1979 and 2016.

Messrs Auten and Splinter's innovation is to correct step-by-step for what they say are a series of errors in the most famous existing inequality estimates. For instance, they change how people are ranked. Messrs Piketty and Saez's most influential paper, from 2003, was concerned with the top 1% of "tax units", typically meaning households who file their taxes on a single return. But this introduces a bias. Marriage rates have declined disproportionately among poorer Americans. That increases top-income shares by spreading the incomes of poorer workers over more households, even as the incomes of the top 1% of households remain pooled. Messrs Auten and Splinter therefore rank individuals.

Another correction concerns the tax reforms passed under Ronald Reagan in 1986. Apparent changes in top incomes around this reform account for about two-fifths of the total increase between 1962 and 2015 in the pre-tax incomes of the top 1% in Messrs Piketty and Saez's estimates. Messrs Auten and Splinter say this is an illusion. Reagan's tax reform created strong incentives for firms to operate as "pass-through" entities, where owners register profits as income on their tax returns, rather than sheltering this income inside corporations. Since these incentives did not exist before then, top-income shares before 1987 are liable to be understated.

Money inside corporations does eventually show up in Messrs Piketty and Saez's numbers—but possibly in the wrong years. As firms retain earnings (ie, do not pay out their profits as dividends), they become more valuable. When shares in those businesses subsequently change hands, the sellers must therefore report capital gains on their tax returns—something Messrs Piketty and Saez keep track of.

But capital gains also reflect the chosen timing of the seller and movements in the stockmarket, making them volatile. For these reasons, Messrs Auten and Splinter ignore capital gains and instead count corporations' retained earnings from year to year. They allocate those earnings to individuals, both before and after the 1986 tax reform, in proportion to their share holdings. And whereas taxable capital gains are concentrated among the rich, workers own lots of shares through their tax-free retirement accounts.

New methodology introduced by Messrs Piketty, Saez and Zucman in a paper last year ranks by individuals and replaces capital gains with retained corporate earnings. But it still finds the share of pre-tax income of the top 1% to have surged from about 12% in the early 1980s to 20% in 2014. That is because they count a wide array of new income sources. The new methodology tries to trace and allocate every dollar of GDP in order to produce “distributional national accounts”—a project that Mr Zucman hopes will eventually be taken over by government statisticians. It is a tricky exercise because two-fifths of GDP does not show up on individuals' tax returns. It is either deliberately left untaxed by government or illegally omitted from tax returns by those who file them.

Allocating this missing GDP to individuals is as much art as it is science (which is why Messrs Piketty and Saez's original, more conservative method remains influential). How to do it properly is the source of the most important disagreement between the two groups of economists.

One chunk of missing GDP is found in the pension system as retirement savings grow—often inside tax-free accounts. Broadly, both sets of economists agree that this income should be allocated to individuals in proportion to the size of their pension savings. But the distribution of those savings must itself be estimated.

Messrs Auten and Splinter say that while attempting this Messrs Piketty, Saez and Zucman mishandle the data. Their alleged error is to identify some flows as retirement income when in fact they are existing savings being shifted—or “rolled over”, in the jargon—between pension accounts. Mr Zucman told *The Economist* that this error does not in fact exist (and that he disagrees with all of Messrs Auten and Splinter's adjustments to his work).

### **Grab that cash with both hands**

Another chunk of GDP goes missing because of tax evasion. But the two sets of economists disagree about the identity of the perpetrators. Messrs Auten and Splinter rely on the leading study of tax evasion, which was written by Andrew Johns of the Internal Revenue Service (IRS) and Joel Slemrod of the University of Michigan in 2010. It uses the results of audits from the IRS to estimate tax evasion by income group. At first Messrs Piketty, Saez and Zucman alleged that these figures underestimate tax evasion by the rich, which they say is too sophisticated for IRS audits to catch. More recently they have written that it is in fact their methods that are most consistent with Messrs Johns and Slemrod's work. Other economists are generally unwilling to wade in to say who is right. Most just point out that allocating missing income is tricky. Mr Slemrod says he has not yet studied the disagreement.

In line with the prevailing theories on inequality, Messrs Auten and Splinter ultimately find that the top 1% share of pre-tax income has risen since the 1960s, though by less than other estimates.

But it is inequality in incomes after taxes and benefits that really conveys differences in living standards, and in which Messrs Auten and Splinter find little change. Some economists argue these figures are distorted by the inclusion of Medicaid. But it is hard to deny that the provision of free health care reduces inequality. The question is whether “non-cash benefits” should properly count as income.

### **Money, it's a hit**

Many of these debates also spill over into criticism of the second part of the conventional wisdom on inequality: that middle incomes have stagnated. Messrs Piketty, Saez and Zucman argue that the rising share of the top 1% of earners has come at the expense of the bottom 50%. It follows that if the top 1% have not done as well, someone else must have done better.

Sure enough, just as a wide range of estimates of inequality exist, so too is there an enormous variation in estimates of the long-term growth of middle incomes. A literature review by Stephen Rose of the Urban Institute, a think-tank, describes six possible figures for American real median income growth between 1979 and 2014, ranging from a fall of 8% using Messrs Piketty and Saez's methodology from 2003 to an increase of 51% using the CBO's.

The third part of the conventional thinking on inequality—that productivity growth has outstripped incomes—was a central thesis of Mr Piketty's bestseller. Indeed, it gave the book its title. He argued that at the top of the income distribution a new rentier class was emerging which made most of its money from investing or inheriting rather than working. That has seemed consistent with data across the rich world showing a rising share of GDP going to capital rather than to workers. But those data are also coming under increasing scrutiny.

Not long after the publication of “Capital in the Twenty-First Century”, Matthew Rognlie, now of Northwestern University, argued that the rise in America's capital share was accounted for by growing returns to housing, not by the shares and bonds which are held disproportionately by the top 1% of American households.

In another paper published in February, another group of economists examine sources of income among the top 1% of American earners. Much of their income comes from pass-through businesses, whose profits are easily mistaken for income from investments. But the authors—Matthew Smith of the Treasury, Danny Yagan of the University of California, Berkeley,

Owen Zidar of Princeton and Eric Zwick of the University of Chicago—find that the profits of pass-through firms fall by three-quarters after their owners retire or die, suggesting that most of the earnings depend on labour. Many doctors, lawyers and consultants run pass-through firms—people who should probably be considered self-employed. Including their income in the capital share overstates its rise.



The Economist

Lately economists have broadened these criticisms internationally. In a recent working paper, Gilbert Cette of the Bank of France, Thomas Philippon of New York University (NYU) and Lorraine Koehl of INSEE in France adjust for distortions in the data caused by self-employment and property income. They find that the labour share has declined in America since 2000, but that there has been no generalised decline among advanced economies. Another working paper by Germán Gutiérrez of NYU and Sophie Piton of the Bank of England finds the same thing (see chart 2).

The final and fourth part of the conventional wisdom to come under attack concerns wealth inequality, which has long been the most difficult type of inequality to judge. Measures of inequality of any kind tend to suffer from the fact that they do not track individuals, but slices of the population which are made up of different people at different points in time. For individuals a good predictor of high income growth in future is being poor, and vice versa, owing to the statistical phenomenon known as reversion to the mean.

For example, a study from 2013 by Mr Auten and his Treasury colleagues Geoffrey Gee and Nicholas Turner tracked the incomes of individuals who were aged 35-40 in 1987 over two decades. Median earners in the lowest quintile in 1987 saw their real income grow by 100% over that period, while median earners in the top quintile suffered a 5% fall. Of earners in the top 1% in 2002, fewer than half were in the top 1% five years later. According to research by Thomas Hirschl at Cornell University, 11% of Americans will join the top 1% for at least one year between the ages of 25 and 60.

### Keep your hands off my stack

With wealth inequality this compositional problem is turned up a notch. Wealth is accumulated as people save for retirement. That means it tends to increase with age, especially during careers, and many people can therefore expect to appear relatively wealthy, on a population-wide measure, at some point in their life. Moreover, the need for poorer individuals to save and accumulate wealth may be lessened by the provision of pensions or public services. That helps explain the puzzle of why socially democratic Sweden appears to have extremely high wealth inequality, and why hardly anyone there seems bothered by it (see article ).

A paper by Messrs Saez and Zucman published in 2016 finds that the wealth share of the top 0.1% of American households rose from 7% in 1978 to 22% in 2012, which is almost as high as it was in 1929. Messrs Saez and Zucman have used their estimates of wealth at the top to project how much revenue the annual wealth taxes proposed by Ms Warren and Mr Sanders would generate. Ms Warren's wealth tax originally kicked in on fortunes in excess of \$50m, and reached 3% on the wealthiest households, generating annual revenue worth 1% of GDP, they said. (Ms Warren has since doubled the top rate.)

That estimate has attracted substantial criticism. Messrs Saez and Zucman's paper has come under scrutiny, too. Their wealth estimates are reached in part by studying investment income on tax returns. Within a given category of income, such as equities or "fixed income" investments like bonds, they assume an average rate of return, and use it to impute individuals' wealth. For example, were the assumed return on an investment 5%, income would be multiplied by 20 to come to an estimate of the investment's size.

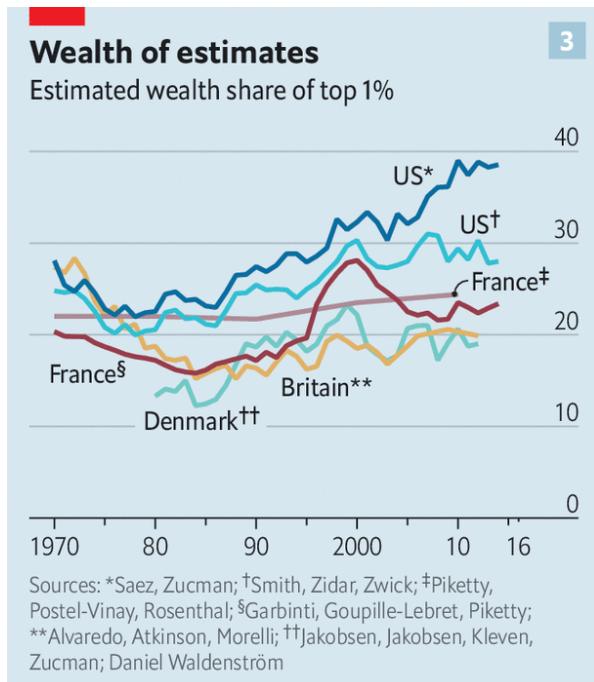
In a working paper Messrs Smith, Zidar and Zwick expand on this methodology. But they allow for more variation in the assumed rates of return. In particular they cite survey data showing that the returns earned on fixed-income investments differ substantially. For example the bottom 99% say they hold nearly 70% of their fixed-income wealth in bank deposits (which tend to pay little interest). But the figure for the top 0.1% is no more than one-fifth.

Those with the most fixed-income wealth are more likely to hold corporate bonds, which, because they are riskier, bring higher returns. A higher yield means researchers need to use a smaller number to multiply up to estimate wealth. When interest rates are low, as they have been in recent years, this can make a big difference. A return assumption of 1%, for example, generates an estimate of wealth that is only half as large as a return assumption of 0.5% (whereas a difference between 4.5% and 5% would matter much less).

Making this change, and also some other adjustments, such as to account properly for pass-through businesses, Messrs Smith, Zidar and Zwick construct a new ranking of households by wealth in which the share of the top 0.1% is only 15%. More significantly, they find that the rise in top wealth shares since 1980 falls by half. Messrs Saez and Zucman dispute their assumptions. But at the very least the debate shows how tricky it is to estimate wealth, and how sensitive estimates are to changes in assumptions about uncertain factors. And that makes the revenue that any wealth tax would raise equally uncertain.

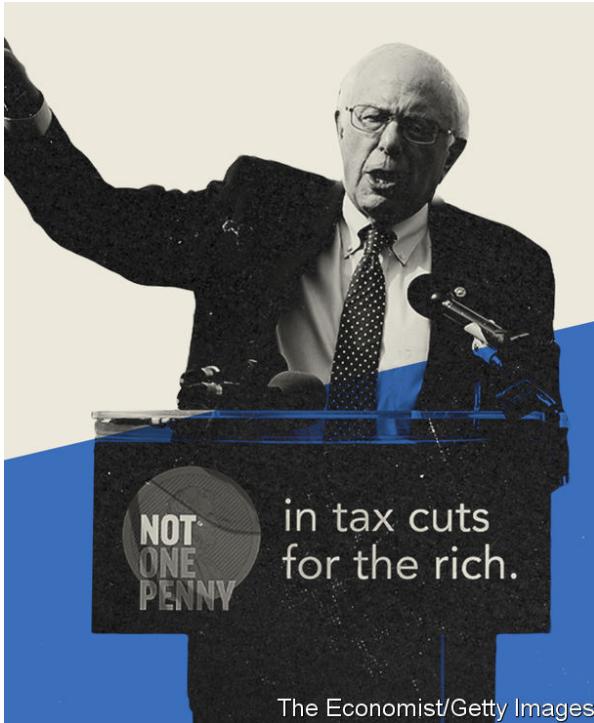
Few dispute that wealth shares at the top have risen in America, nor that the increase is driven by fortunes at the very top, among people who really can be considered an elite. The question, instead, is by just how much.

### **Don't take a slice of my pie**



The Economist

Internationally, the picture is murkier. According to Daniel Waldenström of the Research Institute of Industrial Economics, in Stockholm, good data on the distribution of wealth exist for only three countries beside America—Britain, Denmark and France. In these places it is difficult to discern any clear trends in inequality over the past few decades (see chart 3). One study from Katrine Jakobsen of the University of Copenhagen and co-authors (including Mr Zucman) finds that the wealth share of the top 1% in Denmark rose in the 1980s but has remained fairly constant since then. In France whether or not wealth inequality appears to be rising depends on whether you track capital income or inheritances, says Mr Waldenström.



The Economist/Getty Images

Will this flurry of new research change people's minds about inequality? That will depend, ultimately, on which scholars prevail as economists thrash out the various debates. There is plenty of room to improve the data, meaning Messrs Piketty, Saez and Zucman's critics may yet be proven wrong themselves. And even if inequality has not risen by as much as many people think, the gap between rich and poor could still be dispiritingly high.

While that long and bloody academic battle takes place it would be wise for policymakers to proceed cautiously. Proposals for much heavier taxes on high earners, or a tax on net wealth, or the far more radical plans outlined in Mr Piketty's latest book, are responses to a problem that is only partially understood. ■

The rich man's world

## In Sweden, billionaires are surprisingly popular

*The land of ABBA and Ikea has high wealth inequality*

[Print](#) | [Briefing](#) Nov 28th 2019



AFP

AS PERHAPS appropriate for the country which produced the song “Money, Money, Money”, Sweden has one billionaire for every 250,000 people, one of the highest rates in the world. It is also one of the world’s most unequal countries in terms of the distribution of wealth. An estimate from *The Economist* finds that the value of Swedish billionaires’ fortunes is equivalent to a quarter of the country’s annual GDP. Only in tax havens such as Cyprus or Monaco, or captured economies such as Russia or Georgia, are plutocrats more dominant.

Yet among ordinary Swedes, billionaires are surprisingly popular. “Only the royal family, Astrid Lindgren, Abba and Bjorn Borg could compete in popularity,” wrote one newspaper in 2018 on the death of Ingvar Kamprad, the founder of Ikea. Talk of levying harsh taxes on the wealthy is met with a shrug. “The debate that you have in America or Britain about taxing the super-rich just doesn’t exist here,” says Janerik Larsson of Timbro, a free-market think-tank.

The popularity of billionaires is partly owing to the perception that they have made their money not by exploiting ordinary Swedes, but by creating multinationals such as H&M, Volvo and Spotify. They are also relatively modest. Even on posh streets there are few fancy cars; rich people eat Smørrebrød in popular restaurants along with everybody else. Many rich families set up foundations to dispense vast sums to good causes. The offices of the Wallenberg Foundations, linked to one of Sweden’s most powerful dynasties, are in a nondescript building in Stockholm (though this week the family defended its bank amid allegations of money-laundering).

If surprisingly few Swedes hanker for punitive taxes on the rich, that is also because many have concluded that they do not work. Sweden introduced wealth taxation in 1911, followed by three big increases in 1934, 1948 and 1971. By the early 1980s Swedes with a household wealth of about \$600,000 (in today’s prices) faced a marginal tax rate of 4%. Combined with heavy taxation of income, the effective tax rate on investment exceeded 100% in some cases.

Despite these punitive rates, wealth taxation only made a minor contribution to Sweden’s generous welfare state—at most during the post-war period, it raised 0.4% of GDP. From the 1970s onwards its popularity waned. Kamprad fled to Switzerland in 1973; Hans Rausing, whose father founded Tetra Pak, a packaging firm (and who died earlier this year), escaped to Britain in the 1980s. By that decade “people could with impunity evade the tax,” argue Magnus Henrekson and Gunnar Du Rietz, two economists, not least because of the relaxation of foreign-exchange controls in 1989.

The inclusion of various exemptions—including the exemption of holdings of land and forest from 1991—increased the complexity of the administration of the tax. With bipartisan support, Sweden abolished the inheritance tax in 2005 and the wealth tax in 2007. Before long, Kamprad returned.

## Civil-military relations

Brassed off

Brassed off

### Donald Trump falls out with the military establishment he once wooed

*The controversy over a disgraced Navy SEAL highlights a wider crisis in civil-military relations*

[Print](#) | United States Nov 28th 2019



AFP

THE 45TH PRESIDENT began his term by packing his administration with military officers. Since then he has broken with the men he once called “my generals”. On November 15th Donald Trump pardoned two soldiers accused of war crimes and reversed the demotion of Eddie Gallagher, a Navy SEAL convicted in a military court of posing with a dead captive. When the navy sought to remove Mr Gallagher’s Trident pin, which marks out SEALs, Mr Trump ordered that he be allowed to keep it. Richard Spencer, the secretary of the navy, balked at this micromanagement of military justice and was soon fired (he was also accused of trying to cut a deal with the White House behind the back of his boss, Mark Esper). All this adds to the cocktail of civil-military dysfunction that has swirled since Mr Trump took office.

Mr Trump’s initial reliance on retired and serving officers to fill senior posts reflected a paucity of qualified civilians willing to serve him. But it was also an effort to cast a coveted military halo over his political agenda. Since Lyndon Johnson every administration has had at least one active or retired flag-rank officer (ie, a general or admiral) at cabinet or senior level, says Peter White of Auburn University. At his martial peak, Mr Trump had three—no more than Barack Obama. But that does not tell the whole story, says Mr White, because Mr Trump’s officers took roles almost always held by civilians.

His first defence secretary, James Mattis, was the first retired general to hold the post in nearly seven decades and required a congressional waiver to take the job. Mr Mattis was flaunted at Mr Trump’s side in the Pentagon’s Hall of Heroes when the president signed the so-called Muslim ban in January 2017. Michael Flynn, a retired general, and H.R. McMaster, an active one, also served as Mr Trump’s first two national security advisers, lending a veneer of normalcy to his anarchic foreign policy. And John Kelly, another retired general, cheered on Mr Trump’s border wall as secretary of homeland security, later becoming the president’s chief of staff.

Mr Trump’s enchantment with generals eventually soured. Mr Flynn left in disgrace in February 2017 and Mr McMaster departed in April 2018. Mr Mattis and Mr Kelly both resigned. In October this year Mr Trump belittled Mr Mattis as “the world’s most overrated general”. But his use of military top brass for political ends went beyond his enlistment of senior officers.

"Populism laps at the edges of military professionalism," notes Eliot Cohen of Johns Hopkins University. And so it has proved, with the president's involvement in Mr Gallagher's case being merely the latest example. Mr Trump's request for a grand military parade in Washington was widely viewed as a political stunt. In December 2018 he delivered a brazenly partisan speech to American troops in Iraq. "You're fighting for borders in other countries," he told the gathered soldiers, "and they don't want to fight, the Democrats, for the border of our country."

During Mr Trump's visit to Iraq, several soldiers brought their own "Make America Great Again" caps, which the president duly signed. A few months later, before a presidential trip to Japan, the White House demanded that the USS John McCain—a warship named after the late senator, whom Mr Trump had attacked in life and death—be kept "out of sight". A tarpaulin was thrown over the ship's name. Mr Trump later praised the "well meaning" officials who had anticipated his wishes.

Mr Trump's assault on civil-military norms has also provoked a backlash that may compound the problem. On October 17th William McRaven, a retired admiral who oversaw the raid against Osama bin Laden in 2011, wrote an op-ed that contrasted military virtues with Mr Trump's fecklessness, and urged Democrats and Republicans to replace the president. He quoted a retired four-star general as telling him: "I don't like the Democrats, but Trump is destroying the Republic!"

Mr McRaven's willingness to do what Mr Mattis and Mr McMaster would not—mount an attack on the moral fitness of the president using the authority of their former uniforms—was cheered by the president's critics. But it reflects a trend that many experts in civil-military relations find troubling: an increasing role for senior retired officers in electoral politics.

Military endorsements of presidential candidates were rare before the 1980s. But in 1988 P.X. Kelley, a former head of the marine corps, endorsed President George H.W. Bush. In 1992 William Crowe, a former chairman of the joint chiefs of staff, endorsed Bill Clinton. There followed an arms race of military endorsements that reached its grubby pinnacle in 2016, when Mr Flynn sided with Mr Trump, urging crowds to "lock up" Hillary Clinton, and John Allen, a general who headed the fight against Islamic State, backed Mrs Clinton.

Retired flag officers like Mr McRaven are largely free to do as they please, although they technically keep their commissions and remain subject to the Uniform Code of Military Justice, which restricts criticism of the president, notes Alice Hunt Friend of the Centre for Strategic and International Studies, a think-tank. But recent surveys conducted by Jim Golby, an active-duty army officer, and Peter Feaver, a professor at Duke University, suggest that the public cannot usually distinguish between serving and retired officers, so interventions by the latter colour perceptions of the former.

"It's been rare in US history that politicisation of veterans and retired military hasn't been quickly followed by the politicisation of serving officers," says Mr Golby. "It's really hard to hold the line. We've seen this at the founding, the Civil War era and during the Gilded Age." Infighting among veterans over the share of battlefield commands during a war with Mexico in 1846-48 culminated in Winfield Scott, an active-duty general, running for the presidency in 1852, for instance. Such politicisation is worrying. Not only does it undermine trust between political leaders and their military advisers, resulting in poorer decision-making, but the very perception of military disgruntlement or resistance is likely to erode confidence in the supremacy of elected civilian leaders.

What connects these threads is the unique popularity of the American armed forces. A Pew survey published in July showed that they were one of the most trusted groups in the country, second only to scientists: 83% of people expressed confidence in the armed forces, above public schools (80%), police officers (78%) or dastardly journalists (55%). But a forthcoming paper by Mr Golby and Mr Feaver shows that, if Republican and Democratic respondents are told that the military establishment favours the rival party, their confidence in it plummets.

In truth, the armed forces reflect broader attitudes: the highly educated officer corps dislikes Mr Trump, while 47% of the enlisted ranks, largely without college degrees, back him. But as the military services draw from an ever-narrower demographic pool—southern recruitment has soared over the past 40 years, while that from the north-east has plummeted—its attitudes could grow more unrepresentative. On top of that, Mr Trump's enthusiasm for pardoning convicted war criminals and the broader weaponisation of veterans by the president and his opponents risks bringing about a loss of confidence.

Since the end of the draft, public understanding of how the armed forces work has declined, with men in uniform sitting increasingly apart from society. The risk of politicising them has become poorly understood, says Kori Schake, a former Pentagon official who, together with Mr Mattis, wrote a well-regarded book on civil-military relations. A small consolation is that the republic has weathered worse. Leonard Wood, a serving army general, ran for president in uniform in 1920. Bill Clinton was openly jeered on his first visit to an aircraft carrier because of his perceived draft-dodging and effort to allow gays to serve openly. In 2007 left-wing groups ran ads attacking David Petraeus, a general who oversaw a successful surge of forces into Iraq, as "General Betray Us".

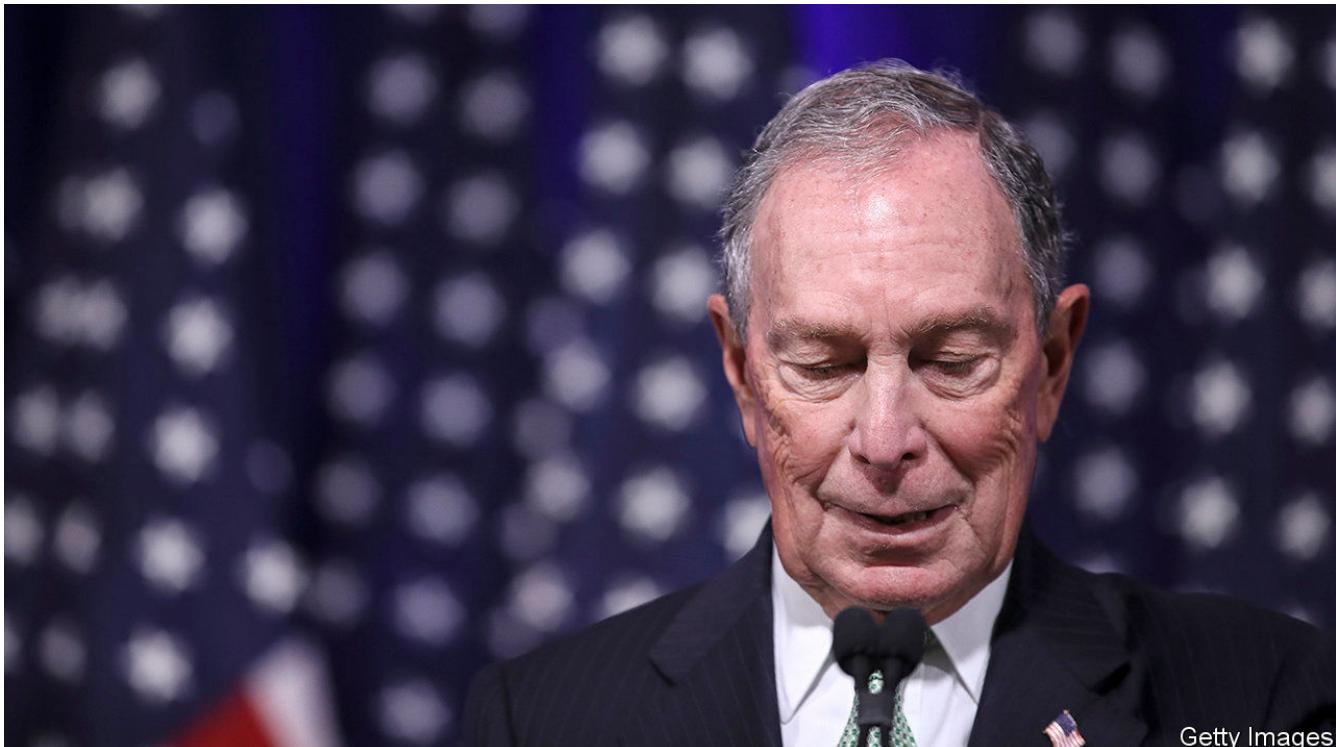
And whereas no-one doubted that Mr Trump could sack Messrs Flynn, Mattis, McMaster and Kelly at will, or that he has a right to make ill-advised decisions like the reinstatement of Mr Gallagher, this has not always been so clear. When Harry Truman decided to sack Douglas MacArthur, the top general in Korea, for insubordination in 1951, he worried about his ability to pull it off. Mr Truman would later convey a sentiment shared by many presidents: "I fired him because he wouldn't respect the authority of the president. I didn't fire him because he was a dumb son of a bitch, although he was, but that's not against the law for generals. If it was, half to three-quarters of them would be in jail." ■

For Bloom the polls toll

## Michael Bloomberg's unlikely presidential candidacy

*The former mayor of New York is less popular than Donald Trump*

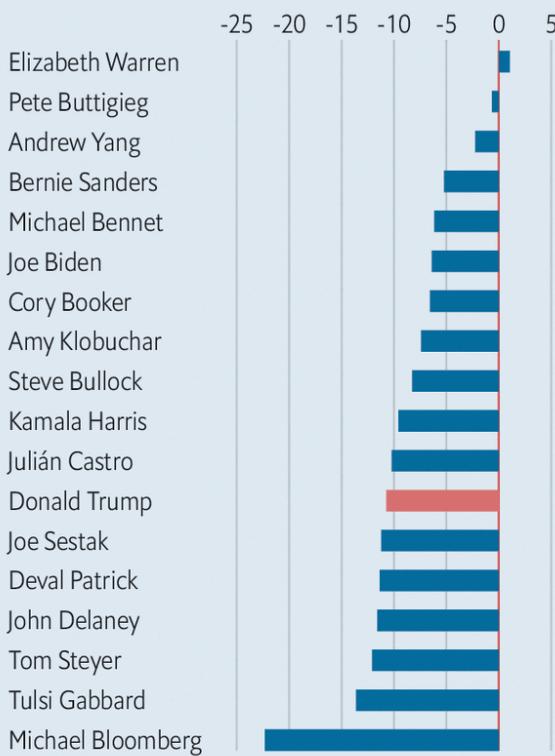
[Print](#) | **United States** Nov 28th 2019



MICHAEL BLOOMBERG announced his candidacy for the Democratic presidential nomination on November 24th, scoring a rare triple. Mr Bloomberg has run for office as a Republican, as an independent and now as a Democrat. In a country where voters often claim to want bipartisanship but usually vote as if the other lot are rogues, this is risky. Mr Bloomberg has pitched himself as a counter-weight to left-wingers such as Elizabeth Warren and Bernie Sanders, who he says are “not well-positioned” to defeat President Donald Trump. He has outlined an ambitious, leftish policy agenda while disavowing Medicare for All, the signature health-care proposal on the left of the party. Mr Bloomberg might yet become the Democrats’ pick for the White House, but the odds are slim, and his campaign will first have to overcome a problem: currently voters dislike him more than any of the other serious candidates running for president. He is a lot more unpopular than Mr Trump (see chart).

## Foot of the mountain

United States, net favourability ratings\* of presidential candidates, percentage points  
By political party, Sep 28th-Nov 16th 2019



\*Percentage of voters who view a candidate favourably minus the percentage who view them unfavourably  
Sources: YouGov; The Economist

The Economist

There is much to like about the idea of Mr Bloomberg in the White House. He has executive experience and, unlike the president, is a self-made entrepreneur. He won the mayorship of New York City as a Republican in 2001. Mr Bloomberg's tenure is perhaps best remembered for his support of a policy known as "stop-and-frisk", in which New York police liberally stopped residents to search for weapons and contraband. This was ruled unconstitutional by a federal court because, as practised, it was a form of racial profiling. But his mayorship was otherwise a success. Since leaving office he has launched campaigns on gun control and climate change.

Getting to the White House is another matter, though. Mr Bloomberg used to joke that a short, divorced Jewish billionaire could not win the presidency. But winning a general election against Mr Trump looks relatively straightforward compared with the challenge of getting through a Democratic primary. According to *The Economist*'s analysis of data from YouGov, which does our polling, he is the second-most-unpopular candidate for president (only Marianne Williamson, a spiritual guru moonlighting as a Democratic candidate, polls worse). Over the past two months, 47% of registered voters told YouGov they had a "very" or "somewhat" unfavourable view of the mayor, compared with 25% who rated him positively. The gap of 22 percentage points represents the largest deficit of any Democratic candidate.

Mr Bloomberg ranks lower than Mr Trump, whom voters rate as more unfavourable than favourable by 11 percentage points. In fact, of 32 politicians YouGov has asked about since September, voters rated only Mitch McConnell, the Senate majority leader, and Ms Williamson lower than Mr Bloomberg. This alone, however, does not rule out a Bloomberg victory in the Democrats' nominating contest. After all, Mr Trump won the presidency despite having an approval rating a year before the 2016 election of minus 18 points.

It will be tough for Mr Bloomberg to repeat Mr Trump's success, though. While he was a candidate the president took unorthodox positions on foreign policy and social spending—bucking Republican hawkishness and promising not to roll back Medicaid or Social Security. This allowed him to court Democrats who held unreconstructed racial attitudes but who favoured a large social safety net. Mr Bloomberg occupies a much lonelier place on the political spectrum. He aligns with the Democratic Party on questions like gay marriage and gun control. But he is opposed to populist economic proposals, such as Ms Warren's wealth tax (which is favoured by 66% of Democrats, according to YouGov) and the trillion-dollar Green New Deal (which only 4% of Democrats oppose). A 2017 study published by the Voter Study Group, a collective of researchers and political scientists, found that only 4% of all voters were similarly liberal on social issues but conservative on economics.

There is a caveat to all this. Democratic primary voters say that the thing they most want is a candidate who can beat Mr Trump. If Mr Bloomberg can convince them that he can do that, his chances will shift. Even if that were to happen, though, he

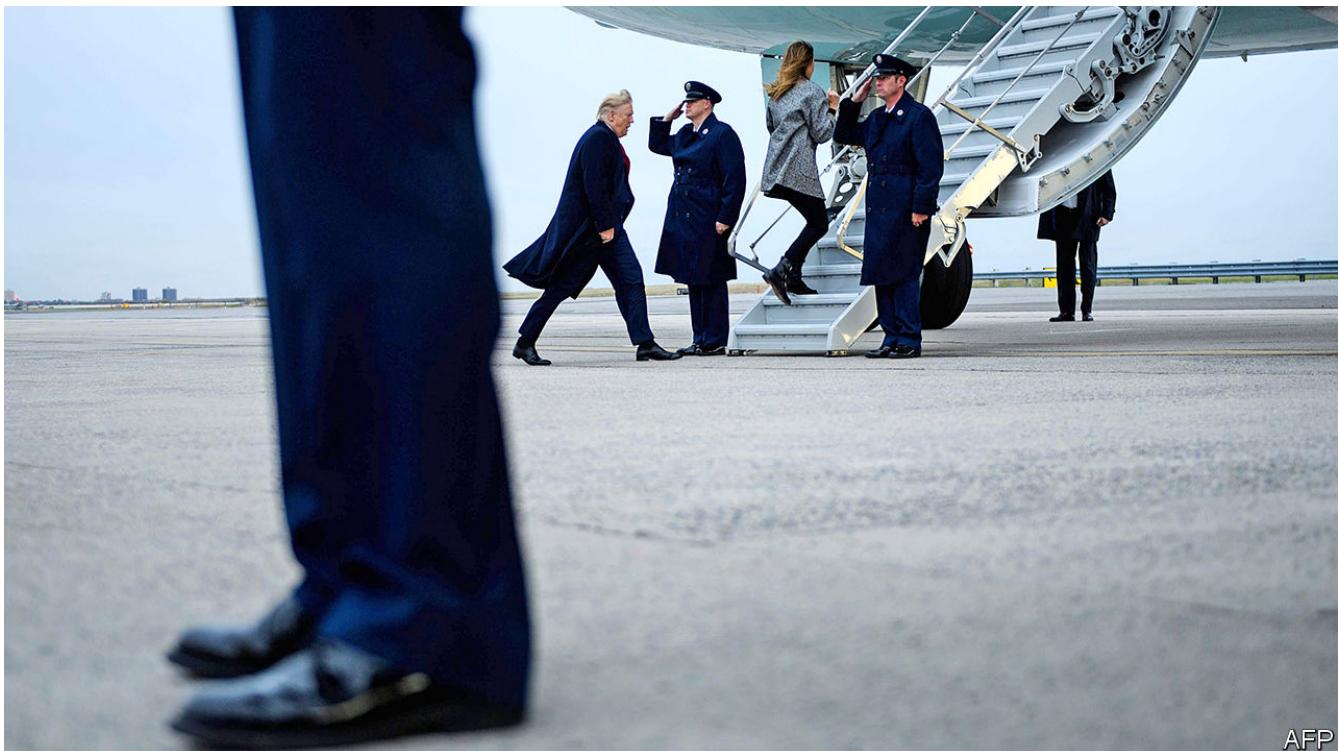
would still face several hurdles. He has decided to fund his own campaign, but by refusing to take contributions it is unclear how he could take part in the televised debates (the Democratic National Committee will allow only candidates who have received donations from 200,000 voters in the December debate). Such thresholds are likely to get more testing, as they have throughout the primary build-up so far.

Mr Bloomberg also plans to skip campaigning the first four primary states—he will not even appear on the ballot in New Hampshire—and to focus instead on delegate-rich contests on Super Tuesday in early March. In the past 40 years only Bill Clinton has gone on to win the presidency after losing both Iowa and New Hampshire. But then again, no candidate has ever started their campaign with a more than \$30m advertising blitz, either. ■

**Financial carpet-bombing****Donald Trump has shown a surprising enthusiasm for sanctions**

*His administration has gone after corruption and human-rights abusers more energetically than his predecessors*

[Print](#) | United States Nov 28th 2019



AFP

**I**N DECEMBER 2017 the Democratic Republic of Congo was in ferment. Joseph Kabila, then the president, seemed to be weighing whether or not to stand in an election, even though he should have left office a year before, having served two full terms, his limit under the country's constitution. In Kinshasa, the capital, Mr Kabila's allies remarked casually that perhaps the president would stand again. It was at that moment that the American government imposed sanctions on Dan Gertler, an Israeli mining billionaire who is a close friend of Mr Kabila. Steven Mnuchin, the treasury secretary, announced that at the "direction of President Trump", he was placing sanctions on Mr Gertler, together with 12 other "serious human-rights abusers and corrupt actors." Mr Trump, he said, was "declaring a national emergency with respect to serious human-rights abuse and corruption around the world."

The imposition of sanctions on Mr Gertler came as a shock to many companies operating in Congo. According to Tom Perriello, formerly Barack Obama's envoy to the Great Lakes region of Africa, it probably helped push Mr Kabila to his eventual decision to stand down in the elections that took place a year later, last December. Yet under the Obama administration, the Treasury had considered sanctions on Mr Gertler and backed off. Under Mr Trump, it did not hesitate. Indeed, his administration has been more enthusiastic than any other in history about using financial sanctions. Partly that is because the president is intent on bashing places like Iran and Venezuela. But that is not a complete explanation: sanctions have expanded everywhere. This stands in stark contrast to other parts of Mr Trump's foreign policy.

According to data gathered by Gibson, Dunn & Crutcher, a law firm, in his first three years in office Mr Trump has added over 3,100 people and entities to the sanctions list run by the Office of Foreign Assets Control, a division of the Treasury. That is only slightly short of the 3,484 that George W. Bush added in his entire eight years in office. Last year Mr Trump added 1,474 names to a list that is now around 7,500-strong. The Trump administration has not just expanded sanctions but innovated with them too—for example, by stopping the trading of Venezuelan sovereign bonds.

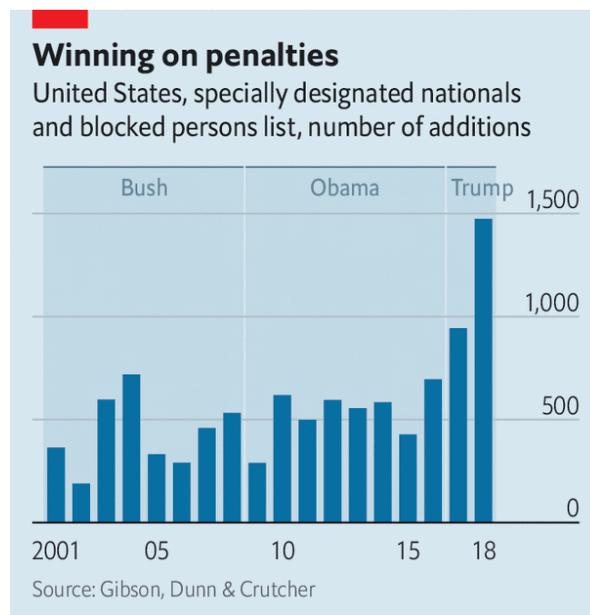
America is not alone in imposing targeted sanctions: the European Union and the United Nations have programmes too. But America's is of special importance because of the country's position at the heart of the world's financial system. When individuals suffer sanctions from the Treasury, their assets in America are frozen. But the effect goes further than that. Firms which operate in America, or make payments in dollars, cannot easily deal with individuals on the list. Such is the reach of the dollar that penalised individuals will struggle to open bank accounts, own assets or be paid, even in countries that are not

close to Mr Trump's America. When companies face sanctions from America's Commerce Department, as Huawei, a Chinese telecoms giant, does, it has a similar effect—they cannot buy from American firms.

### Making a list

Mr Trump has used sanctions as a bludgeon in high-profile disputes. In September, imposing measures on Iran's national bank, he declared they would be "the highest sanctions ever". Last month, when Turkey's president, Recep Tayyip Erdogan, launched an invasion of Syria, Mr Trump threatened to "swiftly destroy Turkey's economy", as the Treasury imposed targeted sanctions on three Turkish officials. But more quietly, his administration has also punished unprecedented numbers of people accused of corruption and human-rights abuses in more unexpected places. Many such as Mr Gertler have been targeted under the Global Magnitsky Act, which came into force in 2016 and allows America to impose sanctions on people even from countries on which there is no national sanctions programme in place.

In October the Gupta brothers, two Indians accused of working with Jacob Zuma, South Africa's former president, to loot state institutions, were added to the Treasury's list. Weeks later Mr Trump added Owen Ncube, the Zimbabwean security minister, to the list. America now has sanctions on 85 Zimbabweans. According to John Prendergast, an activist who co-founded The Sentry, a pressure group which investigates corruption and human-rights abuses in Africa, Mr Trump's use of the Global Magnitsky Act to go after crooks and murderers has been "a game changer".



The Economist

What has driven this surge in sanctions? According to Marshall Billingslea, an assistant secretary in the Treasury department, it reflects Donald Trump's innovative "financial statecraft". Certainly, sanctions seem an ideal tool for a man who wants to put foreigners under lots of pressure but is reluctant to send troops or bombers to do the job. "Sanctions are...an option for when words aren't good enough but war is too much," says Elizabeth Rosenberg of the Centre for a New American Security, a think-tank in Washington.

Mr Trump's personality is clearly a factor, too. Mr Mnuchin has announced sanctions in person more than two dozen times—instead of leaving it to more junior officials as previous treasury secretaries did. He has claimed to spend half his time working on sanctions. The commerce secretary, Wilbur Ross, has been almost as enthusiastic. Adam Smith of Gibson, Dunn & Crutcher argues that unleashing sanctions on people and firms is quicker and cheaper than most of the other things that Mr Mnuchin and Mr Ross can do to bring about change. In an administration "less steeped in the formal deliberative policy process" than most, this matters, he notes.

That raises another question, however—do sanctions work? In a tactical sense, it seems fairly clear that they do. Targeted sanctions make people miserable, says Mr Smith. In October the Zimbabwean government declared a national holiday in order to organise protests against sanctions on its members. Mr Gertler has hired lobbyists including Alan Dershowitz, a prominent lawyer, to try to get off the list. The sorts of people who suffer sanctions in general find that they need to deal with America and American companies.

Yet, in a strategic sense, it is not so clear that sanctions are achieving much. Mr Trump's government says that for sanctions to be lifted, Venezuela's president must step down, while Iran must transform its foreign policy. Such a full capitulation seems unlikely. Nor is it obvious that individuals are responding. Beyond increasing his lobbying bill, the sanctions on Mr Gertler did not change his behaviour much. He still flies to Kinshasa on his private jet each week and is still close to Mr Kabila, who retains considerable influence in Congo. He still collects royalties of around \$30m per year on his mining interests. Glencore, one of the biggest mining companies in Congo, found a way around the Treasury by paying him in euros. If sanctions did help push Mr Kabila to step down, it was because they signalled America's seriousness about seeing the back of him.

In a research paper The Sentry, Mr Prendergast's outfit, points to successes in places like Liberia and Sudan in changing the behaviour of individuals who are targeted. But all the sanctions programmes it analysed suffered from "poor conceptualisation,

co-ordination, implementation, and enforcement.” Diplomats are not always engaged in sanctions policy, which comes from the Treasury and Commerce, not the State Department. The staff keeping the lists up to date are stretched thin. Many African sanctions programmes have nobody to manage them. That means sanctions can sometimes be dodged. Overall, officials have little idea how well sanctions work or what their effects are, according to a report released last month by the Government Accountability Office.

### **Checking it twice**

Few will shed a tear for foreign officials who can no longer buy penthouses in Manhattan or yachts in Miami. But foreigners can be penalised in this way on the basis of entirely classified evidence. There is no way to appeal. And the costs affect more than just the individuals. One risk is that financial firms simply cut off whole countries to ease the cost of compliance. In Zimbabwe, for example, local banks by law cannot comply with American sanctions. That means that American banks will not deal with them. That is certainly not the cause of Zimbabwe’s economic problems, but it does not help.

If they do not change behaviour, American sanctions risk becoming less a tool of coercion than an expensive and rather arbitrary extra-territorial form of punishment. Over time, foreign powers could begin to create avoidance schemes that would make them less effective. If that happens, the Trump administration will have weakened one of America’s strongest non-military weapons. But such schemes will not be easy to devise as long as America is the world’s pre-eminent financial centre. For the moment at least, Mr Trump’s sanctions policy is a bright spot in an otherwise lamentable foreign-policy record. ■

Platforms shoo

## Big tech changes the rules for political adverts

*Twitter, Google and Facebook must be seen to be doing something about the spread of disinformation, but without undermining their models*

Print | United States Nov 28th 2019



Bloomberg

**“W**E’VE MADE the decision to stop all political advertising on Twitter globally. We believe political message reach should be earned, not bought.” Thus spake Jack Dorsey, Twitter’s boss, on October 30th. Ever since Robert Mueller’s report revealed that Russian intelligence agents used social media to spread disinformation in 2016, Big Tech has been under pressure to do something to stave off a repeat performance in 2020. And this is something. Google has followed, changing its political-advertising policy on November 20th. Facebook is so far standing pat, but it is considering changes to its policies on targeting and transparency.

To the extent that these moves make it harder for politicians to say contradictory things to different groups of voters without anybody noticing, they are welcome. But they will not do much to prevent the spread of disinformation, and may not amount to much in practice.

Twitter makes vanishingly little money from political ads. Most politicians use the platform to speak directly to voters, not to advertise. In America, as one Republican consultant explains, Twitter “skews young, skews left, and it skews toward people who are already passionate.” These are not the sort of voters who need to be mobilised, or are particularly amenable to persuasion.

Donald Trump’s campaign manager, Brad Parscale, called the move “yet another attempt by the left to silence Trump and conservatives”. Many Republicans feel the mainstream media are essentially allies of the Democrats—not overtly, but because, the Republican consultant says, “the sentiments and sensibilities of the legacy media closely mirror those of Democrats.” Republicans see social media as a way to bypass a hostile intermediary.

Dave Karpf, of the School of Media and Public Affairs at George Washington University, calls such comments “a performance. Republicans have seen the success of 30-odd years of shouting that the media has a liberal bias...They now see an opportunity to demonise platforms.” But Twitter’s move may hurt Democrats more. After all, next year one of them will go up against a man with 67m Twitter followers.

The more consequential of Twitter’s changes was to restrict microtargeting—the use of consumer data to show small groups of people ads that are specifically tailored for them. Google has made a similar move, announcing that from January 6th in America (and earlier in Britain, in light of the upcoming general election), it will restrict how political campaigns can target voters for advertisements.

Google will no longer allow campaigns to use its granular Customer Match tool, but campaigns can still target voters by age, gender, zipcode and what Google calls “contextual content”, meaning, in essence, interests as expressed through web-browsing history. Those attributes are often a good proxy for political leanings: a young single woman in Oakland who likes kombucha and Tibetan Buddhism is probably a Democrat, just as an older man from rural Wyoming who likes guns and antelope-hunting is probably conservative.

But Google’s Customer Match tool “was never very good,” says another Republican strategist. “You could potentially still get the same targeting effect by using a third-party data broker.” Google itself may restrict campaigns from using the Customer Match tool, and hence sending a tailored ad to, say, middle-aged women without college degrees who are sceptical about immigration in the upper Midwest; but they could send the request through a third party that permits such microtargeting. He also considers Facebook’s matching tool superior—and Facebook allows the sharing of viral content, which can help a targeted message spread further without any effort or expense from the campaign. That, rather than dodgy political adverts, is what allowed made-up stories to gain widespread credence in 2016. ■

Dreaming of a Black Friday

## Who wants to go to a giant shopping mall?

*The American Dream mall is open for business. Sort of*

[Print](#) | **United States** Nov 28th 2019



AP

**T**HIS IS THE SELLRAISER is the world's steepest rollercoaster. It is not to be found in a big theme park, but indoors at the new American Dream mall in New Jersey. Passengers can see out of floor-to-ceiling windows over the Meadowlands swamp across the Hudson River to the New York City skyline. After the car climbs vertically, it pauses for a few moments before plunging and spiralling in what, if the venture flops, will provide an easy metaphor for hard-pressed reporters.

After multiple delays, a credit-crunch, a recession, new owners and a name change, the first phase of American Dream, formerly known as Xanadu, opened on October 25th. Unlike conventional malls, which have department stores, such as Macy's, as an anchor, American Dream has a number of non-retail anchors, including the Nickelodeon amusement park, a water park, an indoor ski slope, a National Hockey League-size ice-skating rink, Legoland and a Ferris wheel as well as restaurants, a cinema and, eventually, an aquarium. Indeed, Triple Five, the company behind the mega-mall, would rather it be called an entertainment complex.

Whatever the \$5bn thing is called, it is vast: 3m square feet (279,000 square metres), second in size only to Minnesota's Mall of America, which is also backed by Triple Five. Malls are suffering because of the shift towards online shopping. Rents and occupancy are expected to decline at all but the top 100 malls in America, according to Green Street Advisors, a real-estate research firm. Triple Five points out that only 45% of the space will be taken up by shops. Even so, it seems a strange time to open a mall, even a huge one with an indoor ski slope.

Tyler Batory, an analyst who covers theme parks at Janney Montgomery Scott, a brokerage, is sceptical. There has not been a successful launch of a theme park in a couple of decades. Theme parks and leisure centres are struggling to compete for families' time and dollars. "When you combine one business that's struggling with another that has its own challenges, that doesn't really seem like a recipe for success," he says. The biggest problem may be an archaic local law banning shopping on Sundays. Still, proving the doubters and naysayers wrong while pursuing a buck is part of the American dream too.

## Lexington

**Is it better to impeach and lose or never to impeach at all?***Lessons from Watergate for Donald Trump and the Democratic Party*

Print | United States Nov 30th 2019



Kal

**A**FTER A COUPLE of false alarms, Donald Trump's "Watergate" moment has arrived. On December 4th the House Judiciary Committee will begin a process of deliberation that will probably lead to it drafting articles of impeachment against the president by the end of the year. Whether a hot-button charge of bribery—the most specific ground for presidential dismissal described in the constitution—will make the list is unclear: Democratic leaders say it might. Yet the case against Mr Trump, that he sought to shake down a foreign leader for political favours using military aid and other state resources as leverage, is essentially already proven.

The White House record of Mr Trump's "Do us a favour" call to President Volodymyr Zelensky was the smoking gun. The public hearings House Democrats conducted in November mostly underlined that. They also revealed how many of those around Mr Trump—including Mike Pence, Mick Mulvaney and Mike Pompeo—knew of or facilitated his scheme. Having conceded their original defence (that there was no shakedown), Mr Trump and his supporters have therefore fallen back on a line that takes less account of the Ukrainian matter in hand: the president is the victim of a vast left-wing conspiracy. This is nothing less, writes a columnist in *American Greatness*, a pro-Trump publication, than a "de facto, three-year-long singular effort to delegitimise and ultimately remove Trump from office before the 2020 election." Mr Trump calls the congressional probe into his behaviour a "coup".

Although the liberal backlash against Mr Trump has been overboard and self-defeating at times (starting with the handful of Democrats who talked about impeaching him from the very beginning), this is not a credible defence. It is plainly designed to distract from and minimise the specific charges the president faces, which he and his advisers are at the same time striving to discredit. (Mr Pompeo's statement this week that he had a "duty" to investigate the president's damaging and untrue claim that Ukraine, not Russia, was behind the 2016 election hack was especially dismal.)

Tellingly, their partisan attack-line was also used by Richard Nixon and his supporters as the evidence against him mounted. "Watergate was a coup d'état that...destroyed a president who had humiliated the liberal establishment," fumed "Pitchfork Pat" Buchanan, a Nixon aide and sometime Republican presidential candidate, fully 40 years later. Though Watergate is known for the bipartisan moment when Republican support crumbled before the proof of Nixon's crookedness, the grievance his investigation and removal stirred on the right lasted long after that moment passed.

Mr Trump's accusers can take three, somewhat contradictory, lessons from this historical echo. First, tough political outcomes always look easier in retrospect than they did at the time. Partisanship, an older blight than many recall, has made most

things worth fighting for highly uncertain at times. If the impeachment experts that the Judiciary Committee will convene at its first hearing make a strong case that Mr Trump warrants the ultimate constitutional check, history might therefore seem to recommend it.

Yet the Watergate comparison also shows how much harder dislodging Mr Trump would be than removing Nixon was. He is far more popular with Republicans. Having governed as a centrist, Nixon endeared himself to conservatives only when his progressive accusers started to seem more threatening than his support for civil rights and detente with China had. And today's Republicans are more ideologically aligned, and thus tribal, than they were then. That is largely a product of the grievance-powered conservative media bubble, currently thrumming with anti-Ukraine and anti-left conspiracy theories—which is in turn partly a response to Nixon's removal. The genius behind Fox News, Roger Ailes, was a former Nixon aide driven by a determination to create a counterweight to the liberal establishment that did him in.

Fox and its peers were designed, in other words, to go to war for a conservative champion at such a time as this. And in Mr Trump they have a champion to die for. This is his biggest advantage in an impeachment knife-fight. Where fulminating against the libs was something Nixon mostly did alone with his Scotch bottle, until it became his last-ditch defence, it is Mr Trump's main method. In his policies and rhetoric he governs like a wartime president, as the *Atlantic*'s Ron Brownstein puts it—forever rallying his supporters against the enemy that is the other half of America. Whether an impeachment trial could actually strengthen him, as he claims, is hard to predict. A small majority already wants to see the back of him. But Mr Trump is uniquely well prepared to survive it.

That might argue for abandoning the effort, whatever the experts advise. Some nervous Democrats want this. Yet the comparison with Watergate also points to the rising possible cost of such a retreat. Although Nixon and then Bill Clinton considered their accusers malevolent and tried to block them, illegally at times, neither disputed that a president can be subject to investigation. Mr Trump, who has ordered his administration not to comply with the congressional probe and says the constitution lets him do “whatever I want as president”, disputes this every day.

### **The right of kings**

A growing number of conservatives agree with him. Indeed Mr Trump's argument is a logical extension of the post-Watergate view on the right that checks on the presidency are illegitimate when wielded by the other side. That was the essence of Mr Buchanan's rhetoric and also of a recent speech by William Barr, the attorney-general, in which he asserted that the president's accusers were subverting the constitution and undermining the rule of law. Mr Barr is known for taking an expansive view of executive power—but only, it seems, when a Republican is in charge.

If Democrats want to leave him the field they know what to do. They have only to refrain from impeaching Mr Trump, not because it would be unwarranted, but because it would be too hard. ■

## Mexico

It's all about him

It's all about him

### AMLO uses his anti-corruption drive to gain power and scare critics

*Mexico's president sees himself, rather than strong institutions, as the bulwark against graft*

[Print](#) | The Americas Nov 30th 2019



SINCE 2003 the boringly named Asset Administration and Disposal Service, or SAE, has sold off cars and houses seized by Mexico's government mainly from smugglers and tax-dodgers. The SAE used to split the proceeds among the police, the judiciary and the health service. Andrés Manuel López Obrador, Mexico's president since December 1st last year, has jazzed things up. He now refers to the SAE as the "Institute for the Return of Stolen Goods to the People". In June he promised 25.7m pesos (\$1.3m) from an auction of ill-gotten goods to two poor indigenous villages in the southern state of Oaxaca. At a televised news conference, the president gave giant cheques to their mayors.

The episode sums up much about the presidency of Mr López Obrador, who is often known as AMLO. It shows his dedication to fighting graft, his flair for political theatre, his indifference to institutions and his belief in the virtue of ordinary people, among whom he counts himself. "To look like they were fighting corruption," past governments "created so many rules," he said at the cheque handover. The two lucky villages will be able to spend the cash as they like, without oversight. Mexicans "are an honest people," says the president. "Corruption occurs from above, not from the bottom up." His folksy way of fighting corruption is working for him. At a time when citizens across Latin America are rebelling against their leaders (see [Bello](#)), AMLO has an approval rating of nearly 60%.

He is right to be preoccupied with corruption. In Transparency International's Corruption Perceptions Index of 180 countries, Mexico shares 138th place with Russia. AMLO's fulminations against sleaze in the previous government of Enrique Peña Nieto helped him win a landslide victory in the presidential election in 2018. For AMLO, corruption is not just one of Mexico's biggest problems but practically its only problem. Eradicate it, and poverty and crime would cease. Honest tax officials would raise so much money that painful fiscal reforms would be unnecessary. Anger at corruption binds AMLO's motley coalition, which ranges from left-wing activists to evangelicals. All believe in his incorruptibility. He cut his salary in half, puts in 16-hour days and flies commercial.

But the stolen-goods institute reveals the flaws in AMLO's anti-corruption policy. Rather than building institutions to fight graft, he offers himself as the main bulwark against it. Worse, contend AMLO's critics, he uses the campaign to weaken institutions and opponents. He pounces on his critics' misdeeds and ignores those of his allies. Though untempted by wealth, AMLO is greedy for power. The government's approach to fighting corruption is like setting off fireworks to provide illumination rather than building an electricity grid, says Denise Dresser, a columnist.

Corruption-fighters during Mr Peña's scandal-plagued presidency faced reprisals, but they also made headway. Journalists and NGOs, some financed by rich businessmen, uncovered the biggest scandals, including the first lady's acquisition of a house from a construction firm with government contracts. They capitalised on the uproar to form a movement to create "a system to catch the scandals", says Max Kaiser, a campaigner. Some 600,000 citizens signed a petition to oblige politicians to declare their assets and conflicts of interest. It became law. Congress established an "anti-corruption system", which created new agencies and was meant to strengthen existing ones. Another law bolstered the independence of the attorney-general's office. The Peña government did its best to avoid implementing most reforms.

The NGOs that championed these changes had hoped that AMLO would bring them to fruition. But he has proved a foe, not an ally. The leftist president regards groups financed by business as agents of "neoliberalism". He refers to Mexicans Against Corruption and Impunity (MCCI), a business-backed NGO, as "Mexicans in favour of corruption". In part, this is just AMLO hogging the limelight. But it also reflects his rejection of the NGOs' thesis that the key to reducing corruption is to bolster institutions and change incentives. "The morale in the movement is very pessimistic," says one campaigner.

Under AMLO, the anti-corruption system has made no progress, say its architects. NGOs have filed a court challenge against his appointment of the anti-corruption prosecutor on the grounds that she is too close to him. The revamped attorney-general's office has kept its old staff and organisational structure.

AMLO prefers discretion to rules. As president-elect he promised not to follow his predecessors in prosecuting a few high-profile wrongdoers from the previous administration. Yet he apparently changed his mind. His government has, for example, arrested Rosario Robles, a minister under Mr Peña who is accused of stealing a quarter of a billion dollars. AMLO proposes, bizarrely, to hold a referendum on whether to investigate Mr Peña and other past presidents for corruption.

The government's critics are being treated less gently. In February Guillermo García Alcocer, boss of the energy regulator, complained that the government had appointed unqualified officials to his agency. Days later prosecutors opened an investigation into suspected conflicts of interest. Mr García resigned.

Even more worrying is the case of Eduardo Medina Mora, a supreme-court judge against whom AMLO has long held a grudge. The judge resigned in October this year after the chief of the government's financial-intelligence unit accused him of money-laundering. Reports soon emerged that bank accounts belonging to the judge and his brothers were frozen hours before his resignation, only to be unfrozen days later. Such cases create a climate of fear and chill dissent. A new law lets the government jail suspected tax-dodgers before they are tried, giving it another tool to intimidate critics.

AMLO's friends seem to fare better. Take Manuel Bartlett, an ally who heads the Federal Electricity Commission. MCCI claimed that he failed to declare an interest in two dozen properties worth 800m pesos registered in the names of people close to him. AMLO called the allegation "journalism at the service of conservatives".

Four-fifths of government contracts are not awarded through transparent procurement procedures. Many contracts to build AMLO's pet projects are being awarded without a bidding process. The government invokes national-security grounds.

AMLO's administration, like most young governments, has so far produced few corruption scandals. As rivalries flare, tales of malfeasance tend to come out. A report by the federal auditor into government spending next year will either burnish or batter its reputation for rectitude. The handling of the investigation of Mr Bartlett may show whether it will take seriously allegations made against AMLO loyalists. None of this is likely to alter the president's approach to corruption. He would rather hand out big cheques than strengthen checks and balances. ■

Bringing back the greenback

**Cuba reintroduces the dollar***Sources of foreign currency are drying up*

Print | The Americas Nov 28th 2019



AP

**A**MERICAN SALOONS from the 1950s and Chinese-brand cars still fill Havana's streets. Lately, though, they have shared the road with brand-new electric scooters. Once rarities—sourced in Panama, Mexico or the Dominican Republic and sold at a big mark-up in the black market—scooters can now be purchased at home, and far more cheaply than before. The catch: Cubans must pay in American dollars or another rich-country currency.

In October Cuba's communist government said citizens could open bank accounts that receive dollars, yen, euros and other European currencies. They will be able to use the money to buy imported goods from new state-owned shops, called Tiendas Moneda Libremente Convertible (or convertible-currency shops), where prices are given in dollars. More than 70 are planned. This ends a ban on dollar transactions introduced in 2004.

The Tiendas MLC are proving popular. Shoppers queue to buy refrigerators, air-conditioners, car parts and television sets. Some items, including freezers and scooters, cannot be restocked quickly enough.

By reintroducing the greenback, Cuba has in effect added a third leg to its dual-currency system. The state pays its employees (ie, most workers) in Cuban pesos, the currency for buying necessities like electricity, water and bus tickets. In 1994, during the “special period” that followed the collapse of the Soviet Union, the government introduced convertible pesos (CUC), which could be exchanged for dollars at a rate of one to one. This was an attempt to hoover up dollars from remittances and curb inflation by offering Cubans an alternative to dollars. CUC are now the main way to pay for things like petrol, internet access, hotel stays, appliances and restaurant meals.

The reintroduction of the dollar is a response to hardship. Sources of foreign currency needed to sustain the import-dependent economy are running dry. A drop in deliveries of subsidised oil from Venezuela, caused by a slump in production and by American sanctions on firms that ship Venezuelan oil, led to fuel shortages in September. In response, the government cut bus services, suspended manufacturing and urged farmers to use oxen instead of tractors. Images of Fred Flintstone's foot-powered car circulated on social media.

Tourism, which had helped offset the drop in aid from Venezuela, has been squeezed by American sanctions. The Trump administration has banned cruises and “people-to-people” (ie, non-group) visits. The government expects the number of tourists to drop by 8.5% this year.

The scarcity of dollars has put the CUC under pressure. Currency dealers listed on Revolico, a shopping portal, demand up to 1.2 per dollar. Transactions are settled offline, perhaps at a slightly higher valuation of the CUC.

The government hopes that the Tiendas MLC will keep dollars in the country. It may funnel them into state enterprises, which would help them boost production and alleviate shortages of consumer goods.

More broadly, the government seems to realise that it needs to take bolder steps to modernise the economy. It is encouraging state-owned enterprises to behave more like private ones, though turning bureaucrats into professional managers is proving difficult. It is loosening restrictions on private enterprise. In early November Marta Elena Feitó Cabrera, the vice-minister of work and social security, announced that private firms would be able to provide goods and services to foreign firms. The government is also trying to attract more foreign investment, including by setting up a “one-stop shop” for permits.

But the state has a hard time letting go. Although Cuba’s new constitution, enacted in April, recognises private enterprise, the law that allows firms to incorporate has yet to pass. They still cannot legally import supplies. Wholesale markets, vital to distributing goods efficiently, have yet to appear. The dual-currency system continues to distort prices across the economy. But at least scooters are cheaper. ■

**Bello**

## The street challenges Latin America's politicians

*The region suffers an acute case of the discontent that is sweeping the world*

[Print](#) | **The Americas** Nov 28th 2019



**A**NOTHER WEEK, and another Latin American country is out on the street. Now it is Colombia, where large protests have been taking place since November 21st. In other places, demonstrations have been triggered by specific things, even if the protesters' demands went beyond them—increases in metro fares in Chile and fuel prices in Haiti and Ecuador, and electoral fraud in Bolivia. But in Colombia there is just a pervasive feeling of discontent with an unpopular government. It has brought disparate groups onto the streets, from students, trade unionists and indigenous and gay activists to archaeologists against mining. A similar mood prevails in much of the region. The longer this goes on, the more it may paralyse governments.

The protests are not without precedent, nor are they confined to Latin America. In the early 2000s, elected governments were toppled in Argentina, Ecuador and Bolivia (twice, in disorders led by Evo Morales, who has just suffered the same fate). Huge protests erupted out of almost nothing in Brazil in 2013.

As in 1968, this is a time of global discontent, but it is particularly intense in Latin America. The protests are not its only manifestation. Popular anger showed up last year in electoral victories for contrasting populists, Jair Bolsonaro in Brazil and Andrés Manuel López Obrador in Mexico. The overarching trend of recent Latin American elections has been defeat for incumbents, confirmed in the return of Peronism in Argentina in October. In Uruguay Luis Lacalle Pou of the centre-right appears to have ended 15 years of rule by the centre-left in a presidential election on November 24th.

The causes of this ill humour include economic stagnation or slowdown, the diminishing of opportunity and the fear of falling back into poverty amid persistently deep inequality. The gap between rich and poor has not widened in Latin America, but it has become more visible. Take Chile, where the Costanera Centre, a shopping mall built around a priapic 64-storey office tower in Santiago, has been the target of anger. "A person who earns 300,000 pesos [\$375] a month sees a handbag that costs 4m pesos," says Marta Lagos of MORI Chile, a pollster. Ferraris and Maseratis have arrived, their owners seemingly oblivious to poor housing, overcrowded buses and patchy health care.

Latin America's political class has been discredited by corruption and campaign-finance scandals. These, too, are more visible than in the past, thanks to more combative prosecutors, investigative journalists, whistleblowers and freedom-of-information laws. In other words, the growth of transparency has outpaced that of good governance. Political parties, many of which are weakened and fragmented, have largely ceased to do their fundamental job of channelling discontent. The politicians have, in short, been overtaken by the street.

Diagnosis is easy but finding a cure will be much harder, as governments are discovering. Many of the problems are deep-rooted and their solutions long-term. Higher growth, more progressive tax, higher minimum wages and better social provision would assuage discontent. The problem is that growth depends on raising productivity, which requires unpopular reforms. And conservative elites resist paying more tax. The left in Chile and Colombia is staying on the street to win more concessions. In 1968 prolonged global disorder ended in a conservative reaction. That risk is especially high in Chile, where looting and vandalism continue.

The immediate official response has been to run for cover. In Ecuador Lenín Moreno's government cancelled the fuel-price rise and is struggling to get congress's assent to modest tax increases. Chile's government is fighting a rearguard action against demands for much higher public spending. In Colombia President Iván Duque may back away from mooted labour and pension reforms. In Brazil Mr Bolsonaro postponed a bill that would trim salaries and jobs in the bloated public sector because of fears it might trigger protests.

Reform has rarely been easy in Latin America. More presidents may imitate Martín Vizcarra in Peru. In 20 months in office he has ducked unpopular decisions, such as approving a big mine. Riding an anti-politician wave of anger, he shut down an obstructive congress. Along with Mr López Obrador, he is one of only four Latin American presidents with an approval rating of over 50%. Crowd-pleasing gestures can quiet the streets. They postpone discontent, but they will not diminish it.

**Politics and religion in South Korea**

An unholy alliance

An unholy alliance

**Protestant evangelicals in South Korea wield outsize political power***Their links with the ruling elite date back to the days of dictators*

Print | Asia Nov 28th 2019



NYT/Eyevine

**W**ITHOUT THE Christmas tree and wooden archway covered in Bible quotations, the entrance to the Church of Love in Seoul's Gangnam area could be mistaken for that of a fancy shopping mall. A sky-bridge connects the megachurch's two buildings, which occupy an enormous block. Inside, corridors are lined with polished stone and walls are decorated with abstract art and heart-shaped neon signs. A cavernous underground prayer hall can seat 9,000. On Sundays it is packed.

Just round the corner is South Korea's supreme court, which says the church has no legal right to much of this space. It ruled last month that the government of Seocho district, where the church is located, had abused its power by leasing land to allow the church to extend its below-ground footprint. Seocho's then district chief, who is now a national legislator, has said he was lobbied by senior politicians to grant the lease. It was approved in 2010 when the president was Lee Myung-bak, a Protestant who flaunted his religion (he is currently in jail for unrelated corruption). The Church of Love may have to spend tens of millions of dollars to demolish the prayer hall. Or, as many observers believe, it may find a way of avoiding that.

The favour enjoyed by the church during Mr Lee's presidency, which ended in 2013, was a sign of the huge influence of evangelical Protestantism in South Korea. Churches such as the one in Gangnam serve as places where people make useful connections, whether for finding a spouse, securing a job or climbing high in politics. Many politicians stress the importance of their faith. Mr Lee promised he would dedicate Seoul to God when he was elected mayor. In the 1990s one of his predecessors, Kim Young-sam, installed a chapel in the presidential palace and welcomed a stream of pastors. Hwang Kyo-ahn, the leader of South Korea's main opposition party, served as prime minister from 2015 to 2017. He called that job a gift from God.

The role of Protestant churches is surprising in a country that is not very religious by global standards. More than half of South Koreans say they have no religion. But among South Koreans who say they do, nearly half are evangelical Protestants. The country has more Protestant organisations, about 55,000 of them, than convenience stores. Of the world's 100 biggest churches, 20 are in South Korea, including the biggest, Yeouido Full Gospel Church in Seoul, which has 800,000 members. Around 10m Protestants now live in South Korea, far more than Catholics or Buddhists. Their numbers keep growing.

Support from the pastor of a large church can decide elections. The current president, Moon Jae-in, is a Catholic who is less responsive to the demands of evangelicals than others in the Blue House have been. But conservative churches remain powerful. They organise large protests which can succeed in blocking events such as gay-rights rallies that offend their beliefs. Recently hundreds of thousands of believers (some are pictured) have been taking to the streets every week to demand that Mr Moon step down. They accuse him of “doing the devil’s work” and selling the country out to North Korea by trying to improve relations with it. They take credit for securing the downfall of Mr Moon’s justice minister, who resigned last month over a corruption scandal.

Protestantism first came to Korea in the 19th century with American missionaries, but its political influence dates from the time of strongman rule. Rhee Syng-man, the country’s first dictator of that era, who was president from 1948 to 1960, was a devout Protestant who made Christmas a state holiday. “What mattered was growth, and evangelical pastors told their congregations that the state’s chosen approach to the pursuit of wealth was holy,” says Kim Duk-young of the University of Kassel in Germany. By linking North Korea’s communism with the devil, church leaders appealed to Protestant landowners who had been driven from their homes by the North’s forces during the Korean war and had taken refuge in the South. Park Chung-hee, who was president during South Korea’s rapid economic rise in the 1960s and 1970s, was a Buddhist. But he encouraged the growth of Protestant churches.

The anti-Moon protesters are proud of their faith’s historical links with the political elite. They carry banners with the names and faces of Mr Rhee and Mr Park. They also hail the leader they say will save the country, a right-wing pastor named Jun Kwang-hoon who has called Mr Moon “worse than Hitler” for trying to befriend North Korea. Mr Jun’s critics call him the “panty pastor” because he has told female church members they will become children of God if they take off their underwear for him (Mr Jun says his remarks have been taken out of context). His followers shrug this off. “Moon Jae-in is a communist and he’s doing the devil’s work,” says one elderly protester. “This is a spiritual fight.”

It is unlikely to be successful. The protesters have not shown convincing evidence for their claim that Mr Moon’s North Korea policy amounts to treason. Nor have they struck a chord with other South Koreans, especially not the young.

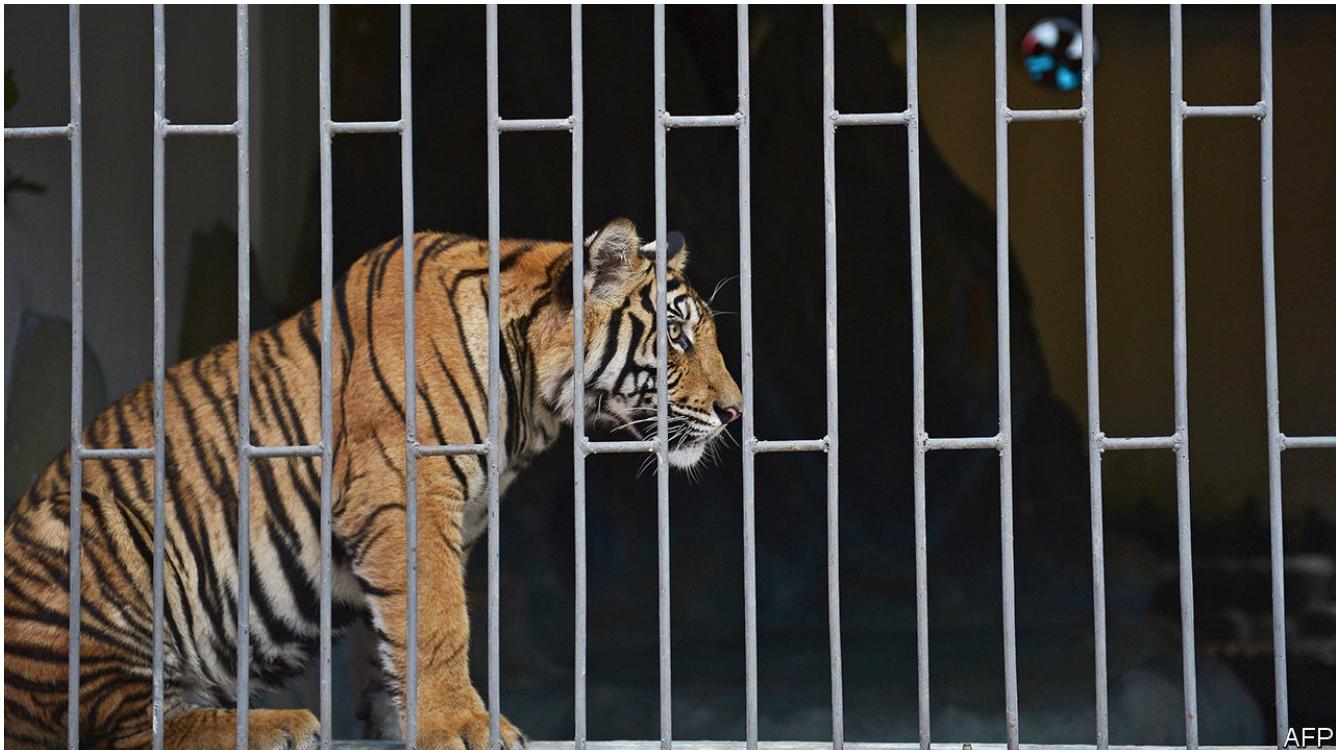
Some Protestants stress that neither the demonstrators nor the glitzy megachurches represent their faith. They abhor the conservatives’ past links with dictators. “It’s wrong to spend all that money on fancy church buildings,” says Jung Byung-o of the Christian Ethics Movement, a Protestant group. Kim Yong-min, who runs a small church in a basement in Seoul, says his organisation is trying to stop right-wing Christians from meddling in politics. The tiny space doubles as a studio for a political talk show and is piled with left-wing literature. He says most of his congregation supports Mr Moon. ■

## Tiger farms in Laos

# Laos still winks at tiger farms

*The kings of the jungle, an endangered species, are still being trafficked for use as food, medicine and decoration*

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AFP

**L**IU CHUNG shakes her head: there are no more tiger zoos here, she insists. This is strange. The area around the Golden Triangle Special Economic Zone (SEZ), a swathe of north-western Laos where Ms Liu, a taxi driver, plies her trade, is famous for its tigers. Not wild ones, which have nearly all been killed in Laos, but captive animals, illegally trafficked and bred for their parts, which sell for thousands of dollars. Your correspondent points on her map to a place near the SEZ where a tiger farm is rumoured to operate. Now Ms Liu remembers. She starts up the engine.

A century ago, around 100,000 tigers roamed the world's jungles. Because of habitat loss and poaching, there are fewer than 4,000 wild ones today. More than twice as many are being held in at least 200 farms across East and South-East Asia, says Leigh Henry of the World Wildlife Fund. These range from small backyard operations to enclosures breeding hundreds in "battery-farm style", says the Environmental Investigation Agency (EIA), an international NGO focusing on wildlife crime.

Breeding tigers and trading them and their parts is banned by the Convention on International Trade in Endangered Species, but this treaty is widely flouted in Asia because of poor law-enforcement and high demand for tigers. Belief in their medicinal properties has deep roots, especially in China. Tiger-bone wine, skins and jewellery featuring claws and teeth are status symbols. In Laos, carcasses can sell for as much as \$30,000, officials reckon.

Some criminals choose to operate in Laos because "there's no real rule of law" there, says Debbie Banks of the EIA. Indeed, the government of Laos is allegedly complicit. America's State Department recently reported that Laos was one of three countries that had recently "actively engaged in or knowingly profited from the trafficking of endangered or threatened species". In 2016 an investigation by Britain's *Guardian* newspaper found the Lao government had licensed two tiger farms and cut lucrative deals with wildlife traffickers smuggling millions of dollars' worth of endangered animals—including tigers—through Laos.

The government has a 20% stake in Golden Triangle SEZ, a resort complex run by Zhao Wei, a Chinese businessman whom America's Treasury last year accused of engaging in illegal trade in wildlife, as well as trafficking drugs and people (he denies the allegations). With its flashy casino and hotels, the SEZ is designed to attract Chinese tourists (gambling is illegal in China). In 2014 and 2015, EIA investigators found that restaurants in the SEZ were advertising "sauté tiger meat" and tiger-bone wine; shops were selling tiger skins and ivory tusks. Near the casino, 26 tigers stalked the length of their enclosure, destined for the slaughterhouse. Their bones were to infuse rice wine. Since the EIA's report, these establishments have closed.

Laos promised in 2016 to phase out the tiger farms. But the EIA reckons their number has increased. After a ten-minute drive towards the mountains, Ms Liu, the taxi driver, turns down a dirt road towards a compound where fencing is being put

up. The guard at the gate forbids entry. But a local with inside knowledge says the facility houses ten to 20 tigers and a few elephants. The tigers are there to be bred. ■

**Citizenship in Malaysia****Malaysia still discriminates against women over citizenship***The law may be changed, but how long will that take?*

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**E**IGHT MONTHS pregnant, Noor (not her real name) flew from Washington back home to Malaysia, desperate to arrive before her baby did. Travelling so close to a due date poses risks, but for her, giving birth overseas did too. Her child would not automatically receive Malaysian citizenship. The constitution guarantees that fathers can pass their nationality to children born abroad. But mothers must apply for it, a process that can leave foreign-born children in limbo for years. To avoid such a wait, Noor and her American husband even asked the Malaysian embassy in Washington to let her give birth there, technically on her country's soil, but in vain. So she hid her big belly under a heavy winter coat and boarded an aircraft. "I cannot fathom how the government can expect women to take on that level of risk," muses her husband.

Malaysia is one of 25 countries that restricts their women from conferring their nationality to their children, and is one of roughly 50 that limit them from passing it to foreign spouses. Still more unusually, Malaysia discriminates against some fathers, too—it is one of three countries that prevent men from passing citizenship on to their children born outside marriage. Between 2012 and 2017 more than 15,000 children born in Malaysia to Malaysian fathers were denied citizenship.

Sixty years ago most countries had nationality provisions that varied according to sex. They made assumptions about women's roles and expectations that are now widely viewed as wrong and discriminatory. Since 2000 more than 20 countries with such laws—from Kenya and Yemen to Morocco and Zimbabwe—have reformed them. The holdouts are mostly in Africa and the Middle East. Of the ten members of the Association of South-East Asian Nations (ASEAN), Malaysia is one of only two, alongside neighbouring Brunei, to persist with gender discrimination in their citizenship rules.

Why do they not change? "Xenophobia and a patriarchal mindset," says Catherine Harrington of the New York-based Global Campaign for Equal Nationality Rights. The World Economic Forum ranks Malaysia 131 out of 149 countries for women's political empowerment.

Discriminatory citizenship laws can render children stateless. Horror stories abound: a baby born in Brunei to a Malaysian mother and stateless father has no citizenship, nor does another born in France to a Malaysian mother and a Sri Lankan refugee. Earlier this year the Malaysian Campaign for Equal Citizenship (MCEC), a pressure group, shared a video plea of one Malaysian woman who had had a baby with her Syrian husband (unable to prove his citizenship mid-conflict) in Turkey, and could not get travel documents for their child. On paper Malaysia has safeguards against statelessness, but in practice "citizenship is treated as a privilege, not a birthright," says Hartini Zainudin, co-founder of Yayasan Chow Kit, an NGO in Kuala Lumpur, the capital.

Advocacy outfits in Malaysia call for constitutional amendments to settle the problem for good. That should be fine with the ruling coalition, Pakatan Harapan, which took power last year and has promised to review laws that discriminate against women. Malaysia's constitution is one that needs attention. It currently contradicts itself. One article guarantees "no discrimination against citizens" on the basis of gender, but another discriminates against married women and single men over nationality. Hannah Yeoh, the deputy minister for women and families, says she endorses calls for an amendment. But the home ministry sounds less enthusiastic. It merely talks about streamlining existing applications for citizenship.

Ivy Josiah, an adviser to the MCEC, believes it is possible the government will make the hoped-for constitutional change by the end of next year. Noor's husband hopes for reform, too. But he is jaded. He has been hearing speculation about possible change for more than 20 years, ever since Noor took her desperate flight back to Malaysia. She has given birth to seven children while she waits. ■

**The villain of Maharashtra****Political drama has gripped the home state of Bollywood***Narendra Modi's role in it is not a glorious one*

Print | Asia Nov 29th 2019



AFP

THE AGEING stars, tired tunes and awkward dance moves had the makings of a box-office flop. But recent plot twists in the politics of Maharashtra, a big, rich Indian state that is home to Mumbai and its cinema industry, are proving a showstopper. Unlike a product of Bollywood, however, this protracted tale of treachery, hubris and midnight manoeuvring has real consequences for the state's 112m people.

It started in October, with an election that handed an easy majority of the state assembly's 288 seats to the incumbent coalition. This alliance involved two Hindu-nationalist parties, the Bharatiya Janata party (BJP), which commands the national government in Delhi, and Shiv Sena, a hot-headed local party built on the prickly pride of the Marathas, a dominant regional caste. The pair had collaborated for decades, jointly ruling Maharashtra since 2014 with little friction, despite Shiv Sena's resentment that the much larger BJP, led by Narendra Modi, India's charismatic prime minister, has encroached on its turf. But rather than get quietly back to work after this election, the brothers-in-arms fought over the spoils.

Before the vote, the two were said to have sketched a deal whereby Devendra Fadnavis of the BJP, the serving chief minister, would continue for another half of the office's five-year term before handing it to Uddhav Thackeray, Shiv Sena's boss. But neither party gained as many seats as expected. The BJP's tally fell from 142 seats to 105, and Shiv Sena's from 75 to just 56. So the bigger brother played tough, suggesting it would find another partner unless Shiv Sena dropped its demand to share the top job. After all, another local party, the National Congress (NCP) had grabbed 54 seats, enough when added to the BJP's strength to reach the 145 needed for a majority. The NCP's leaders sent signals they might be coaxed away from their traditional partner, the Indian National Congress, or Congress party, which has long been the BJP's main national rival.

Tempted by the chance to stick it to Congress and boosted by its crushing victory in spring's national election, the BJP brushed off Shiv Sena. But Mr Fadnavis underestimated Shiv Sena's determination to stick to its demands. It was afraid that without high office and real power, ever more Shiv Sena followers would drift into the BJP's camp. To general surprise the party walked out on the BJP. Discarding decades of animosity towards the secular-minded Congress, which had won a handy 44 seats, Shiv Sena spoke of striking a three-party deal to isolate its arrogant former ally.

But Congress dithered, waiting for instructions from its leadership in Delhi. The NCP's 79-year-old leader, Sharad Pawar, played hot and cold. With days passing and no majority emerging, the state's governor, a centrally appointed official whose duties are akin to those of a constitutional monarch, imposed "president's rule". This measure allows central authority to play

a bridging role when state governments fail. Rumours swirled that the BJP, far richer than its rivals, was proffering huge sums to lure defectors to its side.

On November 22nd leaders of Shiv Sena, the NCP and Congress declared that they had reached a deal and would present the governor with a majority in the morning. Maharashtrians went to sleep wary of this unlikely alliance, but pleased that the crisis was over. Front pages declared a defeat for the BJP and that Mr Thackeray of Shiv Sena would be the state's new chief minister.

They were wrong. During the night Ajit Pawar, who is Mr Pawar's nephew and also a senior figure in the NCP, had defected to the BJP, claiming to bring most of its deputies with him. Mr Modi, wielding an "emergency" clause to dispense with cabinet approval, requested India's titular president, a BJP appointee, to suspend his rule in Maharashtra. This was done at 5.47am. By 8.00am the state's BJP-appointed governor had duly sworn Mr Fadnavis in as chief minister. The BJP has pulled off similar midnight constitutional coups before. In five other states during Mr Modi's tenure, the party has successfully cajoled deserters to form surprise majorities. Some say it may have helped in Maharashtra that as soon as Ajit Pawar was named deputy chief minister, several investigations into alleged corruption during an earlier stint in office were abruptly dropped.

But this time there was to be another twist. In a classic manoeuvre of Indian politics, the three underdog parties rounded up their deputies and locked them in hotels. The NCP even dispatched a team to Delhi to retrieve a few who had been whisked off by the BJP. With the supposed defectors now claiming they had been tricked into supporting Ajit Pawar, and Mr Fadnavis unable to prove his majority, India's supreme court stepped in. It ordered a test of numbers on the floor of the state assembly. Fearing defeat, both men resigned. With well over 160 deputies appearing to back him, Mr Thackeray is poised to become chief minister. The BJP has emerged not only as the loser but the apparent villain. But the bigger loss has been suffered by voters, who naively believed their politicians wanted anything more than power. ■

### Mental health in Japan

## A growing number of Japanese have become recluses

Pressures from work and society are causing some to shun the world

Print | Asia Nov 30th 2019



Eyevine

**A**BOUT A YEAR ago Mika Shibata's youngest son returned to the family home and went wordlessly upstairs. He has yet to emerge from his bedroom. At the age of 26, he sleeps during the day and stays awake at night. His mother feeds and shelters him, hoping he will emerge from this state. But she frets he never will. "The longer this situation continues, the harder it is for him to step back into society," she says.

The Shibata family's pain is shared by many others in Japan. The government says there are more than 1m *hikikomori*, or recluses, defined as people who have played no part in society for at least six months. Many have barely stepped outside their homes for decades. A handful of alarming crimes have pushed them back into public view. In May a recluse, aged 51, stabbed two people, including a child, to death in the city of Kawasaki before committing suicide. In June a retired official murdered his own son, a middle-aged *hikikomori*, because he said he feared he might hurt someone.

When the phenomenon became widely noticed over a generation ago, few understood it. Recluses were considered lazy or odd. Mental-health care was scarce and official support nonexistent. Parents felt responsible and were too mortified to look for help. But even now, occasional crimes involving recluses stoke concerns that they are dangerous, says Morito Ishizaki, a recovered *hikikomori* who runs a magazine for sufferers. In fact, he explains, they are rarely criminal. Many have just buckled under pressure at school or work and have withdrawn to their childhood sanctuaries.

Support groups are springing up around the country. Tokyo is among several cities with helplines and websites that try to reach shut-ins, who range from teenage school dropouts to salarymen who have been sacked. Ageing parents often come seeking help, says Ichiro Miyazawa of Tokyo's metropolitan government. He says they worry that after they die, their *hikikomori* children will not be able to survive.

More than half of Japan's recluses are now aged over 40, according to a Cabinet Office survey this year. That shocked the government, which had assumed the condition mainly afflicted the young. Tamaki Saito, a psychiatrist who popularised the term *hikikomori*, says the government is partly to blame for turning a blind eye. Now the problem has grown. If it is not tackled seriously, many more might become recluses, he says.

Yet luring isolated people in their 40s and 50s back into society is hard, Mr Miyazawa accepts. The city can send counsellors out to homes only if asked. But often families themselves cannot communicate with their reclusive children. Mrs Shibata speculates that her son was bullied at work, but cannot be sure. He has not said a word since he returned. His two brothers

cannot talk to him. One day the bright, sensitive man she knew will bounce back, she hopes. But many may never come out of their shells.

**Elections in Hong Kong**

No time for the party line

No time for the party line

**Hong Kong's democracy movement has gained a big electoral boost***President Trump's signing of bills in support of the territory's freedoms has fuelled China's anger*

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AFP

**A**FTER NEARLY six months of unrest in Hong Kong, involving increasingly violent protests, vandalism and transport chaos, the government had reason to hope that public opinion might have turned against the demonstrators. No such luck. Instead, voters handed a stunning victory to pro-democracy candidates in district elections on November 24th. The message was plain: for all the recent mayhem, Hong Kongers strongly dislike their government and its backers in Beijing. The result was a strong endorsement of the protesters' campaign for political freedoms.

Ostensibly the election was merely about picking 450-odd representatives to district councils—bodies that recommend policies relating to humdrum local problems. This time, however, the turnout was huge—a record, indeed, for any kind of election in Hong Kong that involves a public vote. Nearly 3m voters—more than 71% of those registered—took part, up from 47% four years ago (some are pictured queuing). After casting her own ballot, Hong Kong's chief executive, Carrie Lam, dismissed the idea that this was a vote of confidence in her leadership. Perhaps she had sensed the approaching electoral avalanche. Pro-democracy politicians won almost 90% of the seats and took control of 17 of the 18 councils. Previously they had dominated none of them.

Mrs Lam has promised to “seriously reflect” on the results. Many people will expect her to do more than that—at a minimum, by reshuffling her cabinet and advisory boards to include voices from outside the establishment, and by launching independent judge-led inquiries into the causes of the protests and police handling of them. Since the elections, however, Mrs Lam has given no hint that she will agree.

That will surprise few of the protesters. Mrs Lam—probably at the urging of officials in Beijing—has shown little inclination to make further concessions after her decision early on to abandon the draft extradition bill that triggered the unrest (it would have allowed suspects to be tried by courts in mainland China). But democrats will take heart nonetheless. They hope the outcome of the elections will help their side gain strength in other, more important, bodies.

One of these is the Legislative Council (Legco), to which elections will be held next September. Only half of Legco's 70 members are directly elected, using a system of proportional representation that allows pro-establishment candidates to gain seats despite not having pluralities, let alone majorities. Other seats are mostly filled by so-called "functional constituencies", in which the electorate is limited to people working in certain jobs. Pro-government candidates do well in these. But six of the seats are reserved for district councillors. The pro-democracy camp can now expect to capture them as well as more of the others. They may even be able to gain a majority of Legco's seats.

Opposition politicians also hope to increase their hitherto minuscule influence over the selection of chief executives. This is done by an "election committee" comprising 1,200 people chosen by methods designed to marginalise democrats, who have previously made up less than 30% of the membership. But nearly 10% of the seats are reserved for district councillors. That bloc will now be controlled by supporters of greater democracy. Democrats will still fall well short of a majority, and there is no chance that a critic of the Communist Party could become a candidate for chief executive. But it is now more possible that democrats could play a king-making role if they align with other factions to back a certain contender.

Leaders in Beijing should be worried. Unlike the mayhem of the past few months, the orderly voting and the clear verdict it delivered cannot easily be spun to the Communist Party's advantage. The mainland's media have avoided highlighting the results. Instead they have tried to portray the elections as unfair, with pro-establishment candidates unable to campaign properly because of a "black terror" unleashed by Western-backed protesters, who have adopted that colour as their symbol. On November 27th President Donald Trump's signing of laws supporting democracy in Hong Kong gave added impetus to China's denunciations of Western plots. The election results are likely to confirm Chinese officials' belief that Hong Kong needs to be ruled with a firmer hand.

Mrs Lam appears safe, for now. She says the central government does not blame her for the results. But she will find it tough to keep her grip amid widespread grumbling in the pro-establishment camp that her failings—including her handling of the extradition bill—caused the electoral rout. Her term is due to end in 2022. Some of the government's supporters privately say they want her gone before then.

A few democrats would like to reopen discussion about a proposal in 2014 by the Chinese government that would allow the public to vote for the next chief executive, but only from a list of candidates approved by the election committee. This was voted down by pro-democracy legislators in 2015, because they felt it would allow the Communist Party to control the outcome. Some now see merit in such a reform, given the party's resolute refusal to allow full democracy. But Benny Tai, a lawyer and prominent pro-democracy activist, says that even if the proposal were to be revived, the public would not accept it.

The elections have shown that in spite of the Communist Party's obduracy and the economic harm that the protests have caused, Hong Kongers still have a strong appetite for democracy. When *The Economist* went to press, a week had passed without large protests on the streets. But activists say the lull is temporary. Unless Mrs Lam makes a convincing move to satisfy their demands, they will soon be back. ■

Heading south

## The voyage of two icebreakers have been creating headlines in China

*Their journey confirms that its dreams of becoming a "polar great power" involve Antarctica, too*

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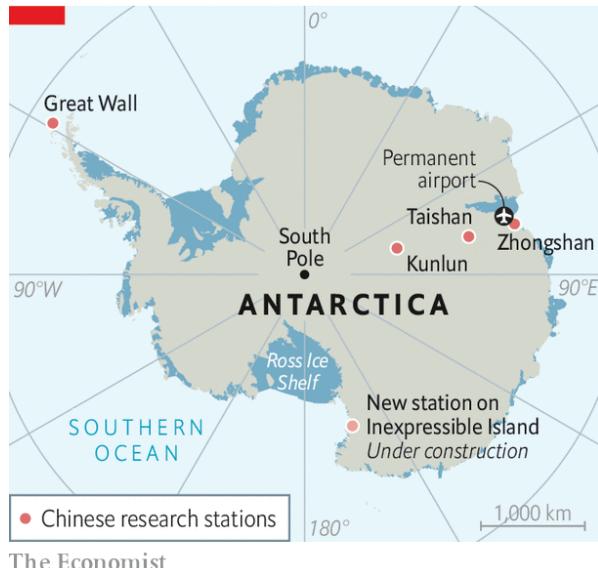


Eyevine

FOR WEEKS Chinese state media have been proudly reporting the progress of two icebreakers, *Xue Long* and *Xue Long 2*, on their voyage to Antarctica. China has maintained research bases in the Earth's southernmost region since the 1980s, but the approach of these vessels (their names mean "snow dragon") has been described as the start of a "new era" for the country's exploration there. Of about 20 countries that have year-round bases on the continent, China's activities are growing fastest.

After crashing through 12-foot waves and nearly 200 nautical miles of ice floes, the two ships drew close to one of China's stations, called Zhongshan, on Antarctica's eastern rim (they are pictured, led by *Xue Long 2*). On November 20th members of the mission's Communist Party committee flew the final stretch by helicopter, bearing fruit and vegetables for the base's occupants. It was a moment that China relished. *Xue Long* is a Ukrainian vessel built in 1993. But the newer of the "twin dragons", as China's media calls its only two civilian icebreakers, was launched just last year. It is far more powerful and manoeuvrable. And crucially, as the country's media keep pointing out, it was made in China.

The country's leader, Xi Jinping, says China should become a "polar great power". At the other end of the world, this ambition has long been evident. The country is excited by possibilities in the Arctic as the Earth warms: fish, minerals, oil and gas that will become easier to extract; new shipping routes that will open up and shorten journeys between China and Europe. To facilitate this, China has been mulling the idea of building ports and other infrastructure in the Arctic.



The Economist

The Antarctic has fewer obvious potential benefits for China's economy. But it is abuzz with Chinese activity. Last year China began building its first permanent airport in the region. Chinese tourists have been piling in: between 2015 to 2018, their numbers more than doubled to about 8,100—second only to the number of American sightseers. In July an American air-force general warned that Antarctica was “just a number of years” away from becoming as competitive an area as the Arctic, where great powers are jostling for economic and strategic advantages.

Such rivalry is supposed to be absent in Antarctica. It is governed by the 54 signatories of the Antarctic Treaty, which China joined in 1983. One aim of the 60-year-old pact is to keep Antarctica free of military activity (unlike the Arctic, which is teeming with it). China says it supports that.

But some Western analysts are suspicious. Elizabeth Buchanan of the Australian National University says the treaty has loopholes. It allows countries to use legitimate scientific study as a cover for military and economic projects. China has installed equipment in Antarctica related to its satellite-navigation system, Beidou—which since this year has been operating more satellites than its American equivalent, GPS. The kit boosts the accuracy of weather maps but also improves missile precision, says Anne-Marie Brady, author of “China as a Polar Great Power”. Some Western military analysts believe that the crew on China’s icebreakers, though dressed as civilians, are really military personnel.

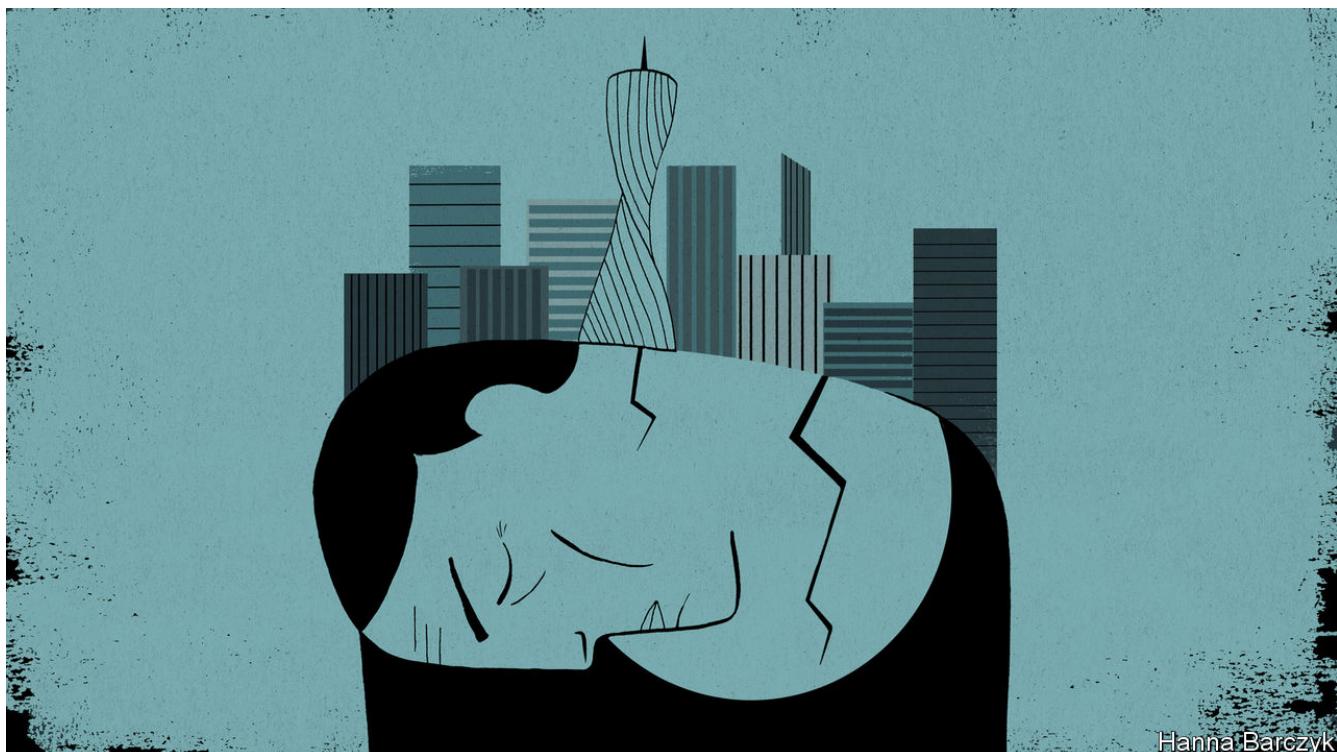
China has made it clear it wants more say in governing Antarctica. It resents the West’s sway there—evident, as it sees it, in attempts by Western countries to designate protected areas where fishing is limited or banned. China sees these as a bid by Western countries to “re-exert their dominance over the southern ocean”, says Klaus Dodds, who is a co-author of “The Scramble for the Poles”.

China has a controversial proposal of its own. It wants to establish an area under its management in Dome A, a region of nearly 20,000 sq km to which Australia has a largely symbolic claim. It includes the highest point on the Antarctic ice sheet—ideal for astronomical observation. China’s plan, however, has no backers.

Western polar experts are divided over how much to worry about China’s Antarctic moves. Some believe the country’s main aim is to develop “soft power”, such as by co-operating with other countries in scientific research. All agree on one thing, however. China wants a high profile there. ■

**Chaguan****The migrants who made China an industrial giant face a grim retirement***Those who built the new China are still suffering for it*

Print | China Nov 30th 2019



**E**VEN IN A China filled with the shiny and the new, the southern city of Guangzhou stands out. A generation ago it was a smoggy, sweltering sprawl of factories and workshops, a bit embarrassed by its history as a semi-colony of Western powers, who knew it as Canton. Now Guangzhou aspires to be a hub of global commerce. It boasts the 600-metre tall Canton Tower, an opera house designed by Zaha Hadid and high-speed trains that can reach Beijing, 2,300km to the north, in just eight hours. Yet Guangzhou's rise had human costs. The province of Guangdong, of which it is the capital, is a hotbed of worker unrest, with 129 strikes and protests logged this year by China Labour Bulletin (CLB), a Hong Kong-based monitor of workers' rights. A growing number involve workers reaching retirement age, who discover that—because they fall through gaps in the welfare safety-net, or because employers skimped on pension contributions—a meagre future awaits.

China's migrant workers, who for 30 years have left inland villages and townships for coastal boomtowns, are growing old. Their average age is now over 40. Nearly a quarter are over 50. More than a tenth of all strikes, sit-ins and protests recorded by CLB in 2018 and 2019 involved rows over pensions and social insurance. The latest national survey on living conditions of the urban and rural elderly, published in 2018 on the orders of the Communist Party's Central Committee, describes startling inequalities. About 100m retired Chinese covered by the unified basic urban pension system, to which most full-time urban workers contribute, received average monthly benefits of 2,600 yuan (\$369) in 2016. But about 150m retirees had to make do with a state pension scheme open to both urban and rural residents. They received on average 117 yuan (\$17) a month, a pittance even in a poor region.

There are 288m migrant workers in China, of whom 173m work far from their home towns. In theory, they should enjoy the same social protections as urban Chinese with permanent residence permits who live in big cities like Guangzhou. They do not. Today's 40- and 50-something Chinese migrants are a "lost generation", argues Mark Frazier of the New School in New York. They fall between the oldest, pioneering migrant workers who were expected to head back to the countryside in retirement to eke out a living from tiny plots of land, and today's 20-something workers, who are less inclined to seek distant factory jobs and are more likely to be covered by social-security protections from a patchwork of new labour laws and insurance schemes. Few see the current system as sustainable, amid gloomy statistics about falling birth rates and the shaky finances of the main urban pension fund: the Chinese Academy of Social Sciences predicts it will go bust by 2035. Plans are afoot to increase China's retirement age, which is normally 60 for men, 55 for women in white-collar jobs and 50 for female blue-collar workers, though the rules vary by region.

None of those plans will help a group of older workers who spoke to Chaguan recently in Guangdong. The seven women and one man showed hands too damaged by factory work to pour tea without shaking. They shared stories of parental guilt after failing to return home for two or three years at a time, leaving children to be brought up by grandparents. Even during the spring festival, an occasion for family reunions, there was valuable overtime to be earned, said a 50-year-old woman from Hubei province. Besides, returning to the village would have involved long train journeys and buying clothes, shoes and other gifts for many relatives. “We spent 20 spring festivals here,” she said wistfully. Unfortunately, before she reached retirement age in September, she learned that she could not draw her full pension in Guangdong because she began to make social-insurance payments after she was 40. If she had local residency she could make back-payments towards the 15 years of contributions needed. As a migrant, her only option was to return to Hubei, where her pension might come to 600 yuan (\$85) a month. She compared her fate to an old, bitter saying: “Unharness the donkey from the grindstone, then butcher it.”

Another woman had worked at a handbag factory owned by Simone, a South Korean firm, for nearly 20 years. She alleged that her employer had failed to make the correct payments into a state housing-savings fund that serves as a second pension for many. After she complained, she said the firm had denied her overtime and warned other workers to avoid her. Simone denies these allegations. It says it takes employee benefits seriously and “strictly follows” and even exceeds China’s labour-law requirements.

### **A people's republic, for the benefit of bosses**

The eight workers had varied problems, but all described a system in which social stability is the authorities’ guiding obsession. That preoccupation can offer workers slivers of power if they make just enough trouble, perhaps by staging a respectful sit-in at a government office or party-controlled trade union (China bans independent ones). If enough workers complain, companies will often “budge and pay”, one of the workers said. When they go further and organise, for instance through social-media groups, repression follows. In March, during meetings of the national legislature in Beijing, some workers in Guangdong used social media to discuss submitting a petition to the central government. The term “petition” triggered an algorithm. Police dragged workers from dormitory beds and humiliated them with strip searches, Chaguan was told. Other workers were reportedly evicted after landlords were told they were “problematic” by officials.

Many of the hardships described around that table in Guangdong would cost only small sums to resolve. Alas, it would also involve those who wield power deferring to the rights of individual workers. Instead, those workers must navigate a ruthless system in which they must plead and bargain for what they have earned. A remarkable generation of migrants built the new China. They are still paying the costs, in broken hands, backs and hearts. ■

## Ending Darfur's misery

A slender chance for peace

A slender chance for peace in Darfur

### Sudan's revolution could end the conflict in Darfur

*The transitional government is opting for talks instead of force*

[Print](#) | Middle East and Africa Nov 28th 2019



AFP

**M**EN WITH guns fill the town of el-Fasher in western Sudan's troubled Darfur region. At the airport dozens are boarding or disembarking from planes, wearing uniforms of the Rapid Support Forces (RSF), a unit formed from Sudan's murderous militia known as the Janjaweed.

Down the road is the headquarters of UNAMID, the UN peacekeeping force that was brought in 12 years ago to stop a genocide by the Janjaweed and Sudan's army, whose base is in the centre of town. Seven months after the fall of General Omar al-Bashir, the Sudanese president accused of orchestrating that genocide, el-Fasher still looks like a town on the edge of a war zone.

But it has become more colourful of late. Mud walls along dusty streets are daubed with murals of the national flag and revolutionary slogans like "Sudan is for all". They reflect a burst of optimism that a revolution that swept through Khartoum, the capital, in April may bring peace to a region synonymous with suffering.

This hope has been fuelled by a power-sharing agreement signed in August between leaders of the protest movement and the generals who had staged a coup when it was clear that Mr Bashir would fall. The deal committed the interim government to negotiating a "comprehensive peace" in Darfur and other states afflicted by conflict within six months. The new government, headed by Abdalla Hamdok, an economist-turned-prime-minister, has since set up a peace commission and revived talks with rebel groups in Darfur.

Sudan has been at war almost without interruption since its independence from Britain in 1956. For years an Arab-dominated Islamist government battled rebels from the Christian and animist south. Perhaps 2m people died in these wars before South Sudan was recognised in 2011 as Africa's newest country.

In 2003 armed groups began a rebellion in Darfur, a relatively prosperous region the size of Spain where black African locals complained that the government in Khartoum was oppressing them. In response, Mr Bashir armed nomadic Arab cattle-herders, turning them into the Janjaweed, a horse-mounted militia that was unleashed upon black farmers with such savagery that in 2010 the International Criminal Court (ICC) indicted Mr Bashir on charges of genocide.



The Economist

Many of those who were chased from their homes languish in camps near towns like el-Fasher or in neighbouring Chad. Their lands are occupied by armed Arab tribes that the victims still call the Janjaweed. Abdulrazig Abdallah, an elder in el-Fasher, says four people from his camp were killed in early September when they ventured to their farms for the harvest. Such incidents are commonplace.

The new government has declared a ceasefire with rebels, which even the most recalcitrant seem to be observing. “This time both sides are serious,” says a UN official. Rebel leaders have been invited back from exile. And the government has markedly improved access for humanitarian organisations and journalists.

Jeremiah Mamabolo, who heads the UN’s operation in Darfur, reckons a peace deal between the government and the rebels will be signed by early next year. But to have any chance of success it needs the support of Abdel Wahid al-Nur, the most influential but least compromising Darfuri rebel leader, who may soon return to the region after more than a decade in Paris. His faction of the Sudanese Liberation Army has, by some estimates, 2,000 fighters who are holed up in Darfur’s Jebel Marra.

Resolving some of the issues fuelling the fighting will be tougher still. When the new prime minister visited a camp for displaced people in November, angry victims demanded their land and compensation. They also want to see the perpetrators of the attacks—in particular Mr Bashir—held to account.

Whether any of these demands will be met depends on the balance of power between generals and civilians in the transitional government. Although Mr Hamdok runs a largely civilian administration, it is overseen by an 11-member Sovereign Council currently led by Lieutenant-General Abdel Fattah al-Burhan. The general is unwilling to hand Mr Bashir over to the ICC.

Also on the council is Muhammad Hamdan Dagalo (known as Hemedti), an Arab Darfuri who controls the RSF, which added to its many crimes by slaughtering more than 100 protesters in Khartoum in June. The former camel-rustler has been steadily extending his influence over the peace process. When the two sides met in Juba, South Sudan’s capital, in October, Mr Dagalo led the government’s delegation. Diplomats note wryly that its two civilian representatives were not even introduced at the table. It is hard to see how Mr Dagalo would benefit from a peace agreement that might reduce the influence of the RSF, which he has recently been expanding, and could lead to scrutiny of his business interests—such as gold mines, an industry that has fuelled the conflict.

Even if the talks lead to a lasting peace in Darfur, Sudan will need to address an issue that contributes to wider instability: little of the country’s wealth gets spread very far beyond Khartoum. Under Mr Bashir some 65-70% of state spending went on security. Almost nothing went to providing services such as schools in remote areas. “People in Khartoum don’t know anything about the rest of the country,” sniffs Said Shareef, a rebel commander.

In recent months protesters in Darfur have begun demanding everything from free education to better public transport. “Until now we haven’t felt the change that has come to the rest of Sudan,” complains Haroun Nemir, a local leader.

Each of Sudan’s previous uprisings against military dictatorships—in 1964 and 1985—failed either to produce stable democracy or to solve the problem of governing distant, unruly places whose inhabitants resent the rulers in Khartoum. Now the country has a chance to do things differently. But it is a slender one. ■

Ghana's fight club

## Bukom boxers draw on a long fighting tradition

*The Accra neighbourhood that is a cradle of pugilistic champions*

Print | Middle East and Africa Nov 28th 2019



Getty Images

**T**HIS IS WHERE the magic happens," says Carl Lokko, a boxing coach. His gym in Accra, the capital of Ghana, has two punchbags, a weights machine and a tin roof. A dozen young men, all sweat and sinew, are shadow-boxing or skipping furiously. "Everybody wants to be a boxer," says one, fists thudding into an invisible opponent. He calls himself "Rich Man" Ashley, a name which betrays his ambition. He says he fights for money and the chance "to go outside", to Europe or America.

The gym is one of about 30 in Bukom, a fishing district in Accra that is known as a cradle of champions. David Kotei, better known as DK Poison, fought his way off these streets; in 1975 he became the first Ghanaian to conquer the world. Another local boy, Azumah Nelson, is revered as the greatest African boxer of all time. The holder of the International Boxing Federation's lightweight belt, Richard Commey, is one of Mr Lokko's protégés. Most of Ghana's ten world champions have passed through Bukom.

The stars of today come from a "bloodline of warriors", says Ekow Asmah, a sports journalist. In the early 20th century, boys from Bukom organised bare-knuckle brawls on beaches and moonlit streets. This *asafo atwele* ("group fighting") helped to anchor the identity of the local Ga people in the fast-growing city. When colonial administrators cracked down, Ga fighters embraced Queensberry rules. From the traditional scuffles they inherited a whirling-fisted style and pugilistic pride. Mothers gave smaller dinner portions to sons who came home defeated and crying. Locals still boast that no one will separate two boys who start to fight.

Aspiring champions rise at dawn, running past the fishing boats on the beach. In the muggy evenings they spar on street corners or train in open-air gyms. Some first pulled on the gloves when they were six years old. Bukom is one of the poorer parts of town, and boxing offers a route out of its congested alleys. "Most Ghanaian boxers come from adverse circumstances," says Mr Asmah. "These are the real-life opponents that you must conquer."

Aficionados worry that Ghana is squandering its fighting talent. Although the previous government opened a 4,000-seat boxing arena in Bukom, a longstanding "soccer bias" crimps funding, complains Peter Zwennes, who heads the Ghana Boxing Authority. Promoters lack the means to stage big fights regularly. But Mr Lokko is not worried about the future. He points to the corner of his gym, where a posse of children watch with wide-eyed awe, their hands clenched into tiny fists.

Israel's charged politics

## Binyamin Netanyahu's allies reconsider their indicted leader

*The prime minister faces corruption charges—and a leadership challenge*

[Print](#) | Middle East and Africa Nov 28th 2019



AP

THE RALLY'S organisers feared that turnout would be low. Even after a flurry of text messages and a big internet campaign, an underwhelming crowd of several thousand people showed up in downtown Tel Aviv on November 26th to protest against the "coup d'état". That is how Binyamin Netanyahu, Israel's prime minister, refers to the legal campaign against him. Five days earlier he was charged with bribery, fraud and breach of trust stemming from three corruption cases. Mr Netanyahu is the first sitting prime minister to be indicted. He denies all charges.

The prime minister claims to be the victim of a left-wing conspiracy. Biased courts, police and media are to blame for his problems, he says. But after a decade in power, his grip on Israeli politics is weakening. His coalition of nationalist and religious parties failed to win a majority in two successive elections, in April and September. The opposition, led by the Blue and White party, has also come up short. Yet it has frustrated Mr Netanyahu's attempts (and failed itself) to form a government, pushing the country towards another election. Cracks are even showing in his own Likud party, where he faces the most immediate challenge to his rule.

Likudniks stuck with Mr Netanyahu even as it became clear earlier this year that the charges against him were coming. Many believe he is indeed a victim. Others think his political acumen gives them the best chance of winning elections. But some are starting to question both notions. It "isn't an attempted coup," says Gideon Saar, a former Likud minister. "Not only is it wrong to say that, it's also irresponsible to say that." He plans to challenge Mr Netanyahu for the party's leadership: "I haven't heard one person who thinks that after a third election, or a fourth, or a fifth, or a sixth, Prime Minister Netanyahu will succeed in forming a government."

Other Likud bigwigs are steering clear of the prime minister. The rally on November 26th was organised by the party, yet most of its members of the Knesset (parliament) didn't show up. Mr Netanyahu has conceded that a vote on his party leadership is needed. Mr Saar wants it to be held immediately, so that a new leader would have a shot at negotiating a government with Blue and White before the December 11th deadline, after which another election must be held. Mr Netanyahu prefers to delay in order to guarantee himself more time in power. Even if he loses control of the party, he would remain prime minister until a new government is formed.

Since its founding by Menachem Begin and Ariel Sharon in 1973, Likud has had only four leaders. It has never voted one out. Most have been successful: prime ministers from Likud have led Israel for 30 of the past 41 years. Having grown accustomed to power, some members now fear losing it. Mr Netanyahu no longer resembles the political "magician" who won four elections

and became Israel's longest-serving leader earlier this year. But he is still popular with the party's rank and file. And, so far, no high-ranking Likudnik other than Mr Saar has called for him to go.

Mr Netanyahu could lose his job in other ways. The law does not explicitly require an indicted prime minister to step down, but many Israelis question Mr Netanyahu's ability to run the government while mounting his defence, and note the potential conflicts of interest that come with his power over the justice ministry and the police. His decision to remain in office is therefore likely to be challenged in court. Israel's president, Reuven Rivlin, may also refuse to ask Mr Netanyahu to form a government even if he wins another parliamentary election.

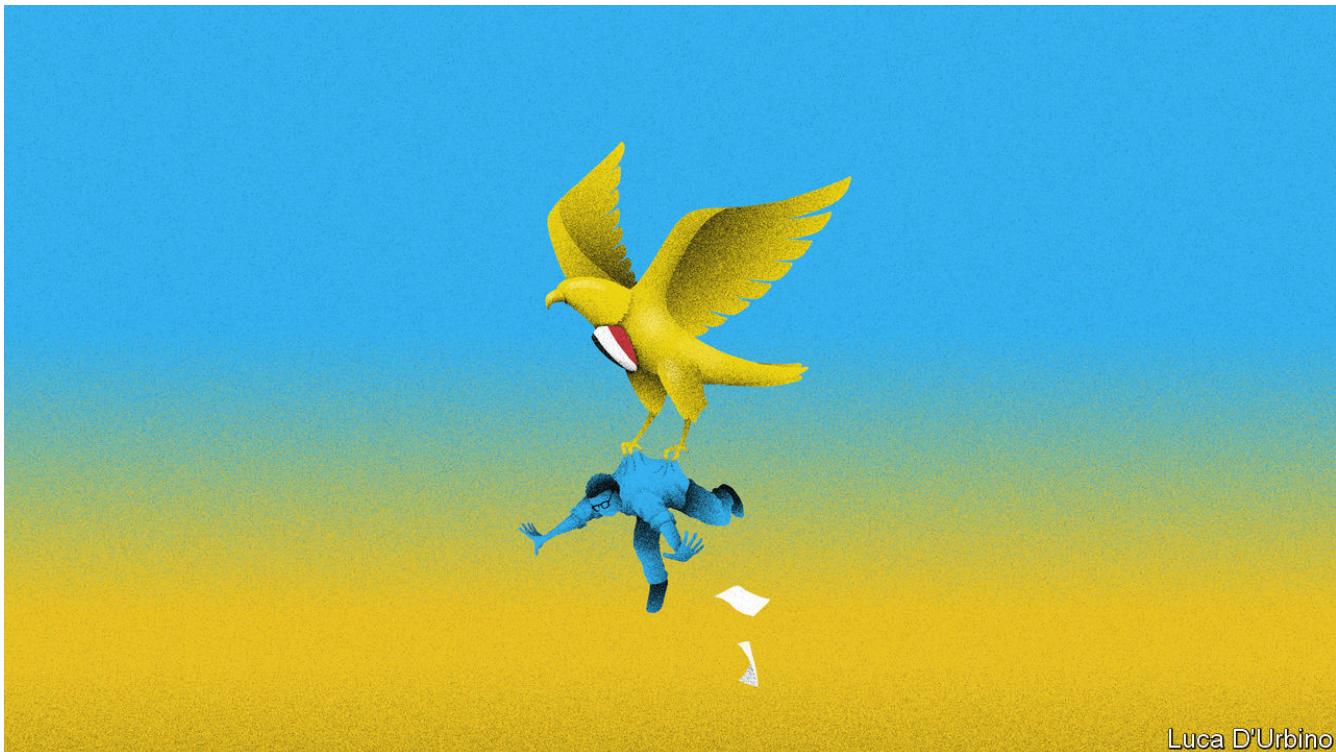
The prime minister is already preparing for one. His rhetoric is strikingly similar to that used by President Donald Trump, who is fighting his own battle against impeachment in America. "This is an attempted overthrow of a prime minister with a biased investigation," says Mr Netanyahu, ignoring the fact that his former cabinet secretary, who is now attorney-general, brought the charges. Critics say Mr Netanyahu, like America's president, is sowing division and damaging institutions—but perhaps not for much longer. ■

Sisi and son

# The authorities in Egypt raid Mada Masr—and reveal their fears

*The news website had reported critically on the president's son*

Print | Middle East and Africa Nov 28th 2019



UNTIL LATE November the staff at *Mada Masr*, an online newspaper, would sometimes wonder, only half in jest, why they had not been arrested. These are bleak times for Egypt's press. No country, except for China and Turkey, locks up more journalists. A private-equity firm with links to the security services has snapped up once-popular newspapers and television stations. Most media outlets are now controlled by the state or its allies. The regime dictates headlines to servile editors.

Founded in 2013, *Mada Masr* (which means "the scope of Egypt") is a rare exception. It is the last big venue for free, critical journalism in Egypt. Although its website has been blocked in the country for the past two years, its content can still be perused using a virtual private network (VPN) or on Facebook. Authorities have not moved to shut it down, perhaps in part due to its prominence abroad. Published in Arabic and English, it is a vital resource for diplomats and analysts.

But just before dawn on November 23rd plainclothes officers arrested one of its editors, Shady Zalat, at his flat in Cairo. They did not have a warrant. The next afternoon police raided *Mada Masr*'s office, confiscating phones and detaining three of its staff, including the editor-in-chief, Lina Atallah. As police raids go in Egypt, this one was mild. All three were released within hours. So was Mr Zalat, dropped unceremoniously on the side of a highway. Still, the raid was a warning—one that reveals much about the regime's fears.

Egypt's public prosecutor claimed that the website had links to the Muslim Brotherhood, a banned Islamist movement. That was a predictable assertion—the Brotherhood is blamed for everything in Egypt. It is also laughable. *Mada Masr* has a leftist bent, and many of its journalists sharply criticised the Brotherhood during its bumbling year in power.

It seems more likely that the raid was triggered by a critical report about Mahmoud al-Sisi, the eldest son of President Abdel-Fattah al-Sisi, Egypt's army-backed dictator. Mahmoud has risen rapidly through the ranks of the General Intelligence Service (GIS), a spy agency that reports directly to the president. According to *Mada Masr*, however, Mahmoud will soon be quietly packed off to Egypt's embassy in Moscow.

Branches of Egypt's sprawling security apparatus have long competed for influence. Gamal Abdel Nasser, a former president, used the GIS as a tool to monitor rivals in the army. The elder Mr Sisi has tried to pack the agency with loyalists, many plucked from the military-intelligence service where he spent a career in uniform. That has rankled long-serving officers, as has Mahmoud's prominent role.

The son's performance has not won many plaudits either, reports *Mada Masr*. One of his portfolios, as a sort of media tsar, seems to have left even his father unimpressed: Mr Sisi has criticised Egypt's press for being insufficiently supportive. The

last straw seems to have been Mahmoud's handling of unexpected protests in September. These were triggered by videos shot by Muhammad Ali, a businessman and film star who claimed to know details of corruption in projects being overseen by the armed forces.

The protests were small and fizzled out within a week. They posed no serious threat. But the regime reacted furiously. More than 4,000 people were arrested, a figure that may far exceed the number of actual protesters. For weeks, police in downtown Cairo would force passers-by to unlock their phones so officers could check their social-media accounts for subversive content. If anything, the crackdown brought more attention to the protests.

The regime is trying to crush any other forms of dissent, too. This month police arrested a Coptic activist, Ramy Kamel, and charged him with terrorism for his work documenting attacks on Christians, which often go unpunished. Economists who question the official narrative can find themselves hauled in for a different sort of questioning. And earlier this month the government offered a tour of Tora prison, which is notorious for torture. Inmates, no doubt free to speak their minds, praised the quality of the food.

Mahmoud, for his part, is not gone. His new assignment looks more like a cooling-off period than a permanent sidelining. Russia is hardly a backwater. But the move is a rare concession from a regime loth to admit failure. The elder Mr Sisi argues that Egypt needs a stable hand after years of political chaos. This stability has a Potemkin quality to it. He is repeating many of the mistakes of his predecessors, from a focus on state-led economic growth to a reliance on favourite sons. And his defences, in the face of rare but legitimate criticism, are increasingly threadbare. ■

## Food fight

# The Houthi rebels wrestle with the UN over food aid

*The tussle has left millions of Yemenis in need*

[Print](#) | Middle East and Africa Nov 28th 2019



EPA

**T**O THE HOUTHI rebels, aid workers are spies and food is a tool of espionage. For nearly five years the Houthis have waged war against the Yemeni government, capturing much of the country and helping to create what the United Nations calls the worst humanitarian crisis in the world. About half of the population relies on food aid. But instead of helping it reach the needy, the Houthis are getting in the way. Over the past two years they have detained dozens of relief workers. The UN accuses them of blocking aid of all kinds to some 5m people.

As the Houthis see it, the UN is being used by their enemies, Saudi Arabia and the United Arab Emirates, which support the government. The two countries donate much of the \$4bn that the UN spends each year in Yemen. In return, say Houthi officials, the body serves as their eyes and ears in the north. Houthi preachers accuse the UN of withholding aid for the hungry or sending rotten food. “If the Saudi-backed coalition doesn’t kill you, the UN will,” say the Houthis’ backers on social media.

The UN used to blame a Saudi and Emirati blockade for malnutrition in the north. Its focus has shifted to the Houthis, though. The World Food Programme (WFP), which manages half of the UN’s budget in Yemen, imports enough food for 12m people. But the Houthis’ network of *mushrifeen* (supervisors) often determines who gets it. The families of supporters and those who go to the front are well fed. Some of the food is diverted to favoured traders, who sell it. Areas where the Houthis are unpopular tend to lose out.



The Economist

In November the Houthis unveiled a new body to oversee all humanitarian efforts. It is headed by a security official. Yemenis working for groups such as the UN must file reports on their activities. International aid agencies face pressure to hire Houthi loyalists, pay “customs taxes” and cover the rebels’ expenses. Those that do not do so risk losing their access or having their staff detained.

Distributing aid is hard enough in Yemen without Houthi interference. The WFP relies, in part, on a census from 2004. Earlier this year it wanted to roll out a biometric system to identify those most in need, but when the Houthis realised it would bypass their supervision they balked. The system is already used in government-controlled areas.

“Anywhere else, the UN Security Council would have gone nuts,” says a UN official in Sana'a, the Houthi-controlled capital. But the UN’s special envoy, Martin Griffiths, wants to keep the rebels at the negotiating table as he tries to achieve peace. Many of those involved with aid in the north are afraid to speak out, or are caught up in the Houthis’ schemes. UN officials suspect that a number of the organisation’s own workers have colluded with combatants on both sides of the war to get rich from aid.

Some officials worry that if the UN condemns the Houthis too loudly, donors will walk away from aid programmes or the rebels will pull the plug on them. It may not seem like it, but things can actually get worse.

## Nuclear weapons

Over here

Over here

### Turkey's Syria move highlights America's tactical nukes in Europe

*There are still 150 or so of the things*

[Print](#) | [Europe](#) Nov 28th 2019



SSgt. Cody Griffith/USAF

**G**ERMANY OWNS no nuclear weapons. It renounced the very idea when it reunified in 1990. But if war were to break out in Europe today, German pilots could clamber into German planes, take off from Büchel Air Base in Rhineland-Palatinate and drop nuclear bombs on Russian troops.

The Luftwaffe can do that thanks to NATO's nuclear-sharing scheme, under which America quietly stations nuclear bombs across five countries in Europe. The arrangement is decades old. But it has raised questions for some time—and clashes involving one of those nuclear hosts, Turkey, are making matters worse. As NATO leaders gather in London for a summit next week, Turkey's bombs will be on many minds.

In 1950 America moved its first bombs to Britain. In the subsequent decades it stashed a vast trove of nuclear weapons across Europe, numbering over 7,000 at their peak in 1971. Many were small devices known as tactical, or non-strategic, nuclear weapons. They were capable of exploding with yields of as little as a fraction of a kiloton—far smaller than the 15-kilotonne bomb dropped on Hiroshima. The smallest of them could fit into a backpack.

Today only about 150 remain. These are B61 free-fall bombs whose yield can be set anywhere from a third of a kilotonne to more than 170. They remain in American custody in peacetime and could be released only by a presidential order—but European pilots still train to drop them. Italy and Turkey are thought to have the most, perhaps 60 to 70 each, with smaller numbers in Belgium, Germany and the Netherlands.

The bombs that most worry American officials are stored in vaults at Incirlik air base in southern Turkey, a few hours by road from the Syrian border. During a military coup in 1960 and a diplomatic spat in 1975, America considered removing the bombs. During the failed coup against President Recep Tayyip Erdogan in 2016, Incirlik hosted the refuelling tankers that allowed renegade F-16 fighter planes to threaten Istanbul and Ankara. Mr Erdogan's regime responded by cutting power to the base and arresting its commander.

That prompted alarm in Washington about the security of its weapons and the risk that they could become hostages in the strained relationship with Turkey. Senior officers were sent to Incirlik, only to conclude that the bombs did not need to be removed. The warheads can be armed only by a code, and the vaults are automatically sealed if power is cut off, giving American forces time to fight their way onto the base if required. Nevertheless, in recent years America has considered spiriting away the bombs and replacing them with dummies.

Nukes were taken out of Greece in 2001 and from Ramstein air base in Germany in 2005. Pulling bombs out of Incirlik would remove vulnerable targets and implicit leverage. But if done clumsily it could worsen the diplomatic crisis and even prompt Mr Erdogan to pursue a nuclear-weapons programme of his own, something he hinted at in September. It would also restart a fraught debate over the presence of B61s elsewhere in Europe.

Opposition to nuclear-sharing has been simmering in Germany, in particular. Although Angela Merkel, Germany's chancellor, has defended the practice, her coalition partners over the past decade have repeatedly asked for the bombs to be withdrawn. Keeping them is tricky for technical reasons, too. Europe's current dual-capable aircraft (DCA)—those wired up to carry nukes as well as ordinary bombs—are approaching the ends of their lives. Belgium, Italy and the Netherlands are all buying America's F-35 as a replacement, but Germany ruled this out in January.

That was partly in deference to France, which wants to build its own next-generation warplane with Germany. The Luftwaffe could instead buy the F-18, an older American DCA. Or it could retrofit the European-built Typhoon to accommodate B61s. But as well as being expensive and time-consuming, that would expose European technology to American eyes. And neither plane is especially stealthy.

Nor is Incirlik the only cause for security concerns. In 2008 an American air-force review concluded that most European bases hosting weapons did not meet its standards. Support buildings, fencing, lighting and security systems were all deemed in need of repair. Two years later, peace activists entered a base in Belgium and roamed near its B61 vaults for an hour.

### Timebombs

If the bombs are politically troublesome and vulnerable, why keep them in Europe at all? Some NATO planners fear that if Russia attacked an ally like Estonia and then conducted a limited nuclear strike to stave off a Western counter-attack, it would not make sense for the alliance to respond with "strategic" weapons—those on longer-range missiles and aircraft that have much higher, city-destroying yields. Smaller bombs like the B61s are thought to allow a proportional response.

It is not entirely clear that the enemy would appreciate the distinction, however. And the military case for B61s is dubious for other reasons. The planes—if not destroyed on the ground—would struggle to get through Russian air defences. So America would probably use stealth bombers dispatched from across the Atlantic or submarine-launched missiles armed with a new low-yield warhead built under the Trump administration. NATO acknowledges that its "supreme guarantee" is provided by American, British and French strategic forces in this way, rather than by the Europe-based B61s.

In truth, the purpose of the nuclear-sharing scheme is more political than practical. The aim is to create a tangible and symbolic link between America and Europe. Allies who enjoy American nuclear protection must share the moral burden of nuclear use—and the cost of potential retaliation. At the same time, Europeans get a larger (if still modest) say in how American nukes might be used. That is thought to assuage their fear of abandonment.

That reassurance comes at a price. President Barack Obama toyed with the idea of bringing the bombs home, but ultimately deferred the decision. Instead, he authorised a \$10bn programme to extend their lives and increase their accuracy. The total cost of American tactical nuclear weapons will run to \$25bn between 2017 and 2046, about \$1bn a year. And if Turkey's relationship with allies continues to crumble, Europeans may feel less soothed than alarmed by the several megatonnes of weaponry sitting at Incirlik. ■

From caliphate to courtroom

## Turkey deports Islamic State fighters

*Europeans are not happy*[Print](#) | [Europe](#) Nov 28th 2019

Tom Conachy

LISA SMITH'S path from Dundalk, a town in Ireland halfway between Belfast and Dublin, to the murderous caliphate of Islamic State (IS) and back, has taken a few turns. A former soldier, Ms Smith converted to Islam and travelled to Syria in 2015 to live under IS rule. Detained by Kurdish fighters who helped bring down the caliphate, she escaped when Turkey launched an offensive against the Kurds in October, only to be captured by Turkish proxies. Now Ms Smith and the two-year-old daughter she had with a British extremist are poised to come home. "If all goes well," says a Turkish official, the two will be on a plane to Ireland "in a matter of days".

Many others are expected to follow. Since the start of the invasion, Turkey has fast-tracked the deportations of foreign IS fighters and sympathisers captured in Syria or locked up in Turkey. President Recep Tayyip Erdogan recently warned he would send all of them packing. "These gates will open and these IS members will continue to be sent," he said on November 12th, addressing European countries. "Then you can take care of your own problem."

Over the course of its offensive, Turkey has captured 287 people linked to IS, most of them women and children, adding to the 1,500 or so foreign fighters already held in Turkish prisons and deportation centres. Hundreds of other militants are said to have escaped during the fighting. Most of Syria's north-east remains in Kurdish hands, along with the area's prisons and camps, home to tens of thousands of militants and their families. Outside powers would like to keep things that way; both America and Russia say the Turkish assault has already offered IS a chance to regroup and plot attacks in Syria and elsewhere. Turkey itself remains vulnerable to IS resurgence. The head of Iraq's military intelligence branch recently said that some of the group's main financiers had found refuge in southern Turkey after bribing their way through Kurdish-held territory.

The deportations are not new. Turkey has already expatriated some 7,600 suspected fighters over the past several years, officials in Ankara say. But Mr Erdogan's decision to speed up the process, as well as the Turkish invasion, have focused minds on the fate of the thousands of foreigners, ranging from hardened extremists to toddlers, who are packed into prisons and camps across the whole region.

Many European countries would prefer them to stay there. Some have stripped dozens of their nationals of citizenship. Governments fear the political backlash that allowing returns would provoke, not to mention the devastating electoral consequences of any attacks by those returning, says a recent report by the International Crisis Group (ICG). Collecting evidence and prosecuting them also poses a headache. Strict requirements for obtaining a conviction mean that those returning to some Eu-

ropean countries may walk free, the ICG says. Already, dozens of women and men have come back from Syria without serving time in detention.

Deporting Ms Smith should be easy, though DNA tests may be needed to confirm her daughter's identity. Prosecuting her will be much harder. The next front in the war against Europe's jihadists will be back home, and in court. ■

## Daphne's shadow

**The murder of a journalist in 2017 still haunts Malta's government***Two ministers resign and a rich businessman is arrested*

Print | Europe Nov 28th 2019



Alamy

**T**HE RESILIENCE of Joseph Muscat's Labour government has been a wonder to behold. For six years, fortified by the support that comes with rapid economic growth (Malta's GDP rose by 6.8% in 2018), it has withstood sleaze allegations that would have toppled other administrations.

But on November 26th the government reeled. One of his ministers, Konrad Mizzi, resigned. Another, Chris Cardona, said he was "suspending himself". Hours earlier, Mr Muscat's chief of staff, Keith Schembri, stepped down. That was hardly surprising: Mr Schembri had been interrogated by police investigating a murder. He is now believed to be under arrest. Mr Cardona had also been questioned in connection with the case. Both deny any wrongdoing.

The murder victim was a journalist, Daphne Caruana Galizia, killed by a car bomb in 2017. Her blog was the source of many of the corruption allegations. One was that Mr Schembri and Mr Mizzi had Panama-registered companies and trusts in New Zealand which, Ms Caruana Galizia reported and they denied, had received kickbacks from Russians in return for Maltese passports. She also claimed the politicians' firms were due to receive payments from a Dubai-registered company, 17 Black. Ms Caruana Galizia died before discovering who was behind 17 Black, but last year a journalists' collective set up to continue her work reported that the owner was one of Malta's richest men, Yorgen Fenech, who has interests in gaming, property and energy. Mr Mizzi and Mr Schembri deny any connection to him or to 17 Black.

Three men have been arrested and charged with Ms Caruana Galizia's murder. Few in Malta believe they were more than hired assassins. Who, if anyone, ordered her killing remains unknown. Earlier this month, however, police investigating a separate case arrested a 41-year-old taxi driver, Melvin Theuma, who offered information on the murder in exchange for a pardon. On November 19th the pardon was approved on condition he supplied evidence to police. The next day, Mr Fenech was arrested as he headed out to sea on his yacht. He has been given bail, but is under 24-hour police surveillance.

In a blog post Ms Caruana Galizia's son, Paul, said his mother had been investigating possible links between Mr Fenech, the two politicians and a gas-supply agreement with Azerbaijan when she died. It was to be "my mother's next big story", he wrote. "Weeks before she was killed, she began receiving thousands of internal documents from Fenech's energy company, Electrogas." Police had until November 29th to bring charges against Mr Fenech.

Recent events have stirred plenty of anger in Malta. Following the resignations, there were chaotic scenes in parliament as opposition lawmakers taunted Labour MPs with cries of "robbers" and "Mafia". A crowd pelted the deputy prime minister with eggs and coins as he left the building. Whether the fury will bring down Mr Muscat remains uncertain. On November 25th he

called a meeting of his parliamentarians. They gave him their unanimous backing. But a statement added cryptically that the meeting was “part of a process that will continue and lead to decisions”. ■

**Dig deeper**

1843 magazine, October/November 2018: “Murder in Malta”

Better late than never

## The new European Commission is approved

*And Ursula von der Leyen can at last get down to work*

[Print](#) | [Europe](#) Nov 28th 2019



Reuters

IT HAS NOT been the easiest of starts for Ursula von der Leyen. In July the EU's government heads alighted on the former German defence minister as their surprise choice to run the European Commission, Brussels's largest institution. She immediately suffered a series of reverses. The European Parliament approved her candidacy by the slimmest of margins. Of 26 proposed commissioners—one from each EU member government except for Britain, which refused to make a nomination despite having failed to Brexit—three were rejected. But on November 27th the parliament nodded through Ms von der Leyen's commission by 461 votes to 157. It will take office on December 1st, one month later than planned.

The commission is an odd hybrid of executive, civil service and watchdog. It has extensive powers in some areas, such as competition and product regulation, but few in others. Ms von der Leyen will oversee the work of 32,000 civil servants from her office on the 13th floor of the Berlaymont building in Brussels, which the hard-working president has also converted into a small flat. In one sense she arrives at a more propitious moment than her predecessor, Jean-Claude Juncker. The European economy is sputtering along and the crises that marked so much of his tenure are receding into the past.

Yet the global context looks more challenging. The transatlantic bond has frayed, and Chinese commercial and strategic ambitions are lapping at Europe's shores. In response Ms von der Leyen says hers will be a "geopolitical commission". She promises initiatives on defence, migration and industrial policy (which some fear could tip into protectionism). Sabine Weyand, who runs the commission's trade department, told an audience in Berlin this week that the EU would use trade as one weapon in its international policy arsenal rather than merely "following economic logic".

The new president will also face challenges from within. The fractured parliament that emerged after the European elections in May will not always prove so obliging as it did this week. Ever-present splits among governments will deepen as rich and poor countries bicker over the EU's seven-year budget, which must be agreed on in 2020. And fresh divides are emerging over Emmanuel Macron's disruptive ideas for EU reform, which spook status quo powers like Germany.

An early test will come on EU enlargement. Mr Macron's recent veto of membership talks with North Macedonia and Albania infuriated other EU governments. It falls to the commission early next year to propose changes to the existing process, as France's president wants.

Ms von der Leyen has promised a flurry of early initiatives, including on pay and the "human and ethical implications" of artificial intelligence. The first of her blockbusters will be a "European Green Deal", a set of climate proposals that are planned for mid-December. Ms von der Leyen aspires to turn Europe carbon-neutral by 2050 and to tighten the 2030 emissions target.

That implies tweaks to the EU's carbon-trading market as well as a tax on imports from less green places. These will be subject to the usual wrangling among governments with diverging interests and priorities. The EU's leaders may have put Ms von der Leyen in place, but they will not do her bidding. ■

In cold blood

## Big demonstrations in Paris over the murder of women

*There is nothing passionate about it*

Print | Europe Nov 28th 2019



EPA

A URÉLIE, AGED 50; Justine, 20; Martine, 64; Safia, 35; Denise, 58; Monique, 72; Aminata, 31. The names on the placards, carried by tens of thousands of protesters through the streets of Paris and other cities on November 23rd, were those of women murdered by their partners in France so far this year. Strangled, stabbed, suffocated, shot or beaten to death, the victims now total 138. The grim phenomenon, which campaigners call *fémicide*, has long been under-reported and poorly handled in France. The government now recognises the country's "collective failure" on the matter.

France has one of the worst records in the EU for the toll of women murdered by their partners. In 2017, the most recent year for which comparative data exist, 108 women were killed in such circumstances in France, up from 92 two years previously. Germany saw worse, with 153 such murders in 2017, but the record in both countries is far worse than in Britain (75) or Italy (56). In France they constitute over 10% of all murders each year. In the past, as if to excuse them, such killings were often treated as *crimes passionnels*. Today, campaign groups want it known that these are in reality unspeakable cold-blooded murders.

Although Frenchwomen did not get the vote until 1944, France has since come a long way on women's rights. More recently it has passed legislation to promote more women into the boardroom and elected office. In the wake of the #MeToo movement, France has become more attuned to what constitutes sexual harassment and aggression. Yet the country has had a blind spot when it comes to handling complaints about domestic violence. On March 3rd this year, for example, Julie Douib, aged 35 and a mother of two small children, was shot dead by her partner. (He is now awaiting trial for her murder.) Before her death, she had filed five complaints of domestic violence to the police, according to Lucien Douib, her father, who has since become a campaigner against *fémicide*. Her case is not atypical.

Pushed by such activists and by a vigorous junior minister for equality, Marlène Schiappa, the government has just finished a consultation on domestic violence. On November 25th Edouard Philippe, the prime minister, concluded that this has helped "break this chain of silence", and expose the "indifference", "major dysfunction" and "systematic underestimation" of the problem in France. A damning report commissioned by the justice ministry reveals that two-thirds of the murdered women were victims of previous acts of domestic violence. In September President Emmanuel Macron overheard the dysfunction at first hand when he sat in, anonymously, on a call to an emergency helpline.

Mr Philippe has now promised a series of measures to try to ensure better detection and prevention of domestic violence in France. They include training the police in handling complaints, opening more women's shelters, making different bits of

the judicial system liaise better, and possibly loosening the rules on medical confidentiality in certain cases. "Silence kills," declared Mr Philippe this week, adding that "The attitude of an entire society must be changed." ■

**The nuts of wrath**

## Hazelnut-planting bothers the Italians

*Locals in Umbria are up in arms over Nutella*[Print](#) | [Europe](#) Nov 30th 2019

**I**N THE DISTANCE, Orvieto's cathedral sits majestically on the massive outcrop over which the city spreads. Nearby, at the edge of the Alfina plateau, stands a castle encircled by fields—part of the landscape, between Orvieto and Lake Bolsena, in which Alice Rohrwacher, an Italian director, set her prize-winning film “The Wonders”. After a long absence, Ms Rohrwacher returned to find it transformed. “Fields, hedges and trees [had vanished] to make way for hazel plantations as far as the eye could see,” she wrote to the regional governors of Umbria and neighbouring Lazio.

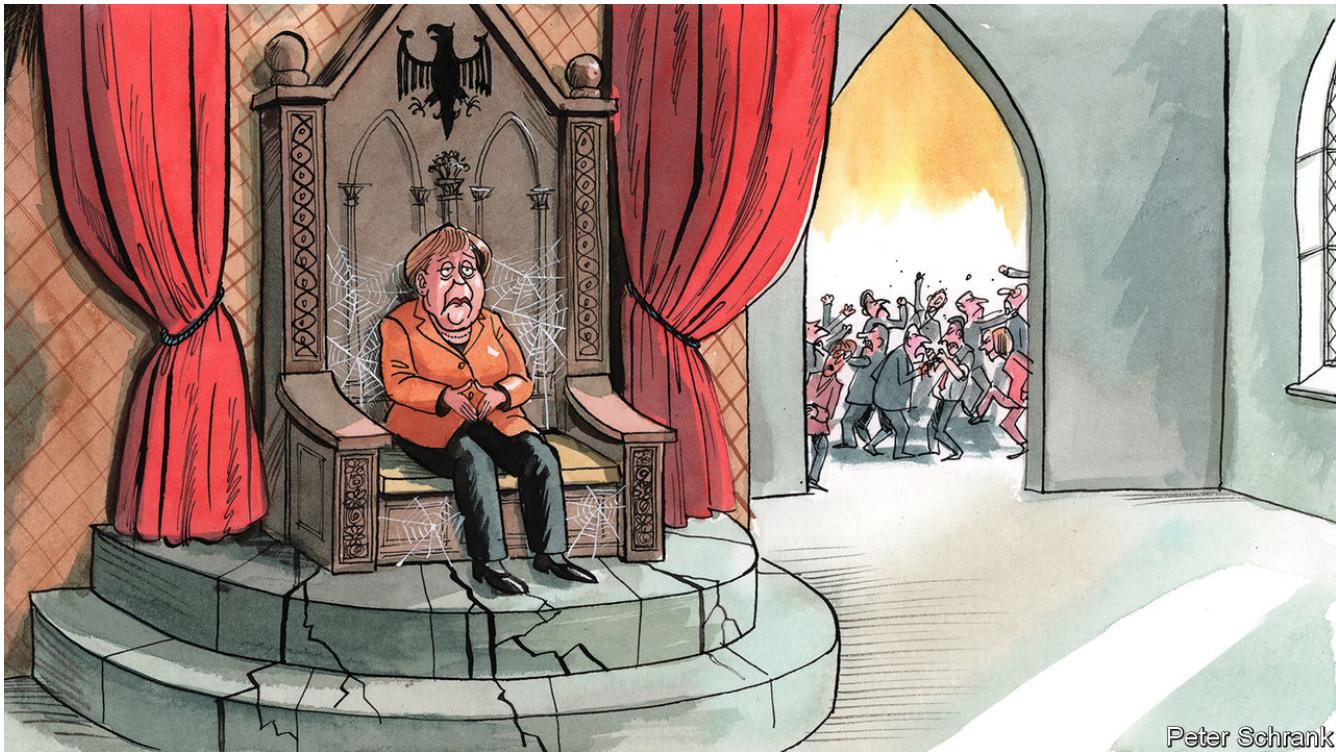
Around the castle, 200 hectares are earmarked for intensive hazelnut cultivation, says Vittorio Fagioli, a local environmentalist. This is largely to satisfy the world’s appetite for Nutella, the sugary nut-and-chocolate gloop that has helped transform the producer, Ferrero, into a multinational with turnover of more than €10bn (\$11bn) last year. Under a deal signed with a local farming consortium, 700 hectares are to be given over by 2023 to the growing of hazelnuts. It is part of a plan to boost the area in Italy devoted to hazelnuts from 70,000 to 90,000 hectares, extending it for the first time to Umbria and other regions.

On the Alfina plateau, however, the firm’s strategy is meeting vigorous opposition. According to Mr Fagioli, each tree will need 30 litres of water a day, pesticides to deter insects and fertilisers to boost yields. Campaigners fear that all those chemicals will drain into Lake Bolsena, since it receives most of its water from the plateau. They look apprehensively at Lake Vico in Lazio, ringed for decades by hazel plantations, where in 2009 a build-up of chemicals produced carcinogenic algae that required the installation of a costly water-treatment plant. Ferrero disagrees, saying that hazelnut cultivation around Lake Bolsena is “marginal” and that crops such as olives, grapes and apples need even more chemicals. Nuts to you, in short.

Charlemagne  
**Post-Merkel syndrome**

*Germany is becoming consumed by the battle to succeed the chancellor*

[Print](#) | [Europe](#) Nov 28th 2019



**N**O ONE EVER got rich betting against Angela Merkel. Germany's chancellor has outlasted every prediction of her premature demise. She has survived domestic and international crises galore. Having won four elections on the trot, she is now on her fourth French president, her fifth British prime minister and her seventh (and counting) Italian prime minister. As she enters her 15th year in office, she remains one of Germany's most popular politicians.

Yet, as an eccentric German saying has it: everything has an end; only a sausage has two. Mrs Merkel's vow to stand down by autumn 2021, when Germany's next election is due, has created a power vacuum that was apparent last weekend in Leipzig, at the annual conference of Mrs Merkel's centre-right Christian Democratic Union (CDU). The chancellor was a distant presence, spending most of the event glued to her phone while early skirmishes in the war to succeed her played out. Suggestions that Friedrich Merz, a favourite of the party's conservative wing, might launch a coup against Annegret Kramp-Karrenbauer, who replaced her mentor Mrs Merkel as CDU leader a year ago, turned out to be so much hype. Mr Merz declared his fealty, and Ms Kramp-Karrenbauer will fight another day. But reckoning averted is merely reckoning delayed, for Germany is now in the grip of post-Merkel syndrome.

This era, which may run all the way to the next election, will be characterised by uncertainty, rancour and a Germany even more inward-looking than usual. Every utterance that spills from a major politician's lips will be parsed for what it means for the "K-question"—who will the CDU choose as its *Kanzler* (chancellor) candidate in a year's time? Germany's coalition, a partnership of the CDU plus its Bavarian sister party, the Christian Social Union (CSU), and the Social Democrats (SPD), will get bogged down in trivial rows as politicians jostle to position themselves as Mrs Merkel's rightful heir. Voters will grow frustrated, as will Germany's partners; Emmanuel Macron has already made his irritation apparent. The chancellor is not always as absent as her detractors suggest—she was deeply engaged in coalition talks over a recent climate package, for example, and she has big ideas for Germany's presidency of the EU Council in the second half of 2020. But on matters of domestic politics, she checked out some time ago.

Mrs Merkel's long goodbye reshuffles the deck for the other big parties, too. The success of the Greens, who briefly topped polls earlier this year, forces that party to field endless questions over which of its two telegenic leaders will stand as chancellor, rather than the meaty policy matters they would prefer to discuss. A more immediate anxiety attends the troubled SPD, which on November 30th elects a new leader and a week later must decide whether or not to quit the coalition as part of a scheduled review. If it does, an early election could follow. That would instantly shake Germany's political kaleidoscope.

Yet should the coalition limp on into 2020, as most expect, the theatre of operations will shift to the CDU. For now the party finds itself in wary limbo. As its leader, Ms Kramp-Karrenbauer has a target on her back. Since taking over she has made a string of unforced errors, has struggled to get a grip on the party administration and has presided over state-election losses and a polling slump. As a result she is now one of Germany's least liked politicians. True, she responds to pressure: her long speech in Leipzig was good enough to see off her rivals, for now, and from her new perch as defence secretary she has had a semi-decent stab at injecting life into Germany's moribund foreign-policy debate. Having won the leadership fair and square, she will not leave quietly.

But the gossip in Leipzig was ominous for Ms Kramp-Karrenbauer. Many party grandes, reportedly including Mrs Merkel, do not think she can crawl out of the pit she has dug herself. A large chunk of CDU members harbour a belief—or perhaps a grudge—that Mrs Merkel has warped the party out of recognition, sacrificing conservative edge for sludgy centrism, and fear her protégée may offer more of the same. And so enemies are circling. Beyond Mr Merz, aspirant CDU chancellor-candidates include Armin Laschet, the moderate premier of North Rhine-Westphalia, Germany's most populous state; Markus Söder, leader of the CSU and premier of Bavaria, whose punchy speech in Leipzig brought the house down; and Jens Spahn, a young firebrand who has been quietly expanding his networks as Germany's health minister. As these pretenders, and perhaps others, square off they must bear two things in mind. The CDU hates the disunity of internecine squabbles—that is what the SPD is for—but it also loves winning. Which of these tendencies prevails over the next year is likely to shape the future of the CDU—and of Germany.

### **Wars of the Merkel succession**

There could be a fruitful path ahead. Assuming the SPD does not deliver a shock in December the CDU, which has always prided itself as a big tent, could use next year to revive debates suppressed by Mrs Merkel's long, largely ideology-free chancellorship. There were faint signs of this in Leipzig. Ms Kramp-Karrenbauer's combative insistence that the CDU must wake up to the challenges of disruptive technologies, from 5G networks to artificial intelligence, was a useful jolt to a party on whose watch Germany has become a digital laggard. There are also flickers of fresh thinking on how to make Germany's social-market economy more climate-friendly. That will matter if, as many observers predict, the CDU begins coalition talks with the Greens after the next election.

Yet all this could fall apart in power struggles. Mr Laschet fears for Germany something like the American fate, where primaries leave candidates bruised by their own side before they can take the fight to the opponent. When Mrs Merkel passed the mantle to Ms Kramp-Karrenbauer last year it looked as if the chancellor would succeed where all her predecessors had failed: in stage-managing her own exit. Her own party may yet deny her that wish. ■

## Party manifestos

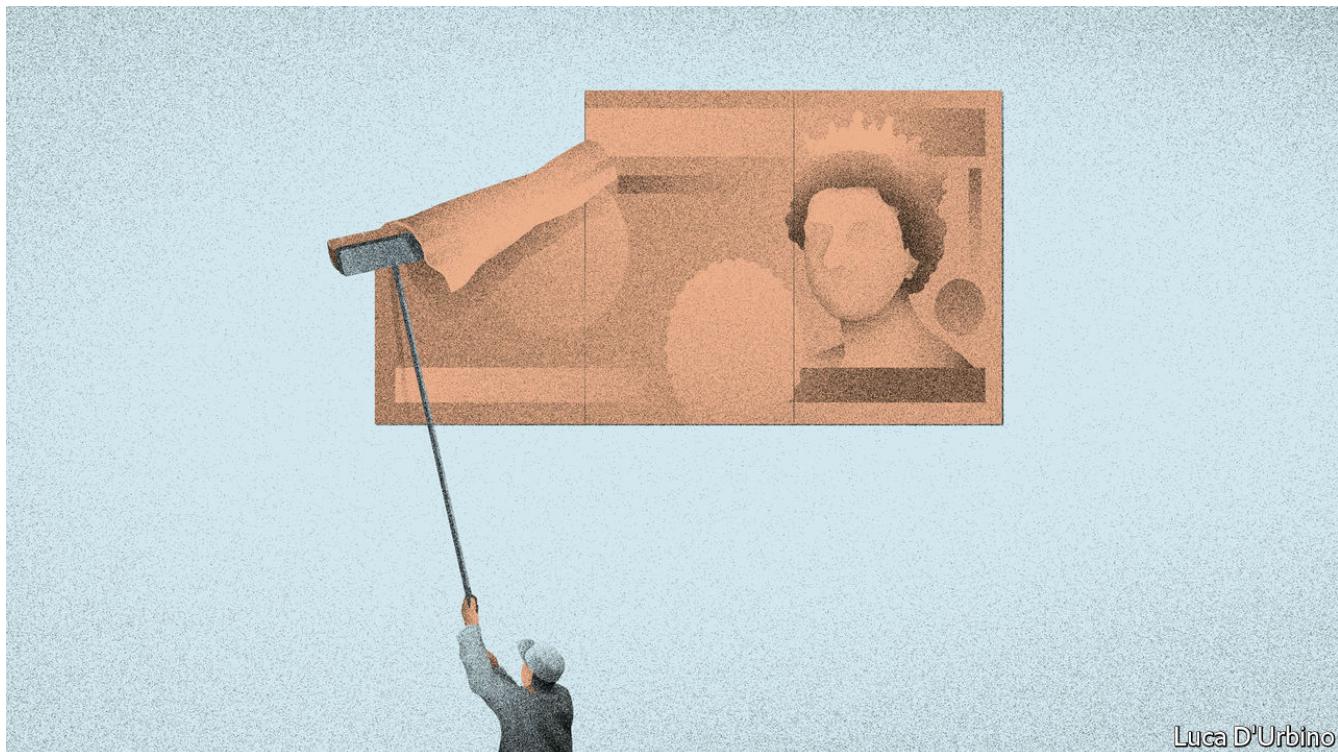
The spree to come

### Manifestos compared

## Whoever wins Britain's election, the state will expand

*All three main parties promise more spending, though they are quieter on where the money will come from*

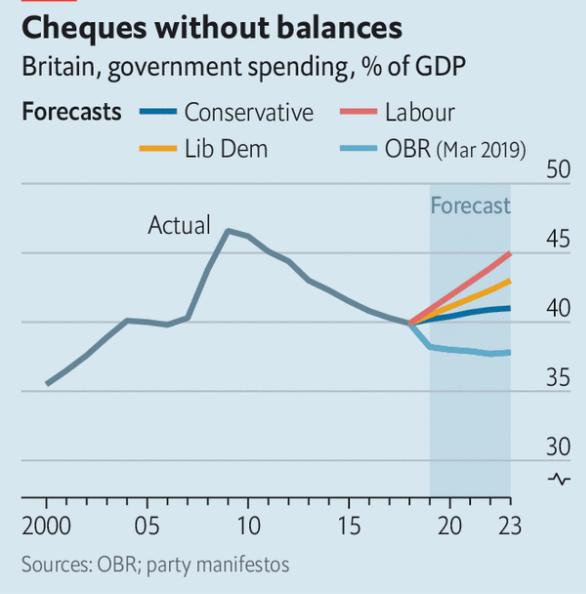
[Print](#) | [Britain](#) Nov 30th 2019



Luca D'Urbino

SO LONG AS they disappear within 48 hours, manifestos seldom matter. Yet everyone recalls the 2017 Tory “dementia tax” to fund social care that was hastily dropped days later—one reason why this year’s Conservative prospectus is so bland. And manifestos count in government, as well as setting the tone for an election. This time, the three main ones offer two related themes—and, in the shape of Brexit, one big elephant in the room.

The first theme is of a bigger state. It is not just that austerity is over, but that public spending (and, more slowly, tax) seems on an inexorable upward course. Linked to this is the notion that, with long-term interest rates so low, more borrowing to finance infrastructure or green investment is not just easy but positively desirable. Worries about excessive public debt have been forgotten, though the Liberal Democrats chart a path to a current budget surplus. Ironically, given Brexit, the resultant size of the state puts Britain closer to other European countries like Germany—and well above America or Japan.



The Economist

The second theme is that differences between the parties are huge. Labour is out on its own in terms of spending, with a radical plan for European-style socialism and a huge rise in current spending of over £80bn (\$103bn) a year. The more cautious Tories are the least lavish, though they too prefer spending to tax cuts, while the Lib Dems come in between (see chart). This break with the centrist consensus is historically unusual. In both 1997 and 2010, opposition parties carefully matched the government's spending plans.

That said, the parties' spending priorities are similar. All three promise to pay extra tribute to the insatiable National Health Service, to education and to policing. There is new enthusiasm for help with child care, with the Lib Dems being the most generous. Labour reveals a fondness for universal freedom in scrapping prescription charges and university tuition fees and promising free broadband for all. It even proposes a "right to food", perhaps to match the Tories' promise to fill the nation's potholes. As the creator of the NHS, Labour also plans a national education and national care service.

Although Labour has long attacked Tory cuts in benefits for the poor, it proposes to restore only a quarter of them. Its plans to replace universal credit, the Tories' unpopular welfare system, are vague. And it is notable how many goodies go to the old. All three parties keep the costly "triple lock" that more than inflation-proofs pensions. Labour wants to scrap plans to raise the pension age beyond 66 and to compensate the so-called WASPI women, a cohort whose retirement age was raised from 60 at short notice, at a one-off cost of £58bn. Torsten Bell of the Resolution Foundation, a think-tank, suggests that politicians still think, wrongly, that the old are poorer than the young (they certainly vote more). The Tories notably sidestep the time-bomb of under-funded social care, though a promise that nobody should ever be forced to sell their home to pay for it looks potentially expensive.

When it comes to financing all this, the parties come over all coy. The message to most taxpayers is that somehow others—companies, the rich, tax-avoiders—will bear most of the burden (see article on next page). The Lib Dems are at least honest in suggesting a 1p rise in income tax, plus a tax on frequent flyers. Labour relies more optimistically on higher taxes on top earners, a big rise in the corporate-tax burden (to the highest level in the G7), heavier taxes on capital gains, dividends and inheritance, plus a financial-transactions tax.

As for the tax-cutting Tories, they want to raise the threshold for national-insurance contributions (NICs), but only in stages, and they too would reverse some planned corporation-tax cuts. They also renew their promise of no increases in income tax, value-added tax or NICs. Paul Johnson of the Institute for Fiscal Studies, another think-tank, calls this irresponsible given the prospective rising tax burden to cope with demographic change. No party has a sensible plan for tackling the mess of property taxes and stamp duties that help to gum up the housing market.

All three manifestos nod to the environment, with talk of a green industrial revolution and uncotted promises to advance targets for net-zero carbon emissions. But most striking of all is Labour's economic programme. The party not only promises to nationalise water, rail, mail and part of BT (at prices set by Parliament, not the market), but also to set up a national investment bank and even a state drugmaker. It promises to transfer 10% of big firms' shares to a fund managed by employees, as well as giving workers a third of seats on company boards. This, the most left-wing challenge to a capitalist, mixed-economy system since François Mitterrand's in France in 1981, fully justifies the manifesto title of "real change".

And then there is Brexit, which is little discussed beyond the slogans of "Stop Brexit" (as urged by Lib Dems and Scottish Nationalists) and "Get Brexit done" (the Tories' mantra). Labour promises another referendum, in which Mr Corbyn would be neutral. But the riskiest promise is the Tory one not to extend the transition period beyond December 2020. No expert believes a trade deal with the EU can be done by then, raising once again the prospect of a no-deal exit at the end of next year. And what happens on Brexit may be more consequential than any number of manifesto pledges. ■

#### Dig deeper:

Our latest coverage of Britain's election

Something for nothing

## The curious case of the missing British taxpayer

*As spending rises, fewer people are paying into the system*

[Print](#) | Britain Nov 30th 2019

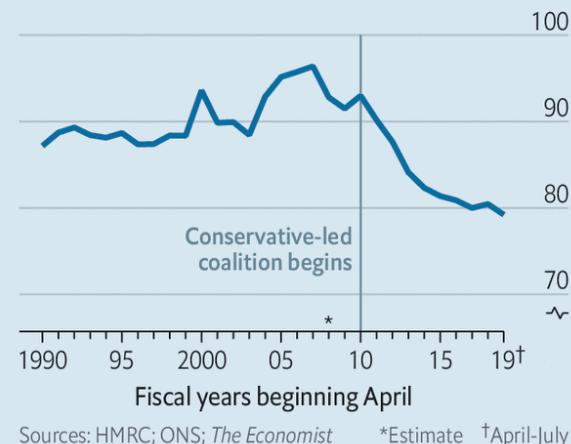


EVEN AS BOTH main parties promise more spending, they insist that most voters will not pay a penny for it. Labour says those earning under £80,000 (\$103,000) will see no rise in income tax, despite its promise of more than £80bn a year of extra day-to-day spending (equivalent to 4% of GDP). The Conservatives, who plan a more modest spending rise of £3bn, say they can afford to do this while reducing the number of workers who have to pay national-insurance contributions, a payroll tax. Can taxpayers really get something for nothing?

For most of the past century, Britain's tax burden has become more evenly spread. Between 1920 and 1970, as demand for public services grew, the share of citizens liable for income tax more than tripled. But recently the tax base has been shrinking. A decade ago 95% of workers paid at least the basic rate of income tax. Now only 80% do. That is a result of reforms by the Conservative-Liberal Democrat coalition of 2010-15, which decided the best way to help the poor was not to increase welfare, as Labour had, but to raise the threshold above which workers paid income tax. Since 2010 the tax-free allowance has increased from £6,475 to £12,500. Boasts of "taking people out of tax" have become a staple of Tory budgets.

## Free for all

Britain, share of working-age people in employment who pay income tax, %



Sources: HMRC; ONS; *The Economist* \*Estimate †April-July

The Economist

Meanwhile, the burden on the richest has grown. The top 1% of income-tax payers contribute 30% of the total take, up from 22% in the mid-2000s. Labour would rely on them still more heavily. The party claims (dubiously) 95% of people would pay no more in tax for the free broadband, better health care, free university and other goodies it promises.

Both parties' plans are flawed. Taking the poor out of tax, as the Tories promise, is an expensive way to help them, since higher earners also benefit from increases in the allowance. And Labour's dependence on the rich is risky. High earners are the most responsive to tax, and their incomes are among the most volatile—as Britain discovered in the financial crisis, which whacked bankers' bonuses and with them tax receipts.

Only the Lib Dems admit that their spending plans would require most people to chip in. They propose an extra 1% on all income-tax bands. Other parties will surely need to drop the something-for-nothing approach soon. An ageing population and the need to decarbonise are heavy responsibilities that cannot be borne by ever fewer people.

### Dig deeper:

Our latest coverage of Britain's election

Pick your poison

## Britain's potential prime ministers both face accusations of prejudice

*Jeremy Corbyn is accused of anti-Semitism; Boris Johnson is labelled an Islamophobe*

[Print](#) | [Britain](#) Nov 30th 2019



AFP

**A**T A RABBI'S home in London, a dozen or so guests take their seats for Shabbat dinner, a Friday staple of Jewish households. Before digging in to hunks of challah bread and home-made hummus, each answers a question from their host: "Which non-politician should be prime minister?" One guest nominates Greta Thunberg, a climate-change activist. Another plumps for Prince Andrew on the grounds that he has time on his hands and has already managed to unite the country. The oldies are baffled by a teenager's choice of Lizzo. "A pop star," she explains.

This jolly ice-breaker is also a calculated dose of escapism. Like many other Britons, the guests are not thrilled that the next prime minister will be Boris Johnson or Jeremy Corbyn. Jews have particular reason to take against Mr Corbyn, who has been accused of turning a blind eye to anti-Semitism in Labour ranks. On November 25th Ephraim Mirvis, the chief rabbi, wrote in the *Times* that a "poison-sanctioned from the top" had spread. The next day Mr Corbyn declined four times in a BBC interview to apologise for the long-running sore.

Mr Johnson faces his own charges of failing to confront prejudice, in the form of Islamophobia. His affection for well-paid hyperbole in his former side-gig as a newspaper columnist has not helped. A suggestion that women wearing burqas "look like letterboxes" caused particular offence. This week the Muslim Council of Britain issued a statement accusing the Tories of allowing Islamophobia to "fester in society".

Religious leaders often speak out, but they tend to stop short of telling people how to vote, says Nick Spencer of Theos, a think-tank. Mr Mirvis's remarks suggest he "considers this issue sufficiently serious as to break the unwritten protocol", he adds.

Such warnings have travelled well beyond Britain's 260,000 or so Jews, just as Mr Johnson's comments have offended more than merely Muslims. According to one poll, 30% of Britons think Mr Corbyn is an anti-Semite, and the same share consider Mr Johnson a racist. Prejudice has become an electoral liability for both men.

As for Jews and Muslims themselves, most have already made up their minds. British Jews once favoured Labour, in common with other minority groups. But they began to drift rightward in the 1980s when Margaret Thatcher, then prime minister, held the north London seat of Finchley. Its sizeable Jewish population approved of her lack of prejudice towards Jewish ministers and her rapport with the then chief rabbi.

## Different hymn sheets

Britain, party of choice, by religion

2017 general election, %

■ Conservative ■ Labour ■ Other



Source: Ben Clements, Leicester University using BES data

The Economist

Growing affluence led others to switch sides. By 2010 half of Jews voted Tory, according to an analysis by Ben Clements of British Religion in Numbers, a specialist website. Mr Corbyn has persuaded others to follow suit. In 2017 more than six in ten Jews voted Tory (see chart). Only one in ten has a positive view of Mr Corbyn, according to a study by academics at Manchester University. Nearly two-thirds say they are unlikely ever to vote Labour again, 20 points more than among the overall electorate.

Nor will Tory Islamophobia persuade many Muslims to vote Labour, since most already do. In the degree of their attachment to Labour and distrust of the Tories, Muslim voters are a “mirror image” of their Jewish counterparts, says Maria Sobolewska, one of the Manchester academics. The intensity of their support has been growing in recent years, too. According to Mr Clements’s analysis, 66% of Muslims voted Labour in 2015. In 2017, 85% did so.

This does not reflect a reaction against Mr Johnson, who became leader only this year. In any case, Nicole Martin, also of Manchester, points out that many Muslims have long perceived the Tories to be prejudiced against them. Instead, the rise points to their personal endorsement of Mr Corbyn, a long-standing advocate of Palestinian statehood and critic of Western adventures in the Middle East. In the end, both sets of worshippers may be thinking of Mr Corbyn as they cast their ballots. ■

### Dig deeper:

[Our latest coverage of Britain's election](#)

Swing seats: Alas, poor Warwick

## In Warwick, Remainers prepare to vote tactically

*Our poll gives Labour a chance of holding the seat, as the Liberal Democrats fail to take off*

Print | Britain Nov 28th 2019

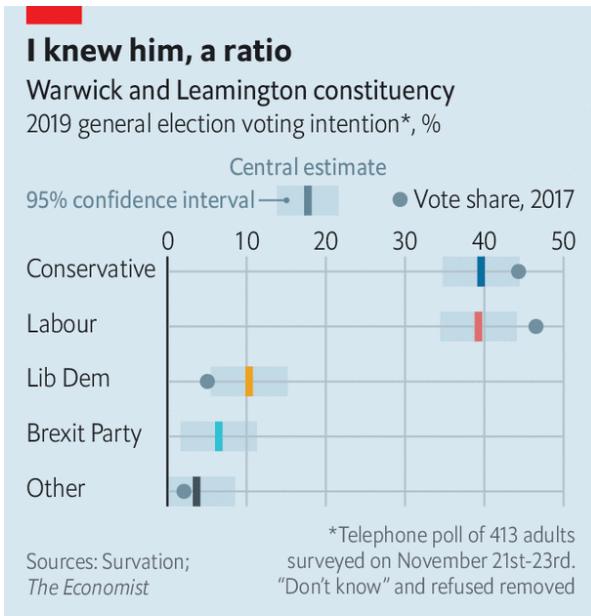


THE CONSTITUENCY of Warwick and Leamington was once known as the Garden of Eden, not because it is beautiful—though it is—but because it was the Conservative stronghold of Anthony Eden, who won the seat nine times over 34 years. The first Labour candidate ever fielded in the constituency was Daisy Greville, Countess of Warwick, who campaigned from the back seat of a Rolls-Royce in 1923, says Wyn Grant of Warwick University. Labour took the seat only in 1997, and held it until the end of the Blair-Brown era in 2010.

Few foresaw the victory of Labour's Matt Western in 2017. "It wasn't a surprise," says Mr Western, who clinched the seat by 1,206 votes. "It was a shock." In a constituency that backed Remain by 58% to 42% in the referendum of 2016, Brexit was the Tories' undoing. The pattern was repeated in enough Tory-held seats to deprive Theresa May of her majority.



This time there are fears among anti-Brexit campaigners that the Remain vote could be fatally split, in Warwick and constituencies like it. Twenty seats in England that backed Remain by more than 55% have surmountable majorities of under 5,000. If enough Labour voters frustrated with Jeremy Corbyn's neutrality on Brexit defect to the Lib Dems, many of those seats could go to the Tories. Yet a poll for *The Economist* by Survation suggests that, in Warwick at least, a certain amount of tactical voting is going on. The Lib Dem vote is up only five points on 2017, with Labour and the Tories as closely tied as they were last time (see chart). Voters seem to be organising themselves into Leave and Remain camps even in the absence of a formal pro-EU alliance.



The Economist

It is “fantastic to be in a constituency where your vote is valued”, says Mark Adams, a recent transplant from London. Mr Adams runs Vitsoe, a high-end furniture-maker that employs some 40 people in Warwick and exports about 70% of its goods. Although working with Germans for 35 years gave him “ample evidence to be a passionate Leaver”, he believes Britain is better off inside the EU. Who will get his vote? “I am checking all the tactical-voting sites to cast my vote to achieve Remain,” he says, even if it means “holding one’s nose” in the polling booth.

The Lib Dem candidate, Louis Adam, who optimistically describes the seat as a three-way marginal, is nonetheless on track to keep his deposit—and perhaps to let in the Conservatives in the process. The Tories’ man, Jack Rankin, must overcome the suspicion of some locals that he is an out-of-towner, parachuted in as he was from Windsor, 70 miles away.

The contest may come down to the student vote, which helped Mr Western last time. Warwick’s students’ union is littered with pamphlets encouraging its 27,000 students to vote; the university’s mobile app has been pinging notifications too. But the election is five days after term ends, and many students will have gone home by then. Daniel Ryan, a 20-year-old physics

student from London, and James Cuttell, a classmate from Derby, say they and most of their friends are unsure whether they will vote at home or in Warwick. Mr Ryan considers Boris Johnson a “nutter”, Jeremy Corbyn “dangerous” and disagrees with the Lib Dems’ policy of simply disregarding the referendum. “I do feel like there are no good options,” he says. ■

**Dig deeper:**

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Scots forge votes

## Scotland's three-dimensional election

*Left or right? Leave or Remain? Independence or the union? Scotland's election makes the campaign in England look simple*

[Print](#) | [Britain](#) Nov 30th 2019



**C**OWIE, A VILLAGE in the coal belt just south of Stirling, used to be a Labour stronghold. But all the 15 or so men in the bar-room of the Cowie Tavern (there are no women) will be voting for the Scottish National Party (SNP) on December 12th. The only remaining Labour supporters are the twin barbers, Steve and John Sneddon, and their father James, a former shop-steward in the brickworks who sits in the lounge area with a rug over his knees. Not even they are enthusiastic about the current state of the party. “Corbyn’s too left-wing and too indecisive,” says Steve. “The only good thing that will come out of this election is that he’s going to go.”

Bannockburn, another former mining village and the site of the decisive battle in the 14th century in which Robert the Bruce rubbed the nose of the English King Edward II in Scottish dirt, is four miles away. But the two dozen drinkers in the Empire pub, all former Labour supporters, will to a man (and a woman—aside from the barmaid there is one) vote Conservative. “My father was a miner. He’d turn in his grave,” says Stewart Thomson, a retired electrician. But the vote is a tactical one: “I’m voting Tory to keep the SNP out.”

The difference between the two villages, according to one of the drinkers in the Empire, is that “in Cowie, they’re Catholics”. Immigration in the 19th century has left bits of central Scotland with echoes of Northern Irish politics, in which nationalism is associated with Catholicism, and unionism with Protestantism.

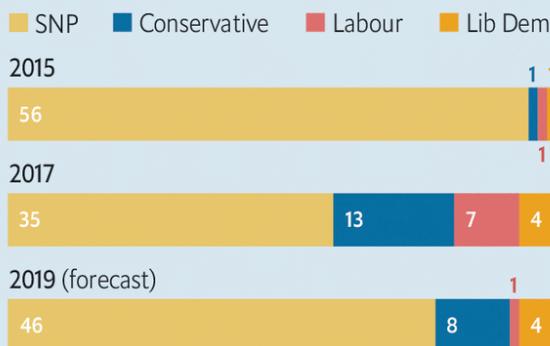
The two pubs illustrate the three main features of the campaign in Scotland. This election, like everything in Scottish politics, is ultimately about independence. Labour, which is trying to position itself in the middle ground on both Brexit and independence, looks like being roadkill. And while the English election is two-dimensional—left v right, Leave v Remain—the added Scottish dimension of independence makes it a Rubik’s Cube of complexity. Combined with small majorities—the margin of victory last time in 46 out of 59 seats was less than 10%—that makes the Scottish election highly unpredictable.

The result is crucial to the national outcome. Without the gains the Tories made in Scotland in 2017, Theresa May would not have been able to form a government. It is also crucial to how the independence story plays out. If the SNP holds the balance of power next month, the price of its support will be another Scottish referendum. But if the SNP is knocked back, the cause of independence will be too.

## No such uncertainty as a sure thing

Scotland, Westminster seats at general elections

Total=59



Sources: House of Commons; Ipsos MORI; Panelbase; Sir John Curtice

The Economist

After the unionists won the 2014 referendum on independence, the Conservative government assumed that the nationalist movement would lose steam. Instead, it was galvanised, and the SNP won a stonking victory in the Westminster election of 2015, getting 56 out of 59 seats. Labour, which had run Scotland for half a century, went down from 41 MPs to one.

In the SNP's view, the EU referendum, in which the UK voted 52:48 to leave and Scotland voted 62:38 to remain, justified revisiting the independence question. But the decision to do so immediately is regarded as a mistake. "Sturgeon overplayed it," says Mark Diffley, a pollster in Edinburgh. Support for independence, which jumped after the Brexit vote, dropped back again, and the SNP lost ground in the 2017 Westminster election, winning 35 seats.

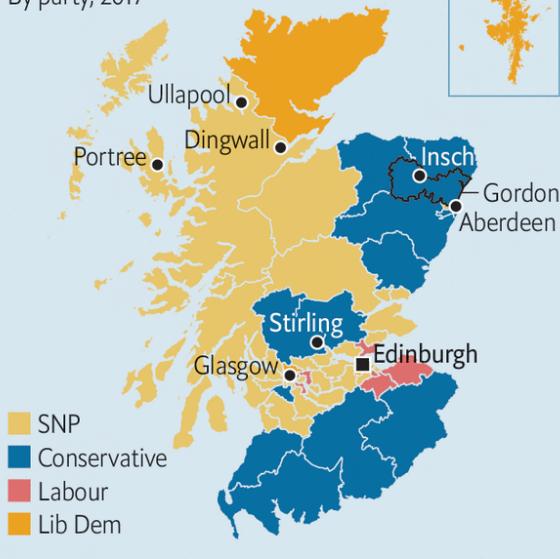
Its score is likely to improve this time. If Scotland's voters are broken down into four groups, according to how they voted in the independence and EU referendums, the Yes/Remainers fit comfortably with the SNP and the No/Leavers with the Tories, but the No/Remainers (22% of voters) and the Yes/Leavers (8%) have no natural home. Support for independence is growing among Remainers, suggesting that the No/Remainers are drifting towards the SNP.

In Stirling, according to Alyn Smith, the SNP candidate, who is visiting a group of damp activists standing on the bridge in Dunblane, the presence of the University of Stirling is shifting things in his favour. There are a lot of Europeans in the constituency, and "the university is enmeshed in the EU structure." A passing voter, Annette Kupke, who was born in Lower Saxony, concurs, complaining of "lies and deceit" from the Tories. Sheltering from the rain in the cosy nearby Riverside pub, a psychologist will vote SNP "for tactical reasons: I want to stop Brexit".

## Rubbing out the red

Scotland, Westminster seats

By party, 2017



Source: Electoral Commission

The Economist

But while the SNP is expecting a lift, the Tories, who two months ago looked like being wiped out in Scotland, may hang on to most of 13 seats they won in 2017. For a party that has held one seat, or none at all, for most of the past two decades, that

would be quite a result. It will benefit from the perception that the SNP's single-minded pursuit of independence has distracted it from the business of running Scotland.

There is a regional dimension, too. The SNP's centre of gravity is shifting. Its previous leader, Alex Salmond, a north-eastern MP, was credited with improving its infrastructure. Under Nicola Sturgeon, the party has become more identified with the urban, central belt around Glasgow and Edinburgh, and with higher social spending. That does not go down well in Scotland's wealthiest region, home of its biggest industries—farming, fishing, oil and gas.

A December election is testing the commitment of SNP canvassers in Gordon, which the Tories also took last time. "It's a bit dreich [dreary]," says one of them, eyeing the weather in Insch, a grey Aberdeenshire village, where it has been raining, off and on, all day. "It's theizzle [cloud that is not quite drizzle] that's worst," responds another. "We're like Eskimos," says Richard Thomson, the SNP candidate, who is hoping to take the seat back from the Conservatives. "We have 50 words for rain."

Mr Thomson's leaflets focus on the closeness of the race with the Tories in 2017, and feature a blond mop so recognisable that the face is unnecessary. Both the Tories and the SNP are presenting the election as a binary choice. The SNP wants to scoop up remaining left-wing voters by crushing Labour; the Tories want to corner the unionist vote. Ms Sturgeon "is framing the election exactly as I would want it to be framed," says a Conservative member of the Scottish Parliament. "She's turning the union into a Tory proposition. Labour isn't getting a word in edgeways."

Current polling suggests that Labour, which won seven seats in 2017, may retain only one. A silent pact between the SNP and the Tories to crush it is not the only reason for its travails. Jeremy Corbyn, its leader, said this week that he is "neutral" on Brexit; and while not supporting Scottish independence he is leaving open the possibility of another referendum. By failing to take a stand on either of the great issues exercising Scotland, he has succeeded in alienating all four groups of voters.

But Mr Corbyn is not the only politician who does not much appeal to Scots right now. According to Mr Smith in Stirling, the first issue that voters raise on doorsteps is neither Brexit nor independence: "It's the scunner [disgust] factor, attaching to politics and politicians." ■

**Dig deeper:**

[Our latest coverage of Britain's election](#)

Skye news

## The battle for the biggest constituency in Britain

*Candidates campaign from coast to coast in a sprawling Scottish seat*[Print | Britain](#) Nov 30th 2019

THE PUMP whirrs as it sucks salmon from their pen. Then the prospective MP helps feed the fish into a stunner, which whacks them on the back of the head. Having slaughtered a hundred or so, Craig Harrow pauses for a photo with a suitably attractive specimen, before delivering a stump speech to a dozen taciturn, blood-spattered fish farmers. He apologises for taking up their time. “If there are any ardent nationalists here,” the Liberal Democrat candidate says, “I’m sorry about that, too, because I’m pro-EU and pro-UK.” And so begins the week’s campaign for Ross, Skye and Lochaber.

At 12,000 square kilometres, only a bit smaller than Northern Ireland, the sparsely populated constituency is the biggest in Britain. It stretches from Skye, off Scotland’s west coast, to the Black Isle (which is neither black nor an island) on the east coast. Mr Harrow’s attempt to win it back for the Lib Dems from Ian Blackford, the leader in Westminster of the Scottish National Party (SNP), will therefore involve a lot of travel. After visiting the salmon farm near Ullapool, on the west coast, he ends the day in Dingwall, on the other side of Scotland, pressing the flesh with farmers at a union meeting.

With both the SNP and the Lib Dems opposing Brexit, Mr Harrow must unite the unionist vote behind him. Mr Blackford is confident he will be able to hold him off. The Lib Dems held the seat until 2015, but fell more than 7,000 votes short of unseating Mr Blackford at the last election, two years ago. The SNP’s man may be a former banker, but he is also a keen crofter and has a national profile. Before he heads out leafleting in Portree, Skye, he asks an activist to help him get 16 of his sheep to market.

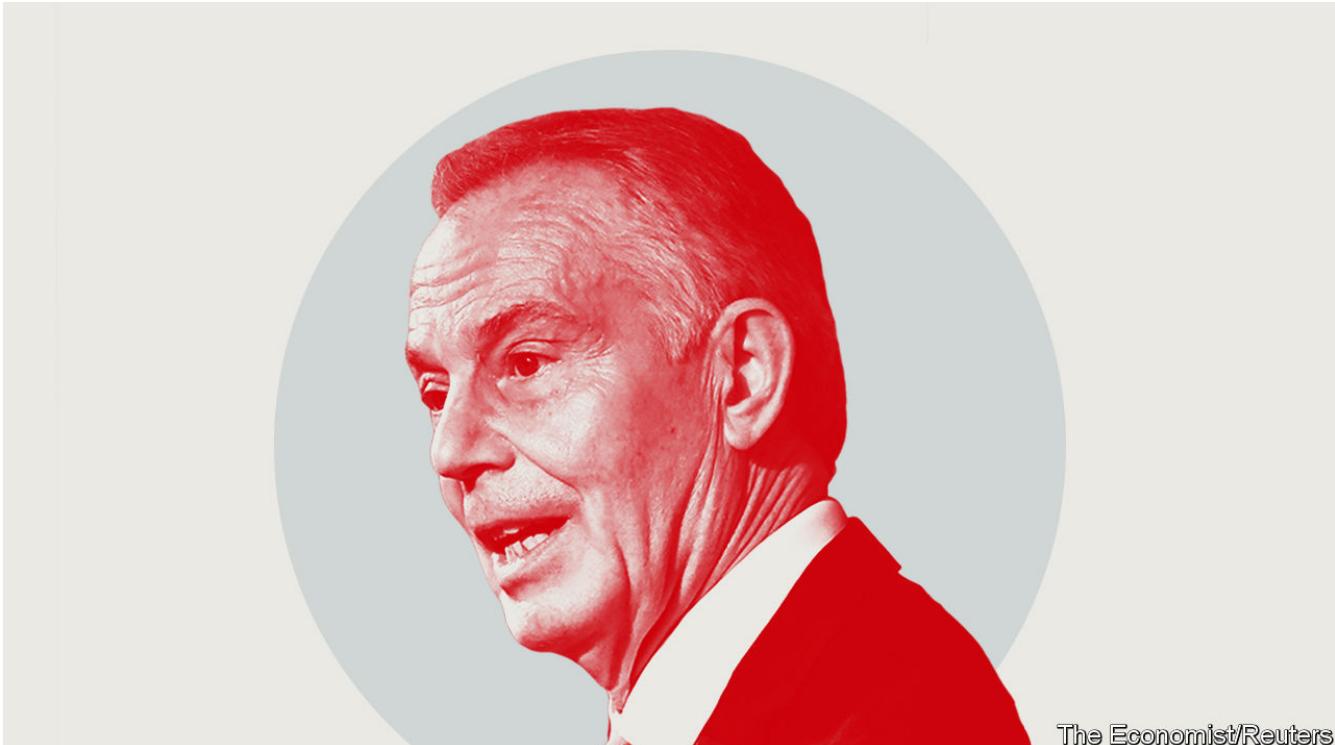
A winter election is tough for activists across the country, but it is particularly bitter in northern Scotland, where the sun sets before 4pm. The only way across parts of the constituency is by single-track roads, which feel perilous at the best of times. Online campaigning helps, but candidates are still keen to show their faces. And as Mr Harrow notes, the evening, “the time when most people would be in, is the time when you don’t want to knock on their door because it will be dark.” Which means that to have any hope of overturning Mr Blackford’s majority he will have to make every daylight hour count.

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## The best quotes from the fifth week of Britain's election campaign

*Key lines from the campaign trail*

[Print](#) | [Britain](#) Nov 30th 2019



The Economist/Reuters

### **Love's Labour's lost**

"The truth is, the public aren't convinced either main party deserve to win this election outright. They're peddling two sets of fantasies, and both, as majority governments, pose a risk it would be unwise for the country to take."

*Tony Blair, who led Labour for 15 years, urges voters to deny the party a majority*

### **Love's Tory's also lost**

"I'm telling [Tory voters] to vote for what they believe in and what the Conservative Party has stood for all my life...What I think that means in practical terms is they either vote for defrocked Conservative candidates...or they vote for Lib Dems."

*Lord Heseltine, a former Tory deputy prime minister, backs the opposition*

### **Stoked tensions**

"My house is a fortress, my office is a fortress. I've got panic buttons in my house, I carry one in my pocket."

*Ruth Smeeth, a Labour MP, on the impact of anti-Semitism. Stoke Sentinel*

### **Voting up a storm**

"There were millions of people who thought their 'one little vote' didn't mean shit, and now Trump is the president of America and we are leaving the EU. So your vote really does count."

*Stormzy, a rapper, urges his fans to register ahead of the November 26th deadline*

### **Are you local?**

"As you know, only the Scottish National Party can beat the Tories here in East Dunbartonshire."

*John Nicolson, an SNP candidate, forgets during a hustings that he is in fact standing in Ochil and South Perthshire*

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[Our latest coverage of Britain's election](#)

## Jeremy Corbyn's political agenda is more radical than his economic one

*Labour plans to redistribute power as well as income. That is more dangerous than it sounds*

Print | Britain Nov 30th 2019



Nate Kitch

THIS IS AN age of political surprises. Donald Trump won the presidential election of 2016 after being treated as a no-hoper. The Brexiteers won their referendum despite being dismissed as cranks. Jeremy Corbyn is now widely seen as a lost cause, particularly after a week in which the chief rabbi accused him of anti-Semitism and a large poll suggested the Tories could win a majority of 68. But history could easily have another surprise up its sleeve.

What happens if Mr Corbyn defies expectations and enters Downing Street next month? Most people have focused on the economic consequences. Labour boasts that it will “rewrite the rules of the economy” and jack up public spending. But just as significant will be the political consequences. The party plans nothing less than what Tony Benn, Mr Corbyn’s mentor, called an “irreversible shift in the balance of power in favour of the working people”. The political revolution is in many ways more central to the Corbyn project than the economic one. Economics is only the means to remaking Britain’s political soul.

The two most obvious changes will be big increases in the power of the state and of the trade unions, reversing four decades of movement in the other direction. Labour’s manifesto bristles with government-powered solutions to every problem: the renationalisation of the utilities; a free, state-run British Broadband Service; a state-run drug company to provide cut-price medicines; a sustainable-investment board and a national energy agency; national commissions on food, health, working time, women, pensions; and agencies galore. Alongside this it contains a detailed list of promises to organised labour. The party would roll out sectoral collective bargaining across the economy, remove “unnecessary restrictions” on industrial action and grant “the biggest extension of workers’ rights in history”.

But this is only the beginning. The two great watchwords of Labour thinking are “democracy” and “decentralisation”. The manifesto unveils plans for a democratic “revolution”, reducing the voting age to 16, extending full voting rights to foreign residents, creating a Constitutional Commission, advised by a citizens’ assembly, and a host of other measures to “put power in the hands of the people”. Democratisation goes hand in hand with decentralisation, to redress the lopsided balance of power between London and the rest of the country. Much of this sounds appealing. Britain’s version of representative democracy is broken. The political class is held in contempt. Parliament has spent three years deciding nothing. Dozens of MPs—including some of the brightest—are retiring from political life because it is too toxic. And much of the anger that is upending politics is driven by a revolt of left-behind regions against an over-mighty capital.

Yet Labour’s version of people power promises to make a mockery of both democratisation and decentralisation. Two ideas lie at its heart. The first is extending the reign of democracy from the public sphere to the private sphere. John McDonnell, the

shadow chancellor, told last year's Labour Party conference that "the labour movement has always believed that democracy should not stop when we clock in at the factory gate, in the office lobby, or—like my mum in BHS [a department store]—behind the counter." The second idea is handing power to activist groups in local government and in workplaces. In practice this doesn't mean empowering ordinary people. It means handing control to highly motivated activists who are prepared to devote their evenings to passing composite motions. If ordinary folk try to get a look in they will either be ignored, as Mr Corbyn did when the majority of Labour supporters urged him to take a clear line on remaining in the EU, or shouted down. Some activists think nothing of resorting to bullying, misogyny and racism if they don't get their way, driving dedicated MPs such as Luciana Berger out of the party and turning local party meetings into echo-chambers of extremist ideas.

The manifesto opens up growing areas of British life to be treated to the same technique that Mr Corbyn has used to take over the Labour Party. Labour plans to force big companies to put 10% of their shares into Inclusive Ownership Funds, managed by employees. It wants to double the size of the co-operative sector, with a combination of incentives and subsidies. Mr Corbyn has even suggested that employees should have the power to elect the editors of newspapers and television news programmes.

### **Power to which people?**

Labour regards activism as a way of subordinating both the state and the business world to the popular will. One of the sacred texts of Corbynism, "In and Against the State", encourages radicals to get jobs in the public sector in order to turn it into an instrument of social activism and a funder of left-wing causes. Labour's share-appropriation plan will make Inclusive Ownership Funds, which will probably be run by worker-activists, the biggest shareholders in blue-chip companies such as AstraZeneca, Tesco and Marks & Spencer. Again, some of this might sound attractive: too many civil servants live in a Whitehall bubble and too many managers overpay themselves for spouting claptrap. But Mr Corbyn's ideas represent a threat to one of the basic principles of liberalism: that there is a limit to the power of politics. Liberals accept that the business world operates according to the principles of property rights and free exchange, rather than the popular will, and that individuals possess basic rights that cannot be overruled by democratic diktat. Mr Corbyn is having none of that.

All this makes Labour's political agenda even more dangerous than its economic plans. It injects politics into every corner of society. It whips up enthusiasm by demonising opponents (the stinking rich, the heartless Tories) and organising supporters into euphoria- or rage-fuelled rallies. And it feeds on itself—the more opposition it encounters, the more it relies on the sheer force of the people's will. This could be Britain after December 12th. ■

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[Our latest coverage of Britain's election](#)

## Immigrant districts

In the ghettos

In the ghetto

### Denmark wants to break up ethnic enclaves. What is wrong with them?

Does ethnic segregation harm immigrants?

Print | International Nov 28th 2019



Reuters

FOR A SO-CALLED ghetto, Mjolnerparken seems rather pleasant. The public-housing complex in Copenhagen contains well-tended playgrounds full of cavorting children and their Somali- and Pakistani-Danish mothers. But it is a bit of a maze, and it can be hard for outsiders to find people, especially if they plan to kill them.

During Copenhagen's gang wars in autumn 2017, this happened rather often. At one point, toughs from a drug-trafficking gang called Loyal To Familia arrived on motorbikes looking for members of Brothas, a rival group. They ended up shooting two plainclothes police officers instead.

Such outrages were one catalyst for Denmark's "ghetto" law. Lars Lokke Rasmussen, then the prime minister, came to Mjolnerparken in March 2018 to unveil new legislation that designated as "ghettos" areas dominated by immigrants with high levels of unemployment and crime. Crimes in such areas were to be punished more harshly and public day care for toddlers made mandatory to inculcate Danish values. Public-housing corporations were ordered to sell off some apartments to wealthier newcomers. Critics lambasted the law as bigoted, but it passed later that year with the backing of parties on the left and right.

Denmark's ghetto law reflects growing European discomfort with districts dominated by ethnic-minority groups. In 2018 the parliamentary leader of the Dutch governing party suggested adopting Danish-style ghetto laws in the Netherlands. The mayor of the Belgian city of Antwerp last year compared the growth of ethnically distinct communities in his city to a form of apartheid. When Emmanuel Macron, the French president, went on a nationwide listening tour this year in response to the *gilets jaunes* protests, officials in the *banlieues*, poor suburbs whose residents are mostly from ethnic minorities, denounced the areas' growing "ghettoisation". From Oslo to Milan, grumpy natives complain of districts that no longer feel like the country they grew up in.

You hear similar complaints in countries with longer traditions of immigration, like America, Britain and Canada. But such countries fret less about the existence of neighbourhoods with distinct ethnic characters, even if those places are poor. Every metropolis boasts its own Chinatown, and some have special policies for protecting them. America worries about racially

segregated ghettos but has made only half-hearted attempts to break them up. The Fair Housing Act of 1968 required local governments in America to fight residential segregation, but Richard Nixon refused to enforce what he termed “forced integration of housing”. In 2015 the Obama administration introduced more ambitious regulation, but it was shelved under Donald Trump. So who has the better case—the interventionist Europeans or the relaxed Anglo-Saxons?

Danes and other Europeans raise two objections to ghettos. First, the very existence of poor immigrant districts undermines public support for their generous welfare systems. When groups lack solidarity with each other, “then it’s very easy to be annoyed about paying 45% in taxes,” says Kaare Dybvad, the Social Democratic housing minister, who took office after the leftist parties won the general election in June. That claim is hard to prove or disprove. But a second objection is easier to examine—that ghettos harm their residents, in part by keeping them poor.

Most of Denmark’s designated “ghettos” are large housing developments outside city centres, far from well-paid jobs. The government steered both the guest workers recruited by Danish firms in the 1960s and 1970s and the refugees who arrived from the 1980s to such areas. The country’s ghettos are partly its own creation.

The 15 areas designated as “hard ghettos” have serious problems. To qualify, they must meet two of the following four conditions: 40% of working-age residents must be out of the labour market and not in education; the proportion of residents with criminal convictions must be at least triple the national average; the share of people with no secondary-school diploma must exceed 60%; and the average taxpayer’s income must be under 55% of the regional average. Moreover (and this is where the law is most controversial) more than half the population must have a non-Western immigrant background.

Denmark is delineating ghettos not to contain immigrants, as the original ghetto in Renaissance Venice was designed to contain Jews, but to push them out. In Mjolnerparken, the plan is to renovate and sell enough apartments to bring the share of subsidised units to below 40%. Tenants who are priced out will receive help to move into public housing in non-ghetto developments around the city. Mjolnerparken’s fortress-like courtyards will be opened up, to allow more flow-through to the wealthier surrounding areas.

Such a bold policy suggests that the evidence for ghettos being bad is overwhelming. In fact, it is mixed. In the 1920s, at the end of a wave of immigration to America, sociologists at the University of Chicago argued that ethnic enclaves facilitated assimilation. Immigrants first settled in big cities, drawing on the knowledge and contacts of their former compatriots. Over generations, they adapted culturally and climbed the economic ladder, mixing with the native population.

Later, economists weighed in. In a paper in 1997, “Are Ghettos Good or Bad?”, David Cutler and Edward Glaeser, both at Harvard, noted that theoretical arguments could point either way. On the one hand, ethnic enclaves limit their residents’ exposure to economic opportunities and cultural knowledge outside their own ethnicities. On the other, they give new immigrants access to information and connections acquired by earlier arrivals, and may provide them with role models.

There is evidence to support both theories. In a paper in 2003, Per-Anders Edin, Peter Fredriksson and Olof Aslund, all economists, made use of a natural experiment in Sweden’s refugee policy. In 1985-91, facing a national housing shortage, the government settled refugees in any municipality that had room. Low-skilled migrants initially flourished when they moved to enclaves of their own ethnicity. For highly skilled ones, there was no impact. The lower-skilled members of an ethnic group may have benefited quickly from contact with the higher-skilled members of that group—more than they would have benefited from being dumped in a largely Swedish district. But the higher-skilled members of that ethnicity would have prospered surrounded by Swedes.

Mr Cutler and Mr Glaeser’s research points in a different direction. They find that immigrants to America with higher levels of education did well in ethnic enclaves. Their incomes were higher, their children’s English results at school better. For ethnic groups with lower levels of education, living with their countrymen had the opposite effect. Temporary agglomeration into ethnic enclaves, as in Sweden, may help immigrants in the short run. In the long term, most will probably be better off mixing with the native population.

That seems especially true for one long-established group in America. When Americans speak of ghettos, they often mean poor, crime-ridden African-American neighbourhoods such as West Baltimore. These formed largely owing to practices such as segregated zoning policies and government-encouraged discrimination by banks in mortgage lending, which continued until 1970. Segregation in public housing and whites’ refusal to live among blacks also mattered.

Such ghettos harm their residents. Messrs Cutler and Glaeser found that young blacks in highly segregated cities had incomes 16% lower and dropout rates 19% higher than those in integrated ones. They also die younger. One recent study found that residential segregation largely accounts for the fact that black men are 14% and black women 9% less likely to survive from age 35 to 75 than whites.

European worries about ghettos stem partly from scepticism about the American model of integration. “When people talk about New York, they say it’s a melting pot, but actually it’s not,” says Mr Dybvad, the housing minister. “You have one area with people of Chinese background and one with people of Lithuanian background, and they’re not melting together. I don’t want Copenhagen to be like that.”

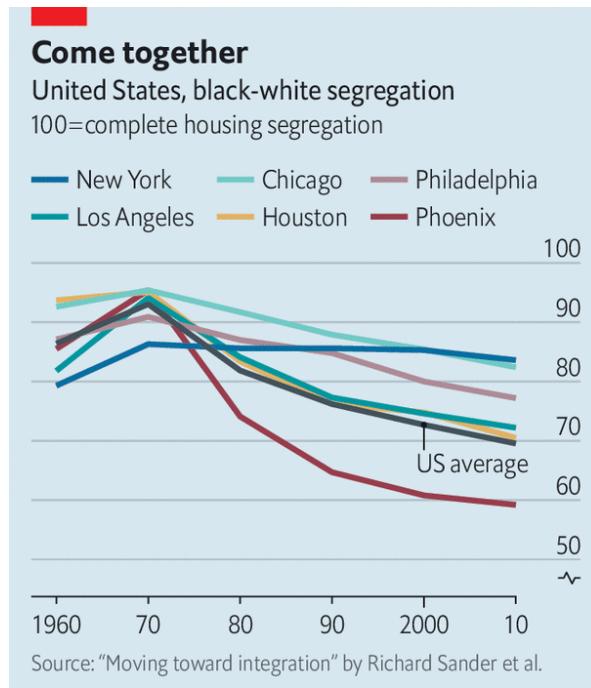
Sunset Park, a mostly working-class district of Brooklyn, suggests this fear is misplaced. In the early 20th century it was a Nordic immigrant ghetto full of sailors and dockworkers from Oslo and Helsinki. Patricia Marone, a 75-year-old local, remembers when Eighth Avenue was nicknamed Lapskaus Boulevard, after a Norwegian stew, and the church across from her house was Finnish Lutheran.

### A change is gonna come

That church is now called Principe de Paz, and the restaurants on Eighth Avenue are Chinese. By the 1960s Sunset Park had become largely Puerto Rican. By the 1980s Chinese-American families had moved in. Immigrants from China soon joined

them. Since the 1980s there has been an influx from Mexico and Central America. Today the area is roughly 40% Hispanic, 33% Asian, 23% white and 2% black.

A walk up from the docks traces this ethnic geography. Just above the waterfront, with its strip joints and auto-body shops, comes a mostly Hispanic neighbourhood. On Third Avenue a poultcher advertises live chickens in Spanish and Chinese. The American flag is omnipresent on houses and T-shirts—a token that allows any immigrant to stake a claim to citizenship, morally if not legally.



The Economist

Big cities across America are becoming less segregated (see chart), according to data from the Census Department. In 2000 the average white resident in America's 100 largest metropolitan areas lived in a neighbourhood that was 79% white. By 2017 that figure had fallen to 72%. British cities are becoming less divided, too. According to work by Gemma Catney now of Queens' University Belfast, between 2001 and 2011 (the two most recent British census years) every ethnic minority except the Chinese became less segregated.

Gentrification is the main engine of free-market desegregation in cities these days. Even native Danes like some diverse districts. Mjolnerparken borders Norrebro, an ethnically mixed district where shops selling hijabs sit next to vegan cafés. Not all such areas are central or attractive enough to appeal to gentrifiers. But even in concrete banlieues, there are less punitive ways for governments to encourage integration than by labelling them ghettos and pushing some of their residents out. ■

## LVMH

The everything-that-shines store

### The everything-that-shines store LVMH tests the limits of luxury

*Can the conglomerate of bling grow any larger?*

[Print](#) | [Business](#) Nov 28th 2019



Eyevine

**W**HAT DO YOU buy the luxury group that has everything? More diamonds, apparently. On November 25th LVMH, already the biggest beast in global luxury, announced it was taking over Tiffany & Co, where Wall Street bond traders sink a few bucks to improve their chances of turning girlfriends into fiancées. The American marque will become the 76th *maison* of the Parisian group, joining Louis Vuitton, Dior and Veuve Clicquot champagne. How many more can fit under the corporate umbrella of Bernard Arnault, LVMH's boss and biggest shareholder?

The deal is as richly priced as a flawless gem. LVMH will pay \$16.9bn including net debt, equivalent to nearly four years' sales at Tiffany. Nonetheless, the takeover was greeted with the enthusiasm befitting a suitable engagement. Luxury, once little more than a cottage industry dominated by family firms in Europe, has become the preserve of a few giant conglomerates. In recent decades there has been a sense of inevitability when another well-known company has fallen into the clutches of LVMH or its rivals, Kering (home of Gucci and Balenciaga among others) and Richemont (which owns Cartier and Montblanc).

The acquisition cements the place of LVMH at the peak of the luxury world. Its rise has been nothing short of dazzling since Mr Arnault took it over three decades ago. Its shares have risen threefold in the past five years, including a 60% run since January. Worth around €206bn (\$227bn), LVMH now vies with Royal Dutch Shell as the most valuable firm based in the EU.

Mr Arnault, whose family owns nearly half of LVMH (and a solid majority of voting rights), is said to be Europe's richest man. From the gritty town of Roubaix in northern France, he turned a family construction firm to property, then luxury. He snapped up Dior as part of a package of distressed textile assets in the 1980s, then seized control at LVMH. The "wolf in cashmere" has all the trappings of a \$100bn fortune, from a public art collection housed in a Parisian museum designed by Frank Gehry to his impeccably tailored Christian Dior suits and a couple of newspapers.

"LVMH dominates a structurally favoured sector, buoyed by globalisation and income inequality," says Luca Solca of Bernstein, a research firm. Its success is the result of being the right size—big—in the right business at the right time.

Start with the industry. Sales of luxury goods, such as handbags, posh watches and Hermès scarves, have grown by about 6% a year since 1996 according to Bain, a consultancy. It estimates the industry will be worth €281bn this year. Chinese shoppers, who barely featured in 2000 but now account for a third of all sales, have added much of the fizz.



The Economist

Size has brought more rewards. In an industry with high fixed costs—spent on marketing, but also on eye-watering rents for shops on flashy thoroughfares—selling more translates into better margins. LVMH has achieved nearly double the industry's growth rate in the past two decades, and last year sold over €46bn-worth of extravagance (see chart). That is more than three times the figure for Kering and Richemont, its nearest rivals.

Mr Arnault emerged as the most obvious buyer for Tiffany in part because scale begets advantages not available to smaller bauble-peddlers. That might seem odd at first. Compared with lesser industries, mergers in the luxury world kick up few opportunities for cost-cutting or synergies. Nobody expects Tiffany watches to be sold in Louis Vuitton stores, for example.

But analysts think brands can do better within a conglomerate. Take Tiffany. Its shareholders had pestered management to improve margins and raise sales fast, unduly hurrying its turnaround efforts. LVMH says it will give Tiffany time and money, for example to renovate stores and push upmarket. It did something similar with Bulgari, an Italian jeweller. Mr Arnault this week said profits there had risen five-fold since LVMH took it over in 2011. The group does not disclose how each brand is doing (its annual report contains more pictures of jewel-laden models than financial minutiae), easing the pressure on creative types to meet quarterly targets.

Scale has more mundane advantages, too. Conglomerates have more clout when negotiating, for example, with landlords of new malls in China. They can browbeat magazines for better advertising rates. Hefty costs associated with building e-commerce sites can be shared.

Such advantages suggest more consolidation. But there are limits for LVMH and others. One is supply. The timeless brands that conglomerates crave by definition need a long history, and these are relatively few. Those that remain independent, such as Chanel or Rolex, preserve that status fiercely. Mr Arnault has got round this by subtly expanding the scope of luxury, for example by branching out into hotels.

Another limit, which is particular to LVMH, is whether any group can handle so many different businesses. In other industries, conglomerates are regarded as unwieldy and have fallen out of fashion. Kering slimmed down by spinning off Puma, a sportswear brand, last year. So far the mood is for building empires, not dismantling them. Some wonder if Richemont and Kering might merge to boost their prospects.

LVMH is not without challenges. The luxury sector's future is uncertain. Growth in China will not last for ever, especially if trade tensions continue. Even Dom Pérignon drinkers feel the impact of recessions. Marketing has had to evolve to attract millennials who care about Instagram and sustainability. More shopping is happening online, where mastodons like Amazon and Alibaba lurk.

Perhaps half the firm's profits come from a single brand, Louis Vuitton. Mr Arnault has made it clear that LVMH is a family firm and that one of his children (four of whom work in the business) will take over. At 70, he remains firmly in charge. But as time passes, the question of whether his heirs have inherited his talent for flogging objects of desire will come into focus.

And can luxury continue to sell to ever more people yet retain its cachet? So far it has. But the industry Mr Arnault helped create is young, despite the timeless quality it seeks to exude. It has thrived by spending extravagantly to get people to buy beautiful foreign things they do not need. It is the archetypal business model of the times. But what if times change? ■

Where there's a will  
**Huawei keeps on going**

*America's tech blacklist has proven porous*

Print | Business Nov 30th 2019



Bloomberg

**G**EUNIELY FRIGHTENED" by Huawei. That was the verdict of Wilbur Ross, America's commerce secretary, delivered recently to an audience of diplomats. The Chinese tech giant is the world's biggest supplier of mobile-network equipment. American officials worry that it could use that position for electronic spying or sabotage on behalf of Beijing.

With that in mind, in May Mr Ross's department placed Huawei on the "entity list", restricting the ability of American firms to do business with it. Many analysts expected the results to be painful. Huawei spends more than \$10bn a year on buying software, processors and the like from American firms. So far, though, the pain has failed to materialise. Sales of Huawei's smartphones, which can no longer ship with Google's popular apps, have flatlined outside China. But on the whole, the firm seems in robust health. On October 16th it announced revenues of 611bn yuan (\$89bn) for the first nine months of 2019, up by 24% year-on-year. It said it had signed over 60 contracts to install zippy 5G phone networks around the world.

Two things explain that resilience. The first is that enforcement has been less fierce than feared. On the same day that Mr Ross was describing his fears, his department issued its first set of licences permitting some American companies to restart sales to Huawei. Among the licensees was Microsoft, whose Windows operating system is used in Huawei's laptops.

The second is that the law has proven more porous than expected. When Huawei was first placed on the entity list, it led to corporate panic. Lawyers at American tech firms dived into obscure branches of export law that their firms had never before had to consider. A leaked internal memo from Arm, a chip-design company based in Britain but with a big presence in America, created the perception that its licensing of crucial chip designs to Huawei had completely ceased. Yet after the dust had settled, many of the tech firms concluded that the international nature of their supply chains would allow them to carry on serving Huawei even without a special licence of the sort awarded to Microsoft.

Nvidia, a chipmaking company based in Santa Clara, California, offers an example. The firm designs graphics processing units (GPUs). These chips specialise in the sorts of mathematics required to draw whizzy graphics for modern video-games. A stroke of serendipity means they are also well-suited to artificial-intelligence work. But Nvidia does not physically make anything in America. Instead it sends its designs, which are not themselves subject to the export controls, to the Taiwan Semiconductor Manufacturing Company, which undertakes the expensive, high-tech process of manufacturing the silicon. Under the law, that leaves Nvidia free to sell the resulting chips to Huawei.

Many other American companies share this offshore-manufacturing structure. It exists because Western technology firms have largely outsourced manufacturing and assembly to countries such as Taiwan, which have built up large, specialised in-

dustries around the task. Only the highest-margin design work is still undertaken at home. For Huawei, this counts as a happy accident. For American security hawks, it is infuriating.

The status quo may not last. The Department of Commerce is drawing up two lists of technologies, one “foundational” and one “emerging”, whose export will be subject to much more severe restrictions than those imposed by the entity list. Depending on how strictly the lists are drawn, the new rules could do serious damage.

In the meantime, though, the main effect of the sanctions seems to have been to accelerate Huawei’s push towards technological independence from America. Analysis of its phones by UBS, a bank, shows they now contain fewer American-sourced components (some appear to contain none at all). The firm has said that similar efforts are being made across the company. Huawei is still not immune to determined American action. But it is less vulnerable than it was. ■

Affair of the heart

## The reinvention of Novartis

*Transforming a pharma conglomerate*

Print | Business Nov 28th 2019



Reuters

**T**HE BOSS of Novartis is on a buying spree. Vas Narasimhan has been shopping for new medicines that will reinvent his drug company. His aim is to turn a stodgy European conglomerate into a cutting-edge pharmaceuticals firm by decluttering it of unwanted assets and placing big bets on advanced medicines. These are more precise in the way they work and are likely to play an increasing role in health care in the future. By shuffling the deck, Mr Narasimhan says he is focusing on "transformative innovation". All bosses of pharma firms like to boast about that kind of thing. Nonetheless, there is substance to the changes afoot at Novartis.

The latest acquisition, announced on November 24th, of the Medicines Company for \$9.7bn, brings with it a promising cardiac drug that targets bad cholesterol, and which can be given in only two annual shots. In less than two years at the helm, Mr Narasimhan has also snapped up an eye drug from Takeda for up to \$5.3bn, Endocyte, a small biopharma firm, for \$2.1bn, and AveXis, a gene-therapy firm, for \$8.7bn. He has boasted about having a pipeline of 25 blockbuster drugs. If they all come good it would be remarkable.

Out has gone the firm's stake in a joint consumer health-care venture with GSK, a British pharma firm, for \$13bn. Alcon, its eye-care division, has been spun off into a separately traded company.

Pharma firms have been slow to adopt the digital transformations that have brought innovation (and disruption) to finance, shopping, banking and airlines. The new Novartis is more intent than rival drug firms on using big data and digital technologies to improve productivity and offer new services. If it can harness big data, the firm could become more adept at drug development. This would, for example, allow Novartis to hone the way it runs clinical trials. It could also allow the firm to identify subgroups of patients within sufferers from diseases such as multiple sclerosis, who will respond better to particular drugs, significantly lowering the cost of treatment. The firm is also opening digital health labs, including one in San Francisco, to tap into start-ups in the health-technology field.

Even as it tries to reshape itself for the next era of medicine, Novartis still faces some criticisms familiar in the drug industry. One is high prices. Its gene-therapy drug, Zolgensma, is expected to cure spinal muscular atrophy, but costs \$2.1m per treatment in America. Novartis has also been sharply admonished by regulators and lawmakers for being slow to reveal that falsified data were used to gain approval for the drug. The firm says it was standard procedure to investigate before informing authorities. The dodgy data seem to have no bearing on the safety or efficacy of the drug.

When it comes to the new heart drug Mr Narasimhan has bought, he will have less pricing power than with Zolgensma. Although the medicine may be better than its rivals, the market is crowded with similar drugs that are not selling well. But while its transformation is under way at least Novartis, like its rivals, can rely on a booming Chinese market, where the government is now paying reasonable prices for foreign drugs. Novartis talks of doubling sales in Asia over the next five years. Investors who are worried about the high price paid for the Medicines Company can take heart. ■

On purpose

## Encouraging “purposeful” business

*A new report misses the mark*

Print | Business Nov 28th 2019



Getty Images

**R**EINVENTING CAPITALISM is all the rage. The British Academy, a scholarly body, issued a provocative report in 2018 arguing for the replacement of profit-focused shareholder capitalism with a system in which corporations embrace social purpose. A follow-up manifesto published on November 27th tries to explain how to do this. But fixing capitalism is easier said than done.

The report lays out eight principles to guide implementation of corporate purpose. These range from changing laws and regulations to improving metrics and governance. Some are sensible. Establishing common standards for measuring social impact would be a vast improvement over the current hotch-potch of competing (and often misleading) measures of how firms fare on environmental, social and governance matters. Ideas for reforming corporate governance, including improving board accountability, are useful.

Some ideas are problematic or downright barmy. The report makes the extraordinary claim that “ownership does not relate to the assets of a firm but to its purposes”. The experts insist that every company must by law have a purpose “that is not solely about profit”. So would strategies that maximised profits become illegal, unless they also solved poverty or climate change? And which of those goals would the purpose police deem more worthwhile? There is only passing mention of the sorts of trade-offs that bosses must make between the competing claims of rival stakeholders.

The report is heavy on “should do” recommendations and light on incentives needed to achieve those goals, notes Luigi Zingales of the University of Chicago. He argues that forcing firms to have a social purpose is an unjustifiable infringement of freedom. Making bosses come up with cuddly corporate-purpose statements is likely to produce a swarm of platitudes.

The report notes that the corporate purpose of Novo Nordisk, a Danish drugs firm, is to “drive change to defeat diabetes and other serious chronic diseases”. The Academy applauds the firm’s use of the Future-Fit Business Benchmark, a tool for assessing governance. Sadly, these virtues did not prevent it from charging outrageous prices for its insulin in America, leading to lawsuits and congressional inquiries. The firm denies wrongdoing. In September it responded to public outrage by offering cheaper insulin to American diabetics—but only after Eli Lilly and Sanofi, rival drugs giants, had done so first.

The academy’s clear-headed first report asked important questions about the role of business in society. Its muddled follow-up (which Mr Zingales describes as “something in between policy prescription and a self-help book”) seems destined to end up as a doorstop.

To have and to hold

**Supplying clean power is easier than storing it***Cutting emissions relies on energy-storage technology coming of age*

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DPA

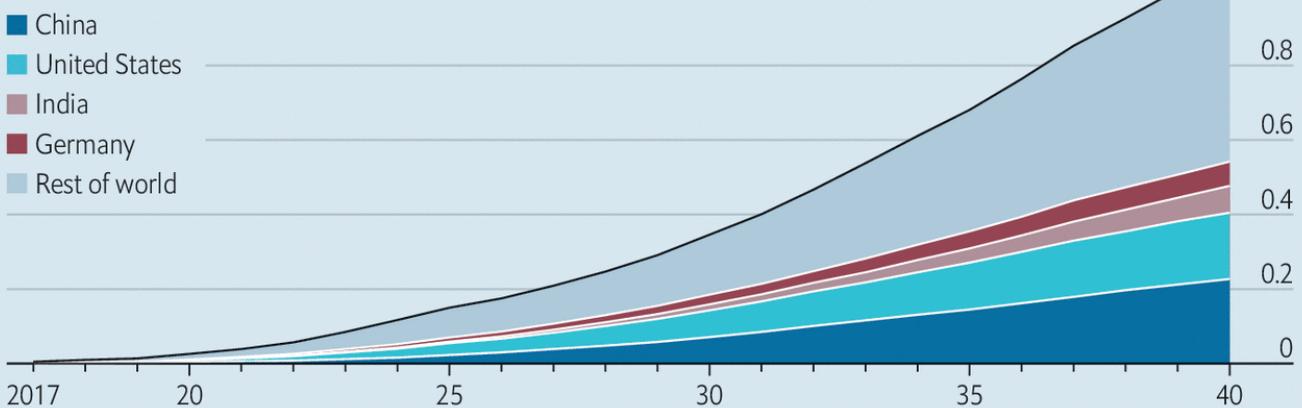
**I**T SOUNDS SIMPLE: lift heavy blocks with a crane, then capture the power generated from dropping them. This is not an experiment designed by a ten-year-old, but the premise of Energy Vault, which has raised \$110m from SoftBank, a big Japanese tech investor. The idea has competition. A cluster of billionaires including Bill Gates, Jack Ma, Ray Dalio and SoftBank's Masayoshi Son are backing other schemes to capture power. A firm incubated at Alphabet, Google's parent company, wants to store electricity in molten salt. Such plans hint at one of the power business's hardest tasks. Generating clean power is now relatively straightforward. Storing it is far trickier.

Solar and wind last year produced 7% of the world's electricity. By 2040, that share could grow by over five times, according to the International Energy Agency, an intergovernmental forecaster. The trouble is, a lull in the wind leaves a turbine listless. Clouds have a habit of blocking the sun. That means that solar and wind cannot, on their own, replace coal and gas plants, which produce continual power reliably.

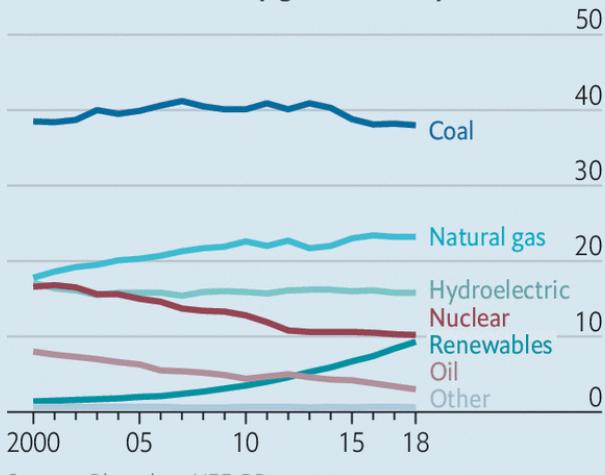
One answer is to store power in batteries, which promise to gather clean electricity when the sun and wind produce more than is required and dispatch it later, as it is needed. In 2018 some 3.5 gigawatts of storage was installed, about twice the amount in 2017, according to BloombergNEF, an energy data firm. Total investment in storage this year may reach \$5.3bn, it estimates. As this grows it could drive an extraordinary expansion (see chart). However at present only about 1% of renewable energy is complemented by storage, reckons Morgan Stanley, a bank. There are still plenty of hurdles to clear.

## Clearing the air

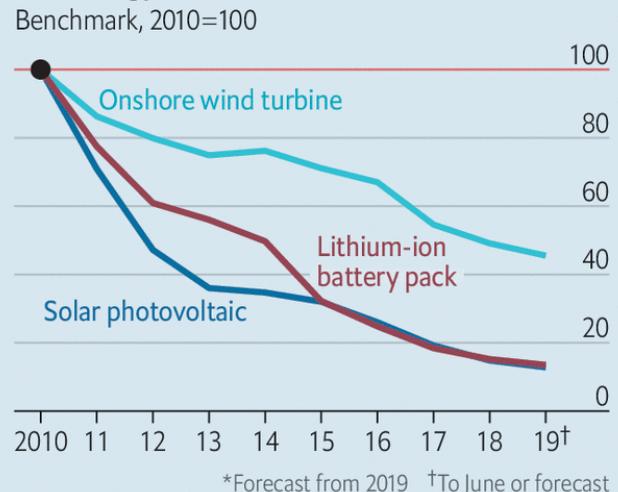
### Worldwide cumulative energy-storage installations, terawatts\*



### Worldwide electricity generation by fuel, %



### Technology cost reductions



The Economist

The most common method of storage so far has been to pump water into an elevated reservoir at times of plenty and release it when electricity is needed. This type of hydropower is not the answer to providing lots more storage. Building a new reservoir requires unusual topography and it can wreak environmental havoc.

Batteries offer an alternative and availability should improve as electric cars become ever more popular. “The whole production supply chain for lithium-ion batteries for electric vehicles is gearing up,” says Andrés Gluski of AES, an electricity company, “so we’re going to piggyback on that.” As greater demand led to greater manufacturing scale, the cost of batteries dropped by 85% from 2010 to 2018, according to BloombergNEF. That makes batteries cheap enough not only to propel mass-market electric cars but for use in the power system, too.

And as electric cars become more widespread their batteries could serve as a source of mobile storage, feeding power back into the grid, if required, when the vehicles are parked and plugged in. With the right infrastructure in place, fleets of electric cars could substitute for new dedicated storage capacity.

Batteries do a variety of things. A firm called Sunrun sells residential solar panels paired with batteries, a particularly appealing proposition for Californian homeowners desperate for an alternative to fire-induced blackouts. Within the broader grid, batteries can act as a shock absorber to deal with variations in supply from one minute to the next. Other uses include shifting electricity supply from the day, when solar panels often produce a surfeit of power, to the evening, when demand rises.

The growth of storage is becoming a headache for old-fashioned power generators that rely on gas or coal. NextEra Energy Resources, which builds clean-power installations, is increasingly pairing large solar farms with batteries. AES, which has battery-storage facilities in 21 countries and territories, runs a scheme in Hawaii that combines solar with storage to meet peaks in demand. The Rocky Mountain Institute, a clean-energy research group, warns that solar and battery projects, combined with measures such as smarter appliances to control demand, may turn gas-powered plants into stranded assets.

Nevertheless, the battery industry faces several barriers to broader deployment. To start with, if a battery overheats it can catch fire, producing gases that might explode. In the past year installations in South Korea have caught fire. A fire and explosion

in April damaged a storage site in Arizona run by Fluence, a joint venture between AES and Siemens, a German engineering giant. The causes are still under investigation. As the industry matures, safety measures are likely to become more rigorous.

In the meantime, the industry will have to cope with a patchwork of other rules and regulations. South Korea has offered incentives for storage, in part to create a market for its domestic battery-makers, which are among the world's leaders. Some states in America, such as New York and New Jersey, have mandated storage to help reduce emissions. In others, America's federal electricity regulator is trying to open markets to storage, but the details of how that will work in practice are unclear. In Britain, batteries are deemed "generation assets", which exposes storage developers to extra fees and costs, says Michael Folsom of Watson Farley & Williams, a law firm.

Even if electricity regulations were smoothed, lithium-ion batteries would eventually reach their limits. Breakthrough Energy Ventures (BEV) is a fund backed by Messrs Gates, Ma, Dalio and other billionaires to invest in transformational technologies. The cost of lithium-ion batteries is falling quickly, but to store power for days let alone weeks "lithium-ion is never going to get cheap enough", says Eric Toone, BEV's head of science.

Alternatives include flow batteries, that use electrolytes in tanks of chemical solution, as well as mechanical means such as Energy Vault's falling blocks. Hydrogen can also be made using clean power and turned back into electricity in gas-fired power plants or fuel cells. In the future liquefied gases might provide a solution (see [article](#)). Unlike solar panels, which have become standardised, different batteries are likely to serve different purposes on a grid. "All batteries are like humans, equally flawed in some specific way," says Mateo Jaramillo, who led storage development at Tesla, an electric carmaker.

Mr Jaramillo now leads Form Energy, a firm that is developing an electrochemical alternative to lithium-ion batteries. Investors include BEV and Eni, a large Italian oil and gas firm. Mr Jaramillo declines to predict when his work will be commercialised. But the goal is clear. "If you can develop a long-term storage solution," he says, "that's how you retire coal and that's how you retire natural gas." ■

Bartleby

## Too much management research is clear as mud

*A new book argues that scientific management isn't scientific enough*

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Paul Blow

**B**EWARE THE guru with a theory that explains how companies behave or the perfect recipe for how firms succeed. Beware, too, the lengthy academic studies to similar effect. That is the stark warning of "Management Studies in Crisis: Fraud, Deception and Meaningless Research", a new book by Dennis Tourish, a scholar of organisations at the University of Sussex.

The idea of "scientific management" dates back to Frederick Winslow Taylor, who wrote a treatise on it in 1911. One example invoked the Bethlehem Iron Company, where he supposedly persuaded an employee named Schmidt (about whom Taylor was very condescending) to work harder by paying a piece rate.

Taylor claimed his schemes allowed employees to quadruple output. But he based his numbers on a handful of workers increasing their activity over a short period. Their improved work rate would, Mr Tourish calculates, have equated to 71 tonnes over a ten-hour day. But, he notes, "Taylor rounded this up to 75 tonnes, figured that such sustained work was impossible, and reduced the target by 40%." Hardly a paragon of scientific rigour, then.

Elton Mayo conducted another much-cited early 20th-century study. He found that changes in lighting at the Hawthorne works in Illinois improved productivity. Remarkably, the work indicated that making the lights more or less bright made no difference; workers simply responded to the special attention paid them. This was welcomed by many managers as it implied it was not always necessary to reward workers with more money to increase output.

But as Mr Tourish points out, only five women were studied, two of whom were replaced during the experiment when their responses proved unsatisfactory. And the lights were changed on a Sunday, when no one was around. The increased productivity thus occurred on a Monday. Later studies have shown that workers are generally more productive at the start of a week than on Fridays or Saturdays.

The modern era is also full of dodgy theories based on limited evidence. A few years ago journalists noticed a bizarre tendency for British politicians to stand with their legs far apart like living croquet hoops. The fashion for the pose seems to have been driven by a paper from 2010 which suggested that any leader who adopted this strange stance would feel more confident and appear more powerful. Then a second team of researchers conducted a follow-up study with a sample size five times that of the original. It found no such effect.

At least these studies had two merits: they were easy to understand and it was possible to check their results. Too much modern management research, the author argues, is a mess of inconsequential jargon, tailor-made to appear in leading jour-

nals. Academics are judged on their ability to get papers published in these periodicals and business schools are ranked on their ability to employ the most prolific of these academics.

This rush to publish has led to management research being affected by the same problems as other disciplines. A bias exists to publish studies that show headline-grabbing results. Cherry picking—selective use of statistics in search of a striking conclusion—is commonplace. Results that show an effect does not exist, as scientifically useful as positive findings, are stashed away in a drawer. One survey of the literature found that 25-50% of management articles had inconsistencies or errors; another concluded that 70% of papers disclosed too little data to permit independent verification of their findings.

And then there is the language the research is couched in. As Mr Tourish puts it, “trivial insights are converted into theoretical statements that read like English translated into Esperanto and then back again.” He cites one 57-word sentence that begins “By introducing Heidegger’s distinction between the building and dwelling modes of engagement to the strategy-as-practice literature...” (In the spirit of seasonal cheer, Bartleby will spare you the rest.)

It is hard to believe that anyone, bar other academics, reads this stuff. So what is the point? How many chief executives base their strategy on theories gleaned from a management journal? Everyone would benefit if management research were clearly written, based on real-world examples and realistic about its broader applicability. Less Chomsky, please, and more cost-benefit analysis.

**Schumpeter****One company, two systems***Alibaba sets its sights on Amazon*

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Brett Ryder

**A** NYONE WHO is cursed with a rational mind should ponder Alibaba's faith in eight, the luckiest single digit in China. On November 26th China's e-commerce juggernaut sold HK\$88bn (\$11.2bn) of secondary shares on the Hong Kong Stock Exchange under the stock symbol 9988—88 is not only a homonym for *baba*, but also signifies double luck. As soon as the gong was banged to launch trading, the shares soared from HK\$176 to the auspicious price of HK\$188. Luck was on Alibaba's side. Nearby Pedder Street, where 19th-century stockbrokers gathered to trade shares, has been a hotspot of anti-China protests since early summer. On occasion, the smell of tear-gas has wafted into the exchange. Yet after a landslide win for pro-democracy parties in local elections earlier in the week, the chaos has—at least temporarily—subsided.

Luck aside, the listing provides the company with triple benefits. It wins brownie points with the Chinese government for demonstrating confidence in Hong Kong's financial future amid the protests. It partially hedges its exposure to America, where it launched the biggest initial public offering of all time in 2014, but has recently suffered from trade-war related turbulence. And it increases the accessibility of its shares to Asian institutional investors, who may be less inclined to view China through the prism of trade and geopolitical tensions. Soon it may be eligible for Stock Connect schemes that link Hong Kong with markets in Shanghai and Shenzhen, allowing mainland investors to pile in as well.

In the process, Alibaba has already chalked up one victory. It has shrunk the discount at which its shares have long traded against Hong Kong-listed Tencent, its sworn enemy among China's internet titans. Its eyes are now on a bigger prize. Alibaba's executives suggest that the firm should be valued like Amazon, its biggest global e-commerce competitor. Amazon is worth \$890bn compared with \$520bn for Alibaba. The American firm's prospective price/earnings ratio, at around 67, is over twice that of its Chinese rival. To narrow the gap Alibaba has a tricky balancing act to pull off. It needs to keep the Chinese government on its side, but also appear less Chinese when winning over the outside world.

Alibaba's ability to achieve its ambitions should not be underestimated. But even the most bullish analysts say that overtaking Amazon is a long shot. The two firms have different business models. Alibaba provides a platform that links buyers and sellers on its biggest sites, Taobao and Tmall, and it mostly makes money from sellers spending money to push their wares higher up the search rankings. Unlike Amazon, it does not sell its own goods, meaning it has no need for inventory and warehousing. That helps it generate much fatter profit margins. But according to David Dai of Bernstein, a research firm, its cloud-computing business, though the biggest in China, makes a negligible contribution to its valuation. Amazon's cloud

business, Amazon Web Services, is a gold mine, accounting for about half of the American firm's value. And while Amazon generates over \$70bn of annual sales from outside its home market the figure for Alibaba is less than \$10bn.

Daniel Zhang, who in September took over running the firm from Jack Ma, its charismatic founder, is trying to transform Alibaba by making better use of its vast trove of data to create more value. Roughly one of every two Chinese buy via its e-commerce platforms. Bolstering it all is Alipay, its online-payments platform with about 900m users in China. Alibaba owns a 33% stake in Ant Financial, Alipay's parent company, potentially further boosting its appeal to investors.

But for all its clout, it remains at the mercy of the Chinese government. After its listing in New York in 2014, a boom in its share price turned to bust when government regulators publicly tore it off a strip for peddling fakes. As Alipay and Tencent's Tenpay have muscled into territory controlled by state-owned banks, the government of President Xi Jinping has angrily pushed back. Now regulatory heat is rising over allegations of unfair competition, particularly with regard to "pick-a-side" deals, in which platforms forbid merchants from trading with their rivals. Galanz, a home-appliance-maker, and JD.com, a big e-commerce rival, have recently sued Alibaba's Tmall for allegedly abusing its market power. In April Colin Huang, founder of Pinduoduo, a \$43bn upstart that is nipping at Alibaba's heels, warned of "forced exclusivity" in e-commerce. Alibaba dismisses the issue as "baseless sensationalisation". It adds that "committing to a single partner is normal commercial behaviour". Shortly before Alibaba's Singles' Day sales jamboree on November 11th, regulators travelled to its home town of Hangzhou to warn e-commerce firms that such deals were illegal. If they want, they can make life deeply uncomfortable.

Alibaba, for now, appears relaxed about the pressure. It argues that Big Tech in China is hardly a cosy oligopoly. The constant battle between Alibaba, Tencent and others is almost visceral. Yet the importance of remaining in the government's good books may undercut its efforts to build a global business. It has made inroads in South-East Asia. But analysts doubt its ability to compete strongly with Amazon in Europe and America, especially in cloud services because of concerns about the Chinese government's access to its data (though much of that belonging to its clients outside China is stored offshore). Even in Hong Kong, it may find itself in an awkward position if anti-China sentiment resurges.

### **E-commerce with Chinese characteristics**

Alibaba has made its own luck. Since its founding 20 years ago, it has battled the Chinese state to get where it is, trounced foreign competition in China and helped revolutionise e-commerce. This year it has responded to onslaughts from the likes of Pinduoduo by upping its e-commerce offerings in China's hinterland. From a tech point of view, it stands shoulder to shoulder with Amazon. But its valuation shows how steep the China discount remains. If it is truly lucky, the Hong Kong listing may help change that a bit. ■

### Global trade

It's the end of the World...

Who shot the sheriff?

## It's the end of the World Trade Organisation as we know it

*And America feels fine*

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Getty Images

“WINTER IS COMING,” warned a Norwegian representative on November 22nd, at a meeting of the World Trade Organisation (WTO). The multilateral trading system that the WTO has overseen since 1995 is about to freeze up. On December 10th two of the judges on its appellate body, which hears appeals in trade disputes and authorises sanctions against rule-breakers, will retire—and an American block on new appointments means they will not be replaced. With just one judge remaining, it will no longer be able to hear new cases.

The WTO underpins 96% of global trade. By one recent estimate, membership of the WTO or General Agreement on Tariffs and Trade (GATT), its predecessor, has boosted trade among members by 171%. When iPhones move from China to America, or bottles of Scotch whisky from the European Union to India, it is the WTO’s rules that keep tariff and non-tariff barriers low and give companies the certainty they need to plan and invest.

The system is supposed to be self-reinforcing. Mostly, countries follow the WTO’s rules. But if one feels another has transgressed, then instead of starting a one-on-one trade spat it can file a formal dispute. If the WTO’s ruling displeases either party, it can appeal. The appellate body’s judgments pack a punch. If the loser fails to bring its trade rules into compliance, the winner can impose tariffs up to the amount the judges think the rule-breaking cost it. It is that punishment that deters rule breaking in the first place.

It is no surprise that President Donald Trump has axed these foreign arbiters, given his general distaste for internationally agreed rules. On November 12th he declared himself “very tentative” on the WTO. But the problems run far deeper than dislike of multilateral institutions. They stem from a breakdown in trust over the way international law should work, and the more general failure of the WTO’s negotiating arm. Had the Americans felt that they could negotiate away their grievances, resentment towards the appellate body might not have built up. But with so many members reluctant to liberalise, including smaller countries fearful of opening up to China, that has been impossible.

America has had some wins at the WTO: against the European Union for subsidies to Airbus, an aircraft-maker; and against China for its domestic subsidies; theft of intellectual property; controls on the export of rare earths, which are used to make mobile phones; and even its tariffs on American chicken feet. But it has also been dragged before the appellate body repeatedly, in particular by countries objecting to its heavy-handed use of “trade remedies”: tariffs supposed to defend its producers from unfair imports. Time after time, it has lost. In such cases, it has generally sought to become compliant with the rules rather than buy the complainant off.

Though previous administrations had grumbled, and occasionally intervened in judges’ appointments, the Trump administration went further. Its officials complained that disputes often dragged on much longer than the supposed maximum of 90 days, and—more seriously—that the appellate body made rulings that went beyond what WTO members had signed up to. They made it clear that unless such concerns were dealt with, no new judges would be confirmed.

Judicial overreach is in the eye of the beholder. Losers will always feel hard done by, and America has been quick to celebrate the WTO’s rulings when it wins. But plenty of others think that the appellate body had overstepped its remit. A recent survey of individuals engaged with the WTO, including national representatives, found that 58% agreed with that verdict.

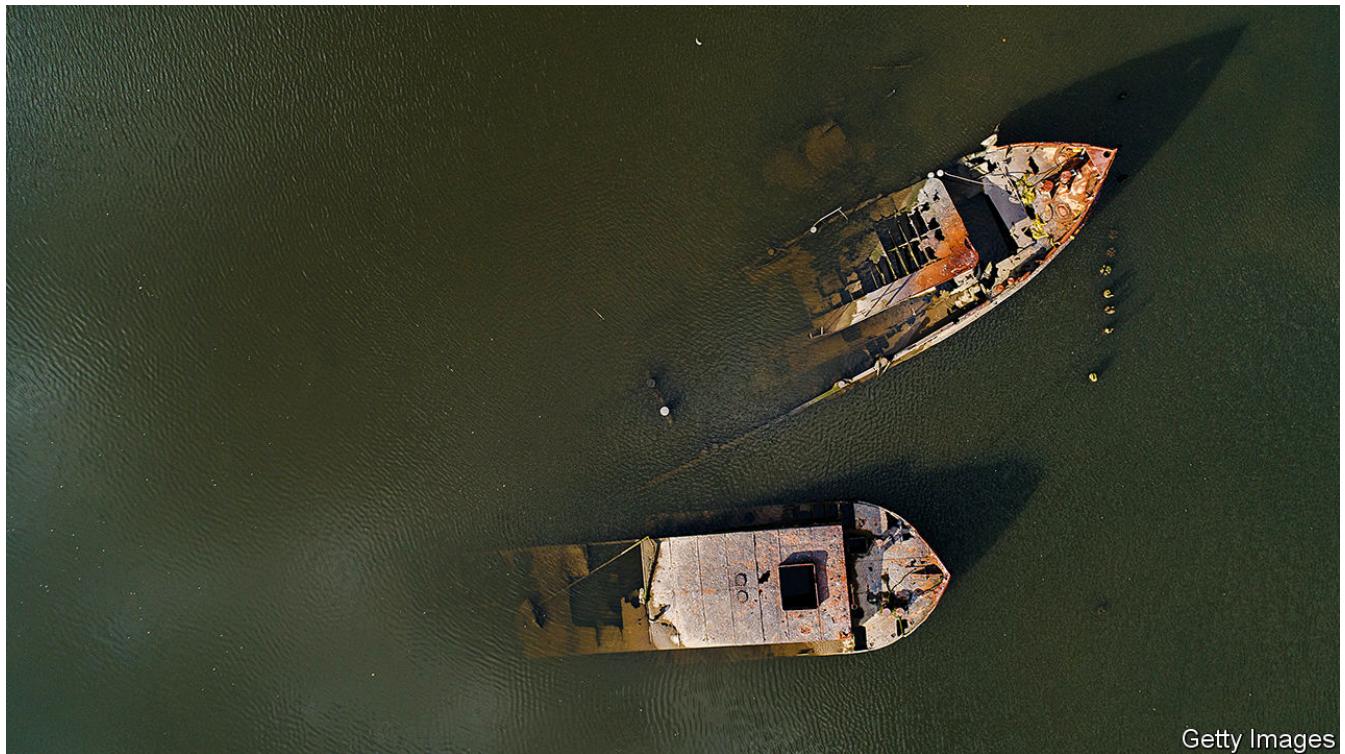
Getting so many countries to sign up to the WTO was a remarkable achievement. One way negotiators managed this was by leaving the rules vague, and papering over their differences with ambiguous language. Take “zeroing”, for example: using dubious mathematics to calculate defensive tariffs on unfairly traded imports. The Americans claim that the rules do not say they cannot do it. But others counter that the rules do not say they can. It is such long-running differences that have set the scene for the latest showdown.

### Offer me solutions

The American trade lawyers happy to kill the appellate body see a fundamental difference between their attitude to international law, and that of Europeans. Their position is that only clear contractual terms can be enforced, and they see Europeans as more comfortable with resolving ambiguities by going beyond what is written. Essentially, they regard the appellate body as too European. Moreover, in its eagerness to rule where terms are unclear, and in the American government’s willingness to change its laws in response, they feel an affront to America’s sovereignty.

Under the GATT, which lacked a proper enforcement system, ambiguities were hashed out in smoke-filled rooms. But the WTO was supposed to make naked power politics over trade obsolete. Had it worked as intended, there would have been a balance between settling disputes and writing new rules. Policy is best made with a vibrant judiciary interpreting the law, and a functioning legislative arm to fix any mistakes. Whenever the appellate body made decisions that annoyed members, they could have resolved their differences at the negotiating table. Perhaps America could have got others to agree to higher tariffs on imported steel, or been granted some flexibility in its defensive duties.

But the WTO’s negotiating arm has been broken for years. With the current count of members at 164, it has become more inclusive, but is unable to get much agreed. Each member has a veto over any further multilateral trade liberalisation. And without new negotiations, resentment towards the appellate body has built up.



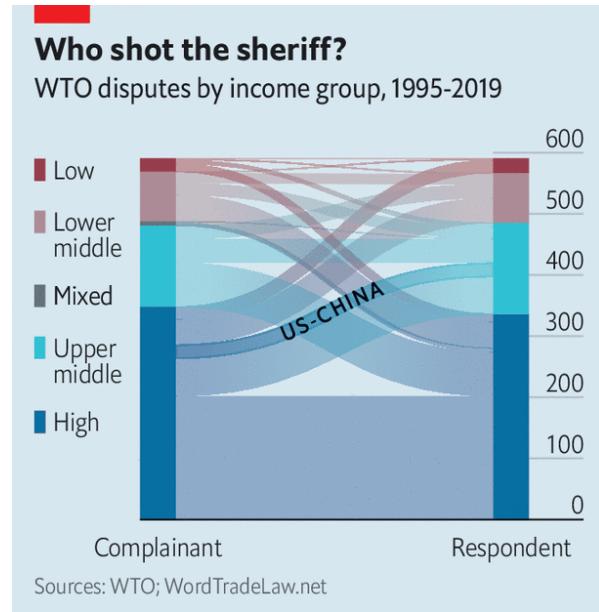
Getty Images

Had the multilateral system been more effective at dealing with the rise of China, perhaps the single biggest issue of its times, then calls to save it might be louder in Washington. Although various American administrations pursued and won several cases, the process was slow and occasionally frustrating. America can justly claim that, when it tried to hold China to account for its

breaches of trade rules, it got little support. America has been responsible for more than half of all complaints against China. And other WTO members' complaints were generally copycat, filed in America's wake.

Now that the Trump administration has bypassed the WTO and taken the fight straight to China, there is nothing remaining that it particularly wants from the WTO. And so the chances that it will relent and allow nominations to the appellate body by December 10th are slim to none. In response to proposals from other members to change the body's rules, an American representative said that they were not persuaded that the rules would be stuck to.

On November 26th the Trump administration suggested slashing the pay of members of the appellate body. In October Chuck Grassley and Ron Wyden, the top Republican and Democrat politicians on the Senate Finance Committee, published an editorial saying that while they saw the value of an appellate body, it "needs to operate as the members agreed".



The Economist

Of the WTO's 163 other members, 117 have signed a joint letter calling upon America to end the impasse. Although America has been the heaviest user of the dispute-settlement system, others will miss it too (see chart). Some have already begun preparing, for example by agreeing at the start of any disputes to forgo the right to appeal. The EU, Canada and Norway have agreed on an interim arbitration mechanism that will use retired members of the appellate body as judges. And the EU is considering beefing up its own enforcement mechanism to fill the hole left by the appellate body, though it would probably cleave more closely to the outcomes of first-stage rulings in WTO disputes.

But some members are likely to shun such alternatives—especially those that expect to be sued a lot. And it is unclear how robust they will be if disputes turn nasty. Some WTO members may try to choose their dispute-settlement mechanism case by case. An organisation as ambitious as the WTO, for all its faults, will be easier to break than replace.

All this means that global trade is about to become a lot less predictable and a lot more contentious. Without the appellate body to act as honest broker, disputes between the biggest members may escalate. Under the GATT America acted as global trade sheriff, launching investigations at will and bullying disputatious countries into submission. It is not impossible that it will resume this role. On November 27th the Trump administration announced that it had nearly finished an investigation into a French tax on digital services, which America reckons discriminates against its tech giants. That could lead to tariffs.

### You'll miss it when it's gone

In the 1980s American unilateralism was no fun for countries on the receiving end. But at least back then Uncle Sam could point to the lack of any other power even theoretically capable of doing the job. Now the absence of independent referees is America's own doing. And of all Mr Trump's trade policies, it may prove the hardest to reverse and have the longest-lasting effects. ■

Going for broker

## Charles Schwab agrees to buy TD Ameritrade for \$26bn

*As technology squeezes margins, America's discount brokers bulk up*

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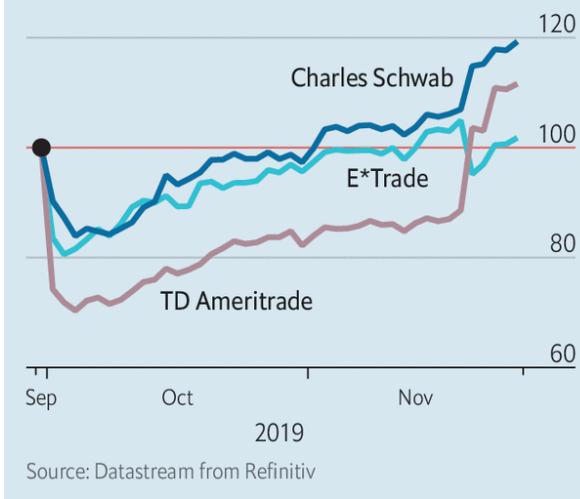
Getty Images

THE PRICE war was swift and brutal, lasting less than eight weeks. On October 1st Charles Schwab said it would no longer charge retail customers for trading shares, exchange-traded funds or options online, forgoing \$4.95 a trade. The share price of America's biggest discount broker dropped by nearly a tenth. That of its big rival, TD Ameritrade, suffered more, plunging by a quarter (see chart). TD Ameritrade followed in eliminating commissions two days later. It had little choice, though it reckoned the move would cut its revenue by \$220m-240m a quarter, or 15-16%.

On November 25th came a truce, and surrender: Schwab agreed to buy TD Ameritrade for \$26bn in shares. The deal combines Schwab's 12.1m brokerage accounts with TD Ameritrade's 12m. It will unite two platforms used by independent financial advisers—7,500 on Schwab's, 7,000 on TD Ameritrade's—for trading, market information and regulatory updates.

## Schwab swings

Share prices, September 30th 2019=100



The Economist

Investors in both companies will be relieved. On November 21st, when it was first reported that a deal was imminent, TD Ameritrade's shares jumped by almost 17% and Schwab's by 7.3%. Yet the takeover is as much a sign of the strains on big brokers as a demonstration of their market clout.

Founded in 1971, Schwab became a thorn in the sides of established stockbrokers after America's regulators abolished fixed commissions in 1975. Ameritrade was founded the same year. In the 1990s, by then joined by E\*Trade, a smaller rival, the up-starts ventured online. Ameritrade joined forces with TD Waterhouse, the discount-broking arm of Canada's Toronto-Dominion Bank, in 2006.

But in recent years digital technology has enabled an even cheaper, wholly digital, discount-broking model. The most prominent exponent is Robinhood, a six-year-old Silicon Valley startup, which boasts 6m clients and charges nothing for trades. It makes money from payments from marketmakers to whom it sends trades for execution, interest from cash in clients' accounts, charging for premium services and lending stocks on margin. It has also applied for a banking licence.

Schwab could not go on charging \$4.95 a pop. Still less could TD Ameritrade keep asking \$6.95. Admittedly, both have more strings to their bows than execution. They have their adviser platforms; they hold a combined \$5trn-plus in client assets; Schwab owns a bank with \$208bn in assets. But no one expects the combined firm to start charging again for online trades.

To stay competitive, the established discount brokers will have to drive costs down, spread those costs over a broader base and spend more on technology. Christopher Harris, an analyst at Wells Fargo, estimates that in past takeovers of discount brokers, cost savings have amounted to 50% of the target's expense base. Schwab and TD Ameritrade expect to save \$1.8bn-2bn a year, about two-thirds of TD Ameritrade's operating costs.

As elsewhere in finance, the biggest are likeliest to endure. They can afford to spend oodles on technology and to maintain branches as a national branding presence. And when margins are wafer-thin, volume is king. The importance of scale may help to explain why E\*Trade's share price fell by more than 9% on the day news broke of its rivals' probable tie-up. It had also been buoyed by a takeover premium; now E\*Trade looks a little lonely.

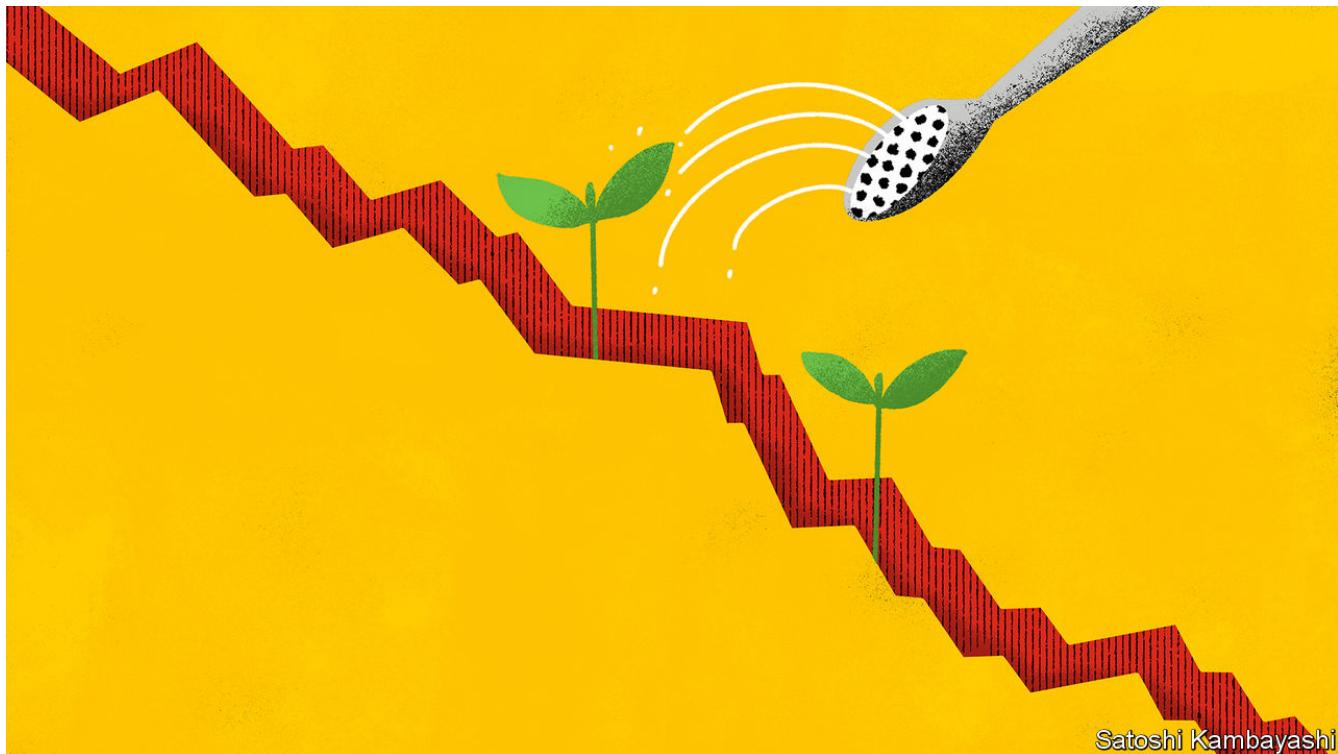
America's antitrust authorities are certain to scrutinise a deal between the two biggest discount brokers. Whether they will block it, says Matthias Memminger of Bain, a consulting firm, is less sure. Americans buying and selling shares have plenty of choice. They can invest, for example, using Fidelity or Vanguard, two mighty asset-managers that push their own funds, or through their tied advisers. Banks' broking divisions are also keen for their custom. And Schwab and TD Ameritrade will doubtless argue that they have fintechs to look out for too. If they didn't, they would have had less of an urge to merge. ■

Failing upwards

## Bond defaults have soared in China

*But officials and some investors see it as a sign of a healthier market*

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ON NOVEMBER 25TH China National Radio launched a mini-series to laud President Xi Jinping's stewardship of the economy. For a state broadcaster, that might sound perfectly normal. But the theme of its first report was neither China's stellar growth nor its sparkling innovations. Rather than such standard fare for propagandists, it focused on creditor committees, which aim to restructure companies that have run into financial difficulties. It was the latest sign of China's rapid shift from denying that it had a debt problem just a few years ago to grappling with it publicly.

The bond market bears out the change. It was only in 2014 that China experienced its first default on a domestically traded bond. In 2018 defaults hit 117bn yuan (\$16.5bn), triple the previous high. This year defaults are on track to reach roughly the same value. About 1% of all issuers defaulted in the first three quarters of this year, just a little below the global level, according to Fitch, a ratings agency. Bond defaults, says S&P Global, another ratings company, are "becoming a norm".

China's central bank has tried to convey the message that this new norm is healthy. In its annual financial-stability report, published on November 25th, it said that the rise in defaults reflected the market's maturation. As investors become more sensitive to risk, it added, they will steer capital towards more deserving firms, making for a stronger economy.

The central bank is right—up to a point. Defaults are part of any efficient bond market. The problem for China is that the broader trend masks a chasm between state-owned and private companies. Of the firms that have missed payments on bonds this year, 89% have come from the private sector, according to Fitch. S&P Global calculates that 12% of private issuers since 2014 have defaulted, compared with just 0.2% of state firms. Over the past two years, private Chinese companies have been more likely than global issuers of junk-rated bonds to default.

This has only reinforced investors' tendency to prefer state firms, in the belief that the government will usually act as a backstop. State firms have issued the vast majority of bonds in China this year; private firms have been all but shut out. In other words, it is not necessarily the most deserving firms that are attracting capital, as the central bank would like, but rather the best-connected firms.

The simplest way for China to change this is to allow more state-owned companies to default. The few that have missed bond payments in recent years have not been enough to persuade investors that government is cutting them loose.

So it was notable on November 22nd when Tewoo Group, a commodities trader owned by the city of Tianjin, asked creditors to take haircuts of up to 64% on their principal. Although its bonds were sold offshore, the impact will be felt domestically,

because many creditors were Chinese. An eventual default would be the biggest on overseas bonds issued by a Chinese state firm since the late 1990s. But it is also only one step. Propaganda will serve as a good test: when the state broadcaster starts loudly reporting on the woes of state-owned firms, it will be clear that China has truly turned a corner. ■

## Buttonwood

**Do not write off the macro hedge-fund manager just yet***Investors schooled in calmer markets will struggle when volatility returns*

Print | Finance and economics Nov 28th 2019



Satoshi Kambayashi

**I**F YOU WATCH much too much televised football (soccer, if you must), you will often hear a particular lament. Whatever happened to the playmakers, the socks-rolled-down mavericks whose individualism could alter the course of a match? The question is invariably posed by grizzled ex-pros. They are saddened but also puzzled by the systematising of the modern game. Players go through a series of prescribed moves ("automatisms") when they get the ball. Passages of play are minutely choreographed.

This leads us smoothly to Louis Bacon, a game-changer in the world of "macro" hedge funds, which make bold bets ahead of predicted shifts in the macroeconomic climate. Mr Bacon is to close Moore Capital, the hedge fund he founded in 1989, to outside investors following poor returns. Many of his peers have already quit the game. Hedge funds are bleeding institutional capital.

Cue much sad shaking of heads by grizzled ex-pros. The markets game has changed, they grumble. It is now a playing field for well-drilled algorithmic traders or for index funds which passively hold a basket of leading stocks. The minutely choreographed policies of central banks act to suppress the market volatility that hedge funds thrive on. There is no place for the individualist who makes a variety of bets at his own discretion. A lot of this is true. But the prognosis is too bleak. Many of the greatest hedge-fund trades have been bets that official efforts to suppress volatility, such as exchange-rate pegs, would ultimately fail. Playmakers of Mr Bacon's stamp will surely make a comeback.

To understand why, go back to the 1970s when a first wave of macro traders, including George Soros and Michael Marcus, made their names and a lot of their money. The end of the Bretton Woods system of fixed exchange rates created opportunities. There were newly volatile currencies to wager on. Inflation also surged. This, along with advances in the pricing of commodity futures and options, spurred interest in the trading of grains, beans and metals. A new school of macro traders, which later included Mr Bacon, emerged from the Commodities Corporation, a trading company founded in 1970. Commodity markets provided a great training for trading currencies and bonds. Supply veered from shortage to glut. Official price controls added to the fun. The shifting forces of global economics and politics amplified the volatility.

Betting that a currency peg would break became a signature hedge-fund trade. An early example was a bet made by Michael Marcus in 1975 that a surge of oil revenue would force Saudi Arabia to revalue its currency. The exchange-rate crisis that brought hedge-fund managers blinking into the limelight was their bet made in September 1992 that Britain would abandon the pound's peg against the Deutschmark. The Bank of England was obliged to sell its foreign-exchange reserves to buy pounds at a fixed

rate for as long as the London market was open. Mr Soros sold as many pounds as he could. By the time the peg broke, he had made £1bn (\$1.8bn at the time).

Mr Bacon was on that trade, too. Earlier, he profited from the stockmarket crash of 1987 by piling into the safety of bonds, which rallied in the aftermath. He also made a tidy sum by predicting the impact on oil prices and the stockmarket of Iraq's invasion of Kuwait in 1990.

Crunch situations like these are when the truly gifted macro traders come into their own. They have many of the qualities of great playmakers. They are able to see things that less gifted players cannot. They are unhurried under pressure. They know when to bide their time and when to go for the jugular. And they can imagine a world that might soon be arranged differently and work out the implications. "Don't try to play the game better; try to figure out when the game has changed," Mr Soros would tell colleagues. The most profitable trades would often come after periods of calm, when volatility had been suppressed either by complacency or official fiat.

Macro traders are not comfortable during those placid periods. They have struggled for much of the past decade, which has seen a steady upward grind in asset prices. Inflation has been absent, so central banks have been free to respond to any signs of trouble in markets with easier monetary policy. But stability breeds instability. Over-coached footballers do not respond well when a game takes an unexpected turn. Investors schooled in calmer markets may similarly struggle with renewed volatility. One day, the playmakers will be back.

Can't buy me love

## Does the economy affect elections any more?

*Robots may have swung the 2016 presidential election in America*

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Otto Dettmer

“THE ECONOMY, stupid,” was the slogan of a strategist in Bill Clinton’s campaign for the presidency in 1992. It was a pithy encapsulation of time-honoured spin-doctoring wisdom: that a strong economy helps the incumbent and a weak one helps the challenger. When Mr Clinton took on George H.W. Bush in 1992, real wages were stagnant. Unemployment peaked just months before the poll—and, sure enough, Mr Bush failed to win a second term. The 2,000-odd studies on the “economic vote” since then have turned the pollsters’ hunch into political gospel. A cross-country analysis by Larry Bartels of Vanderbilt University, looking at 2007-11, found that each extra percentage point of GDP growth in the four quarters before an election was associated with a rise of 1% in the incumbent party’s vote share.

But politics has changed. Today’s most heated debates concern issues of identity and culture—openness to immigrants or free trade; attitudes to abortion or transgender bathrooms. Has the economy stopped mattering to voters?

Often it seems so. An analysis by *The Economist* earlier this year, for example, found that in America the correlation between consumer confidence and the public’s approval of the president had broken down. There are signs of the same trend in other rich countries, too. Boris Johnson, Britain’s Conservative prime minister, has tried to make the general election on December 12th a matter of identity by appealing to Brexit voters who want to “take back control” from a distant elite. In Dudley North, a marginal constituency in the Midlands, your columnist was struck by the Conservative Party’s confidence that it would take the seat from the opposition Labour Party. In a poor, Leave-voting area, voters support the privileged Mr Johnson because he has promised to get Brexit done. No one is talking about the country’s recent brush with recession.

The state of the economy must still matter in extremis: would President Donald Trump’s approval rating really hold up if unemployment went from 4% to, say, 20%? But the old rules of thumb about the business cycle and voting patterns are being replaced by a new narrative. This holds that ups and downs in GDP or wages matter less in elections than they used to. Instead, economic factors that shape people’s sense of identity matter more—and could help explain the shift towards populism in many places. Two are particularly important. The first is the sense of insecurity that accompanies globalisation. The second is frustration about sky-high housing costs.

The rapid growth of global trade during the 1990s and 2000s brought wide economic benefits, but also unnerved some voters, who now want to slow down the pace of change. Italo Colantone and Piero Stanig, both of Bocconi University in Milan, study election results in 15 European countries. They find that areas facing greater competition from Chinese imports were more likely to vote for nationalist parties.

Robots also make many people uneasy. A paper in 2018 by Carl Benedikt Frey, Thor Berger and Chin-chih Chen, all of Oxford University, focuses on anxiety about technological change in America. The authors calculate the share of the workforce in industries that have seen increasing automation. Even after accounting for a range of other factors (including education levels and exposure to Chinese imports), areas more affected by the use of robots were more likely to vote for Mr Trump, the outsider candidate in 2016. In a flight of reasoning that only an economist could dream up, the paper suggests that if the pace of automation had been slower in the years before the 2016 contest, Michigan, Pennsylvania and Wisconsin would have plumped for Hillary Clinton.

A raft of new research, meanwhile, has drawn attention to the political consequences of the housing market. A house is most people's biggest investment, so changes in its value determine satisfaction with the status quo. Homeowners in areas where the property market is buoyant feel richer than those where it is flat. The housing market also affects people's perceptions of personal freedom. Those living in an area with low house prices may feel trapped, since they would struggle to afford a move to somewhere more vibrant. Such effects may well have strengthened in recent decades, since in many developed countries the gap between house prices in the richest areas and the poorest has widened.

Ben Ansell of Oxford University and David Adler of the European University Institute analysed data from the Brexit referendum of 2016 and the French presidential election the next year. After controlling for factors such as demography and pay, they found that in an area where house prices had tripled in nominal terms, the Remain vote share was 16 percentage points higher than in one with no change. Similarly, areas of France with strong house prices were inclined to choose Emmanuel Macron over the far-right Marine Le Pen. Further work by Mr Ansell and others has found that areas with falling house prices tend to see rising support for populists, such as the Danish People's Party, the Finns Party and the Sweden Democrats. Simply put, a home-owner on a nice street in Notting Hill, Saint-Germain-des-Prés or Östermalm is very likely to support candidates of "the establishment".

### **I feel the earth move**

The old straightforward relationship between the economic cycle and elections could yet return. But the implication of the new research is that support for populism is a deeper-rooted feature of Western economies. People's perception of the threat from cheap imports or robots, or of being trapped by high house prices, will not change overnight. Governments will need to find ways to compensate those who lose out from wrenching economic change, and to make housing more affordable. Voters care less than they used to about the economy's immediate impact on their wallets. But they care more than ever about how the economy shapes their identity—their sense of security, and their freedom. ■

## Sexual orientation of animals

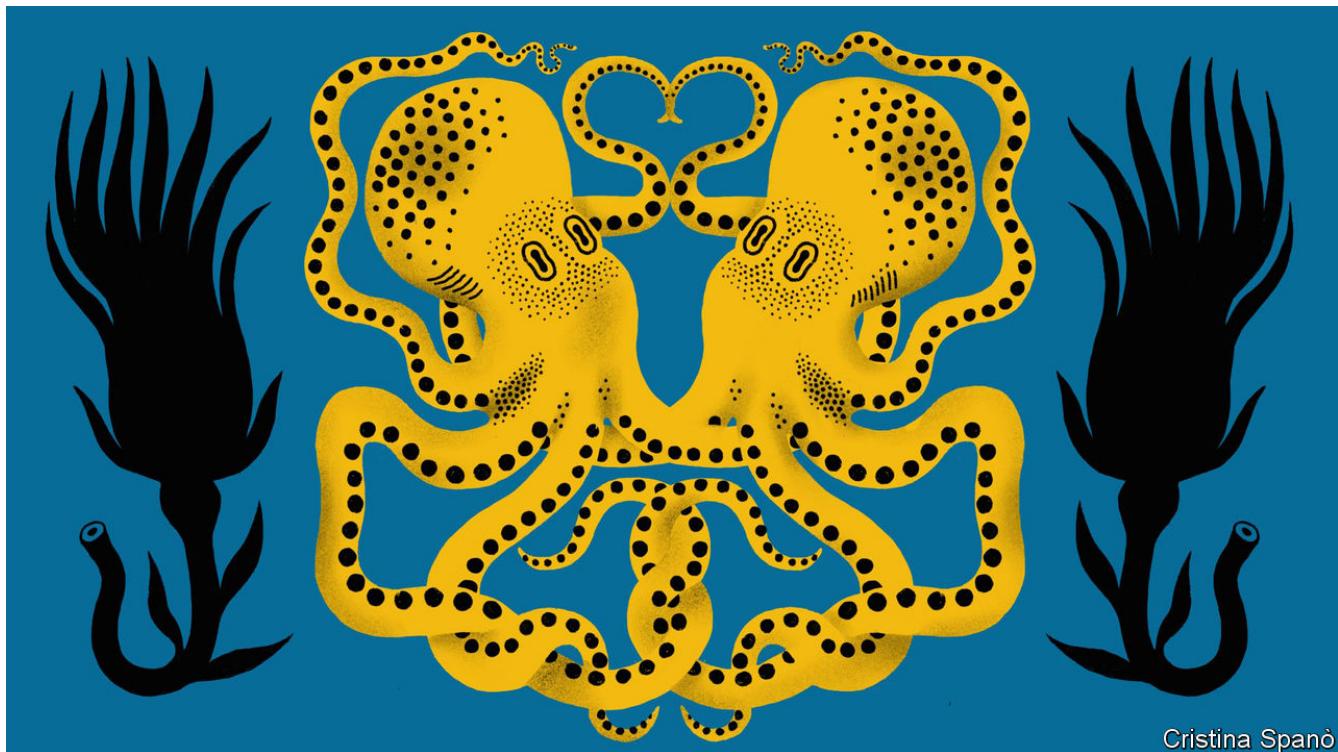
Basic instincts

### Mating strategies

## A new theory argues same-sex sexual behaviour is an evolutionary norm

*Unless it is essential to know a partner's sex, why bother?*

Print | Science and technology Nov 28th 2019



Cristina Spanò

WHEN IT COMES to sexual behaviour, the animal kingdom is a broad church. Its members indulge in a wide variety of activities, including with creatures of the same sex. Flying foxes gather in all-male clusters to lick each other's erect penises. Male Humboldt squid have been found with sperm-containing sacs implanted in and around their sexual organs in similar quantities to female squid. Female snow macaques often pair off to form temporary sexual relationships that includes mounting and pelvic thrusting. Same-sex sexual behaviour has been recorded in some 1,500 animal species.

The mainstream explanations in evolutionary biology for these behaviours are many and varied. Yet they all contain a common assumption: that sexual behaviours involving members of the same sex are a paradox that does indeed need explaining. Reproduction requires mating with a creature of the opposite sex, so why does same-sex mating happen at all?

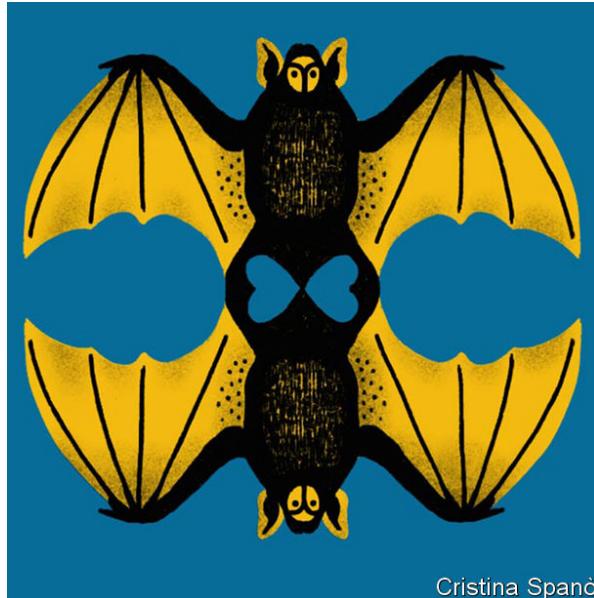
A paper just published in *Nature Ecology and Evolution* offers a different approach. Instead of regarding same-sex behaviour as an evolutionary oddity emerging from a normal baseline of different-sex behaviour, the authors suggest that it has been a norm since the first animals came into being. The common ancestor of all animals alive today, humans included, did not, they posit, have the biological equipment needed to discern the sex of others of its species. Rather, it would have exhibited indiscriminate sexual behaviour—and this would have been good enough to transmit its genes to the next generation.

The group of young researchers from institutions across America who wrote the paper, led by Julia Monk, a graduate student at Yale, argue that conventional models of sexual behaviour's evolution take two things for granted that they should not. The first is that the cost of same-sex behaviour is high because energy and time spent engaged in it do not contribute to reproductive success. If that were true it would indeed mean that maintenance of same-sex behaviour over the generations requires some exotic explanation whereby such activity confers benefits that outweigh the disadvantage. The second assumption is that same-sex activity evolved separately in every species that exhibits it, from an ancestral population that engaged exclusively in different-sex behaviour.

**Do you come here often?**

Ms Monk and her co-authors question the first assumption by pointing out that many animals seem to mate at a frequency far higher than looks necessary merely to reproduce—meaning that the proportional costs of any instance of sexual activity which does not produce offspring must be low. If this is true, it reverses the burden of proof. The cost of the sensory and neurological mechanisms needed to identify another's sex, and thus permit sex-discriminating mating behaviour, is high. Sometimes, that will be a price worth paying, especially if a long-term relationship is involved in reproduction, as it is in most birds and some mammals. But it is the evolution of sex-discrimination for which special-case exemptions must be sought, not the evolution of same-sex behaviour.

The second assumption is even easier to challenge. Typically, evolutionary biologists assume that traits shared widely across a related group are likely to have evolved in an ancestral population, not repeatedly and separately in each lineage. Ms Monk and her colleagues argue that cognitive biases in the subject's practitioners have pushed them to look for fantastic explanations for the evolution of same-sex behaviours in a range of animals, rather than considering the perhaps more reasonable explanation for its persistence, that it is a low-cost ancestral trait that has little evolutionary reason to disappear.



Although the idea that same-sex behaviour has always been a norm is scientifically intriguing, the paper's authors are also making a broader point about human beings' pursuit of knowledge. Ms Monk says that the paper's authors met through a Twitter account which promotes the work of LGBT scientists. This was a serendipitous encounter which gave them space to explore an idea that might have been dismissed at first sight in a more conventional setting. The group includes people with a range of sexual orientations, so naturally they had an incentive to ask whether mainstream evolutionary biology's view of sexual orientation is correct.

Their hypothesis still needs testing. That will mean zoologists gathering more observational data on sexual behaviour of animals in the wild—and doing so with an open mind. The authors themselves are also mulling approaches involving computer modelling, which might show that a group of organisms behaving according to their theory is capable of reaching the distribution of sexual behaviours seen in the wild today. If their hypothesis is confirmed, it raises the question of which other facets of scientific knowledge might be being obscured because the backgrounds of practitioners in those fields do not lead them to ask unconventional questions. Ms Monk's and her colleagues' theory may yet turn notions of the evolution of animal sexual behaviour on their head. With a broader array of minds focused on other problems, other fields might follow, too. ■

**Birdsong****Male nightingales spend the winter practising***Rehearsing for Berkeley Square*

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DESPITE THE ideas of Julia Monk and her colleagues on the frequency and normality of same-sex mating behaviour among animals (see [article](#)), some species do work hard to attract the opposite sex. That is why birdsong fills the air during the spring and summer breeding season. What has proved vexing to ornithologists is understanding why birds that migrate to warmer climes in winter often carry on singing even though there is no breeding to be done and no need to defend a territory. But a study just published in *Behavioral Ecology and Sociobiology* by Abel Souriau of Charles University in Prague and Nicole Geberzahn of the University of Paris, Nanterre, casts light on the matter. Mr Souriau and Dr Geberzahn suggest that winter is a period of practice for the summer performance to come.

Thrush nightingales are close kin to the common nightingale familiar in western Europe, but have a more easterly summer range. Males are innovative songsters, frequently plagiarising phrases from rivals and integrating them into their own tunes. They are also among the birds that carry on singing after they have migrated to Africa for the winter. So Mr Souriau and Dr Geberzahn decided to study the nature of their African songs.

First, they themselves flew south, to a part of Tanzania that previous work had shown to be a place where populations from two summer nesting grounds—one in Poland, the other near Moscow—spent their winters. They recorded thrush nightingales there and then, later, recorded them in those summer grounds as well, to provide a baseline for comparison. With both sets of recordings in the bag, they ran an analysis of what they had collected.

Bird song is divided by ornithologists into a hierarchy of notes, syllables (composites of notes), phrases (composites of syllables) and songs (composites of phrases). Mr Souriau and Dr Geberzahn were interested, in particular, in the syllabic and phraseological structure of songs.

In Europe the males sing according to a particular template. The first part of a song lets them show off their virtuosity. This cadenza varies from male to male and, for a given male, from song to song. Nevertheless, males' propensity to pinch snatches from their neighbours means the songs sung in one locality are distinguishable from those in another. The second and third parts are two stereotypical phrases, known as "castanet" and "rattling", that mark the end of a particular song.

As the researchers expected, the recordings they collected in Europe followed these patterns. But those from Africa did not. Around 90% of them were abnormal in one way or another. Their structures were extremely variable—chaotic, almost, with castanet and rattling often absent. And they often included syllables not found in summer songs.

That the birds are singing at all in Africa needs explanation, for singing consumes energy which might be deployed for other purposes. The explanation Mr Souriau and Dr Geberzahn propose is that male thrush nightingales employ the winter months as a period of experimentation and rehearsal for the summer. They can try out new singing techniques with little consequence, and perhaps gain an edge early in the next breeding season, before their neighbours can plagiarise them.

Whether these winter rehearsals really do result in songs that are better at repelling rivals and luring mates remains to be discovered. To find out would mean tracking a fair number of individuals over their entire lives, to monitor both the evolution of their songs and how their mating success varies accordingly. But apparently effortless superiority is usually the result of a lot of hidden hard work. In the case of thrush nightingales, it seems quite plausible that the European former is a consequence of the African latter. ■

**Aviation****An emergency landing system that passengers can activate***Pressing a panic button lands the plane at a nearby airfield*

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Splash

**O**N NOVEMBER 9TH 2018 a Piper Dakota light aircraft flying over Iowa broadcast a distress call. The pilot seemed to have suffered a heart attack. One of the other three people on board, a student aviator, had taken over the controls, but to no avail. The plane crashed shortly afterwards, killing all four.

How often such things happen is not well recorded. But an Australian report published in 2016 listed 15 cases in the five years from 2010 to 2014 of the pilots of small aircraft being incapacitated. In three of these the aircraft suffered what is known euphemistically in aviation circles as a "collision with terrain". Occasionally, an instructor on the ground, perhaps assisted by a pilot flying alongside in another aircraft, has been able to provide an instant flying lesson to someone on board a plane that has lost its pilot, and talk them down successfully. But not often. It is tricky enough for a neophyte to keep an aircraft flying straight, level and on an appropriate bearing to arrive at a suitable airfield. Landing the thing safely takes a miracle. What small aircraft need in these circumstances is a panic button. And a firm called Garmin has now created one.

Garmin, a Swiss-registered, American-operated technology company, is best known for its GPS satellite-based navigation systems. But the firm also makes electronic control systems for aircraft. Autoland, as they dub the kit attached to their panic button, is a result of putting the two together.

Pressing the button switches control of the plane to its flight computers, in a manner similar to engaging an autopilot. Garmin's system, however, goes far beyond being a standard autopilot. It transmits an emergency radio code to alert air-traffic control and other planes in the area. It analyses weather conditions, winds and the amount of fuel available before selecting a suitable airfield to divert to. It then flies to that airport, descends, lines up on the runway, sets the flaps and lowers the landing gear. As it approaches touchdown, it crabs the plane slightly sideways to cope with any crosswinds and aligns the nose with the centre of the runway, just as a human pilot would. Once landed, it applies the brakes to bring the plane to a halt. It then turns the engine off.

Passengers are kept informed about what is happening via messages on a screen and voice announcements. They are advised not to touch the controls, but to sit back and fasten their seat belts. Simplified buttons that appear on a touchscreen let them operate the radio and talk to air-traffic controllers directly.

After around 1,000 successful test landings, Autoland is now going into service. It is about to become a standard feature on the Piper M600/SLS, a six-seater single-engined turboprop, and the Cirrus Vision Jet, a single-engined personal jet. Other

aircraft are expected to follow. And Garmin is also looking at making a version which could be employed in smaller planes, such as those used at flying clubs.

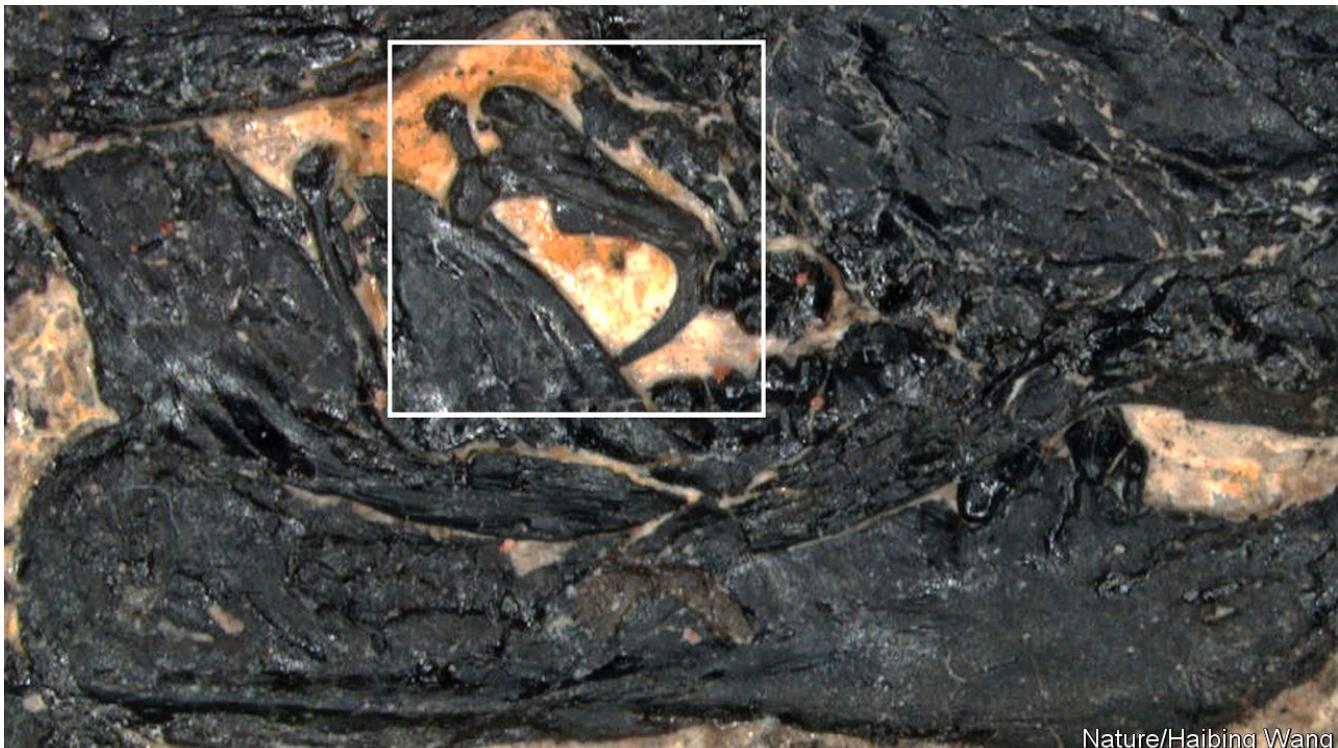
Eventually, a beefier variant might also be developed for jet airliners. Though these operate with a co-pilot to backup the captain, there have been instances of both pilots being taken ill—for instance with hypoxia caused by insufficient oxygen. In such a case a member of the cabin crew or a passenger might be able to switch the system on. Alternatively, it could be activated automatically or remotely.

If an unsupervised system like this can fly and land an aircraft in an emergency, it does raise the question of why it should not do so routinely. Bailey Scheel, the manager of the project is firm that, for the moment, Autoland is purely an emergency system. Nevertheless, it does look like another step on the road to dropping the co-pilot—and eventually the pilot, too. ■

**Evolution**  
**How ear bones evolved**

*A change in chewing liberated jaw bones to do something else*

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Nature/Haibing Wang

**E**VOLUTION HAS NO foresight. But occasionally it flukes something ideally suited to develop into something else. Biologists call this preadaptation, and it seems to explain the existence of three small bones, known as ossicles, that are found in the ears of mammals. Ossicles evolved from jaw bones, and the fossil evidence indicates this happened three times. That suggests the bones in question were indeed preadapted. And a newly discovered Cretaceous mammal called *Jeholbaatar kielanae* may help explain why. An analysis of the creature's jaw (pictured, with the ossicles enclosed in the white square) has just been published in *Nature* by Wang Yuanqing of the Chinese Academy of Sciences and his colleagues. It suggests that the ossicles' precursors became detached from the other jaw bones as a result of the way, indicated by the shape of those other bones, that *Jeholbaatar kielanae* chewed its food. Thus liberated, they were then absorbed into the ear and repurposed to enhance the animal's hearing.

Powering the future

# Electrical energy can be captured as liquid air

*The result might give grid-scale batteries a run for their money*

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Alamy

**I**N THE PAST few decades wind and solar power have gone from being exotic technologies to quotidian pieces of engineering that are competitive, joule for joule, with fossil fuels. Those fuels retain what edge they have only because of their reliability. The wind may not blow, or the sun may not shine, but—short of a blockade or strike—a coal or gas power station will always have something to burn.

To overcome the reliability problem requires cheap grid-scale energy storage that can be scaled up indefinitely. At the moment, the market leader is the lithium-ion battery (see [article](#)). Such batteries—already the workhorse of applications from mobile phones to electric cars—are reliable, scalable and well understood. Most proposed alternatives are clumsy, poorly understood, unscalable or all three. But there is one that, because it relies on putting together pieces of engineering used routinely elsewhere, and thus proven to work, might give lithium-ion batteries a run for their money: liquid air.

At a temperature of -196°C, all of air's component gases will liquefy. Doing this is a routine, electrically driven industrial procedure. Storing liquefied gases in bulk is also a routine piece of engineering. The result occupies a 700th of the volume of those gases at room temperature—so, when liquid air is warmed and allowed to expand, it does so forcefully. Using a device called a Dearman engine (after its inventor, a Briton named Peter Dearman), that forceful expansion can be employed to spin turbines, and thus generators, thereby recovering part of the electricity used to liquefy the air in the first place.

### Expanding possibilities

Such cryogenic energy storage's main proponent, a firm in London called Highview Power, has been running a pilot grid-scale plant in Bury, near Manchester, since April 2018. This can store 15 megawatt-hours (MW-hr) of energy, which is enough to power about 5,000 homes for three hours.

At the moment, the plant in Bury recovers as electricity just over half of the power used to liquefy the air in the first place. With design tweaks, that could probably be increased to 60%. Moreover, the technology's inventor, Ding Yulong, sees a path to yet greater efficiency. As head of an energy-storage group at the University of Birmingham, Dr Ding has spent years experimenting with a small test plant. The trick, he says, is to capture, probably in oil or salt, the heat generated as the air is compressed prior to its liquefaction. Some of this heat can then be used to boost the warming of the liquid air as it enters the Dearman engine. This adds oomph to the expansion, thereby increasing the power output.

The rest of the heat from the compression can be used to power a piece of refrigeration kit called an absorption chiller. The cold this chiller creates would reduce the amount of electricity needed to liquefy the air in the first place. Dr Ding reckons that recycling waste heat in this way will increase the efficiency of biggish cryogenic-energy-storage plants to at least 69%. That is close to the figure obtained by banks of lithium-ion batteries.

Having proved the technology, and raised the money to do so, the firm now plans to build a commercial-scale British plant. According to Highview's boss, Javier Cavada, this will have almost twice the storage capacity of the world's largest existing lithium-ion battery, the Hornsdale Power Reserve in South Australia, which can squirrel away a mere 129MW·hr (though Hornsdale has a maximum power output of 100MW, which is twice that of Highview's proposal). Construction should begin early next year at an as-yet-undisclosed site in northern England.

Over the next two years Highview also hopes to announce additional 250MW·hr plants, including two it plans to build in America. And Enel Group, Italy's largest electricity firm, is interested as well. According to Gianluca Gigliucci, who is leading Enel's study of the technology, the company will soon build a grid-scale plant if the business case for doing so appears at least reasonable.

To take on lithium-ion batteries in a serious way cryo-batteries—as Highview dubs the technology—will have to show that they are able to respond rapidly to fluctuating demand in the way lithium-ion cells can. They will also have to be able to match, in future, the fall in price over the years that such cells show every sign of continuing to demonstrate. If they can do these things, though, they could well emerge as competitors in the grid-scale-storage stakes. ■

**Correction (December 5th):** Highview's North American plans do not include building plants for Tenaska of Nebraska.

**AIDS**

## Slowly, HIV is being beaten

*But the rich world must not turn its back on the problem*

Print | Science and technology Nov 28th 2019

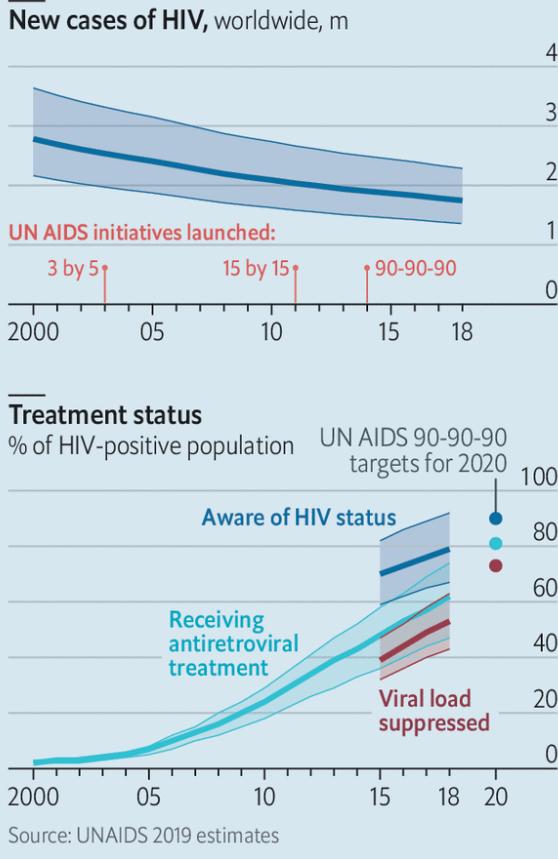


Getty Images

**O**N THE PRINCIPLE that no news is good news, the fact that AIDS has dropped out of the headlines is surely a good thing. Nevertheless, it does no harm for the world to be reminded from time to time that the illness has not gone away. To that end, UNAIDS and the World Health Organisation, the international agencies charged with dealing with the epidemic, promote December 1st as World AIDS Day.

This year is the last before the target date for the success of the latest of the agencies' campaigns to roll out the antiretroviral drugs that both keep those already infected with HIV alive and stop them passing the virus on. This particular campaign is called 90-90-90. Its aims are that, by the end of 2020, 90% of all those around the world who are infected will know they are infected; 90% of that group will be receiving sustained antiretroviral therapy; and 90% of those receiving therapy will have had the virus effectively suppressed.

## Dispatches from the battle front



The Economist

The 90-90-90 campaign follows the 3 by 5 initiative, begun in 2003, to put 3m people on the drugs by 2005, and the subsequent target of 15 by 15. The latest estimate is that 38m people are infected with HIV, so 90-90-90 implies 28m being treated successfully. As the chart shows, doing this by 2020 is unlikely. Whether that is seen as a failure, though, depends on your point of view. Had the target been reached easily it would surely have been criticised as unambitious.

Regardless of when 90-90-90 is achieved the next aim, 95-95-95, is already pencilled in for 2030. This is also the year set by the UN's Sustainable Development Goals for the end of AIDS as a public health threat.

The exact meaning of that phrase is unclear. But in principle eliminating HIV is possible with existing technology. As has happened with smallpox and polio, the identification and treatment of all who are infected would stop new cases arising. The slogans for this are “zero new HIV infections”, “zero AIDS-related deaths” and (AIDS being an illness that has always been surrounded by prejudice) “zero discrimination”.

Unlike smallpox and polio, however, there is no vaccine against HIV. If this state of affairs continues, eliminating the virus will mean giving drugs to all those infected until they have died of other causes. It will also mean someone paying for those drugs. And, in the case of those living in the poorest parts of the world, that “someone” is often going to be taxpayers in rich countries, who already contribute about \$8bn a year to the anti-AIDS effort. Exterminating HIV, then, will be a huge undertaking and an expensive one. But not, with luck, an impossible one.

### Political economy

The fire next time

The fire next time

## What would millennial socialists do with power?

*Their manifesto boils down to three big ideas*

[Print](#) | Books and arts Nov 28th 2019



Getty Images

**The Socialist Manifesto.** By Bhaskar Sunkara. Basic Books; 288 pages; \$28. Verso; £16.99.

**The 99 Percent Economy.** By Paul Adler. Oxford University Press; 240 pages; \$24.95 and £16.99.

**Capitalism, Alone.** By Branko Milanovic. Belknap Press; 304 pages; \$29.95 and £23.95.

**People Get Ready! Preparing for a Corbyn Government.** By Christine Berry and Joe Guinan. OR Books; 240 pages; £12.

THE FALL of the Berlin Wall in 1989 supposedly consigned socialism to history. Now, after a decade of slow growth in living standards, and amid widespread belief that inequality is soaring, the radical left is back. "Millennial socialists", as *The Economist* described them earlier this year, are fizzing with ideas. They soon hope to put them into practice—whether under President Bernie Sanders or Prime Minister Jeremy Corbyn, whose Labour Party aims to triumph in Britain's general election on December 12th. A wave of new books shows what millennial socialists really want, and how they plan to get it.

Socialists from Karl Marx onwards have deployed both ethical and empirical arguments to buttress their system. In "The Socialist Manifesto" Bhaskar Sunkara of *Jacobin*, a radical magazine, proceeds from first principles, maintaining that "to be a socialist is to assert the moral worth of every person, no matter who they are, where they're from, or what they did". By contrast, in "The 99 Percent Economy" Paul Adler of the University of Southern California sprays statistics to prove that modern capitalism is broken and socialism is the fix.

Many readers will find both approaches unconvincing. A dyed-in-the-wool libertarian might use Mr Sunkara's nostrum as a justification for an individualist worldview instead. Mr Adler's methodology feels sketchy. Can all the problems he identifies, from stress to racism to underpaid teachers, truly be attributed to the capitalist mode of production? Fortunately, however, both books are better at explaining what 21st-century socialism might look like.

Fortunately, because millennial socialists' objectives are often misunderstood. One common mistake is to assume that they want to build a society in the image of social democracies such as the Nordic states, where progressive taxation of lightly

regulated markets funds high-quality public services. But Messrs Sunkara and Adler insist they are no social democrats. Rather, they are democratic socialists.

That may sound like a meaningless factional distinction. In fact it points to an entirely different system of economic management. Thomas Piketty explores the contrast in his polemical new book, “Capital and Ideology” (currently only available in French). Though everyone on the left sees social democracy as an improvement on red-blooded capitalism, it nonetheless struggles to break free from what Mr Piketty calls “proprietarianism”, defined as “the political ideology founded on the absolute respect for private property”.

Since, under social democracy, true power continues to reside with the capitalists, its commitment to egalitarianism is necessarily fragile. A social-democratic government might tax the rich a bit more and redistribute the proceeds to the poor, which is all well and good. But such reforms are easy to undo. Look at the ease with which the Conservative government elected in Britain in 2010 reversed New Labour’s munificence in the previous decade.

### **Down with social democracy**

And the tools which social democrats typically use to advance their goals are ill-suited to the modern economy, as Branko Milanovic, a left-leaning scholar formerly at the World Bank, convincingly argues in “Capitalism, Alone”. Heavy industry, the traditional base for trade unions, has shrunk, making it hard to resuscitate organised labour. Meanwhile, “further mass expansion of education is impossible when a country has reached 14 or 15 years of education on average”.

According to the millennial socialists, more radical changes are required. Collectively, their manifesto boils down to three big ideas. First, they want vastly more government spending to provide, among other things, free universal health care, a much more generous social safety-net and a “Green New Deal” to slash carbon-dioxide emissions. Second, many argue for looser monetary policy, to reduce the cost of funding these plans.

The third plank of their thinking is the most radical. The underlying idea is that capitalism does not just produce poverty and inequality (though it does), but that, by forcing people to compete with each other, it also robs them of dignity and freedom. “The power imbalances are obvious when you enter into your employment contract,” says Mr Sunkara. For Mr Adler, capitalism “has sucked the life out of democracy”.

Millennial socialists, therefore, support the “democratisation” of the economy (or *socialisme participatif*, as Mr Piketty puts it), whereby ordinary people play a greater role in the production process, the market is removed from as many aspects of everyday life as possible, and the influence of the rich is drastically curtailed. Such reforms, they argue, will create happier and more empowered citizens.

What does “democratisation” mean in concrete terms? Some millennial socialists say everyone should be guaranteed a job; others want a universal basic income, a drastic reduction in the working week, or both. It also means promoting non-traditional forms of business organisation, including co-operatives, which give workers a decisive role in the day-to-day management of their company.

Mr Adler thinks through how such plans would function. Drawing on his expertise in management, he explains in detail how firms could be managed along socialist lines. This practical bent also characterises a new book by Christine Berry and Joe Guinan, two researchers close to Britain’s Labour Party. In “People Get Ready!” they explain what may be required if a socialist Labour government is to succeed—from imposing capital controls to activists keeping up the pressure on elected politicians if they go soft.

### **Siege mentality**

In a few short years socialists have gone from political and intellectual irrelevance to sketching out plans for government. One big question they face, however, is whether ordinary people have the stomach for the kind of change they envisage. Ms Berry and Mr Guinan appear to accept that a future Labour government’s fight with international finance might turn Britain into what they call a “siege economy”. This is “not particularly desirable as a long-term solution”, they concede; most Britons might object more bluntly. Mr Piketty’s proposed wealth tax of up to 90% would play havoc with incentives to invest, while under Mr Adler’s vision the “entire apparatus of the stock and bond market will disappear”—though, happily, “your phone will be yours to keep or to trade.”

Mr Milanovic sympathises with the socialists’ yearning for radical change. But ultimately he finds many of their prescriptions unconvincing. A country which tried to de-marketise on the scale envisaged by the millennial socialists would, he says, be unstable and dissatisfied in other ways. Shifting towards a much shorter working week, for instance, would surely leave it poorer than its neighbours—and for how long would people put up with that? Capitalism is far from perfect, his book shows, yet after the fall of the Berlin Wall it is hard to shake the notion that it is the only system that broadly works. The millennial socialists are on the up, but they may still struggle to prove him wrong. ■

Ocean's Eight on the Elbe

## A stunning, sad heist in Dresden

*Thieves made off with priceless jewels from a storied collection*

[Print](#) | [Books and arts](#) Nov 28th 2019



Reuters

**I**N THE 18TH CENTURY Augustus the Strong competed with Louis XIV, France's "Sun King", to assemble Europe's most extravagant jewellery collection. The elector of Saxony, who ruled over Poland and Lithuania, probably triumphed in the end: he gathered multiple sets of exquisite artefacts, made of diamonds, rubies, sapphires and emeralds, a haul that was supplemented by his successors. The collection represents "a kind of world heritage", reckons Dirk Syndram, director of the Green Vault treasury in Dresden, a baroque city on the Elbe, which houses all the gems.

Or, it did until recently. In a swift pre-dawn raid on November 25th at least two (presumably diminutive) thieves entered the Green Vault's jewel room through a small hole they had made in the iron grille of a ground-floor window. They had apparently disabled the museum's alarm system by setting fire to a nearby electrical-distribution hub. Inside, they smashed a glass showcase with an axe and grabbed roughly 100 pieces from three of the jewellery sets, including several diamond brooches, a string of pearls, a duelling sword with a diamond-encrusted hilt (pictured) and the Star of the Polish White Eagle Order.

Security guards alerted the police, but by the time they arrived, the thieves had fled; the presumed getaway car was found burned out in a nearby underground garage. One of the collection's greatest treasures, the 41-carat Dresden Green Diamond, is safely on loan to the Metropolitan Museum of Art in New York, for an exhibition about the splendour of European courts. But the missing pieces could be worth many millions of euros. "We are devastated to hear of this theft," said Max Hollein, the Met's director.

Rocketing art prices are attracting ever-more daring criminals. On November 13th intruders were walking out of the Dulwich Picture Gallery in London with two Rembrandts when they were stopped by police; they managed to escape, albeit without the paintings. Four men are currently on trial for the theft in 2017 of a giant gold coin valued at €3.75m (\$4.1m) from the Bode Museum in Berlin.

Even so, the Dresden heist—now being investigated by a 20-strong team of specialists code-named "Epaulette"—stands out. The late Martin Roth, a former director of the Dresden State Art Collections (of which the jewellery hoard is a part), claimed in 2010 that "the Green Vault is secured like Fort Knox". Roth thought "the human factor" and "insider knowledge" posed the greatest risk, and the Green Vault's staff will doubtless be questioned closely. On the other hand, points out Julian Radcliffe of the Art Loss Register, an art-database in London, crooks can often pick up ample intelligence as paying visitors.

The artefacts are as storied as they are valuable. They survived the devastating Allied bombing of Dresden during the second world war, only to be seized by the Soviet Union. They were miraculously returned in their entirety to East Germany,

contributing to the city's resurgence, though the full trove has been on display only since 2006, after the painstaking restoration of Dresden Castle. The fear now is that, since the pieces are too recognisable to be sold intact, the robbers will break out the diamonds and sapphires to flog them separately. The coin stolen from the Bode Museum is widely assumed to have been melted and sold off. The loss of the Dresden jewellery would be much sadder. ■

Alone, together

## In “The Innocents”, a brother and sister struggle to survive

Michael Crummey's new novel is set on the Newfoundland coast

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**The Innocents.** By Michael Crummey. *Doubleday; 289 pages; \$26.95.*

EVERED AND Ada Best are “still youngsters” when their parents die, leaving them alone on the bleak Newfoundland coast. “They were left together in the cove then with its dirt-floored stud tilt,” writes Michael Crummey, “with its garden of root vegetables and its scatter of outbuildings, with its looming circle of hills and rattling brook and its view of the ocean’s grey expanse beyond the harbour skerries.” In “The Innocents”, Mr Crummey, a Newfoundland native, captures in hypnotic prose the force of the driving sea and the ways of a beautiful, barren place where Evered and Ada are cast adrift.

Their lives are bound by seasonal rhythms—of the sea rather than the land, for brother and sister must subsist as their parents did, catching cod, salting and drying it, exchanging what they preserve for the supplies they need when a ship aptly called the *Hope* appears over the horizon. In brutal poetry, Mr Crummey invokes the work they do to survive, “the two children wielding knives honed to a razor’s edge, up to their slender wrists in blood and offal”. The book’s tension is built on language which has the clean power of folk-tale. When is the story set? Sometime in the early 19th century, the reader can infer from references to war and convict ships, but time has little meaning here.

As Evered and Ada huddle for warmth in winter, their closeness evolves into something else. With compelling eroticism, Mr Crummey depicts them awakening to their physical selves; Ada first learned of pleasure when, at nine, she pressed herself against the keel of the boat that Evered and their father were preparing for the season, by raking oakum from its seams. As the craft vibrated, she sensed “the quiver until she felt an answering quiver pass through her like an echo coming off a cliff face”. With their parents gone, half-asleep in their bed in the tilt, they rock against each other for comfort and gratification. They do not speak of what they do there.

The world intrudes intermittently: the reader is in the same position as this lonely pair, waiting to see what it will bring. They find a shipwreck, but what looks at first like bounty turns out to be something else entirely. The *HMS Medusa* anchors offshore, bringing the raucous company of sailors. But at the centre of it all are Evered and Ada, sealed in their companionship, making their new life alone. What they discover—about the land and about themselves—is both gorgeous and terrifying. ■

Caped crusader

## The world-changing life of Walter Raleigh

*"This is a sharp Medicine," he said of the axe that killed him. "But it is a Physitian for all Diseases."*

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Getty Images

**Walter Raleigh: Architect of Empire.** By Alan Gallay. Basic Books; 576 pages; \$40 and £30.95.

PERHAPS IT WAS the fact that he was already dead that enabled Walter Raleigh to face his execution with such equanimity. On October 19th 1618 he was led from the Tower of London; along the way he smiled and joked. Seeing a bald man in the assembled crowd, he offered him his hat ("Thou hast more need of it now than I"). Then he laid his head upon the block. Legally speaking, Raleigh had already been "dead" for 15 years, after being found guilty of plotting against James I and deprived of his rights. Now, an axe added sharpened steel to sharp legal practice.

Life, wrote Raleigh, is a "Tragedie", and it proved so for him. He not only had the misfortune to die twice in life; he also, Alan Gallay argues in "Walter Raleigh", has suffered a third death posthumously, that of his reputation. (Mr Gallay employs the variant of Raleigh's name that omits the "i", which his subject preferred in his later years.) Much of the good in Raleigh—his humanity, his curiosity, his brilliant poetry—has been buried with him. Today, he tends to be remembered as a failed coloniser or a popinjay courtier, covering a puddle with his cloak for Elizabeth I.

His true achievements, Mr Gallay argues, were deeper than that (apocryphal) puddle tale. In his lifetime Raleigh's influence spanned the oceans, reshaped territories and pervaded the very air of England. He named the American state of Virginia (after the Virgin Queen) and inspired Edmund Spenser's monumental poem, "The Faerie Queene". He probably brought Ireland the potato; he scented the air of the English court with tobacco. The minds, lands—and lungs—of the English would never be the same again.

Mr Gallay's subtitle calls Raleigh "Architect of Empire". That was a vital role in the 16th century, as the foundations of England's empire were shaky. Elizabeth partly wanted an empire to further her own desires and partly—as Raleigh's half-brother explained in his "Discourse on how hir Majestie may annoy the K: of Spayne"—to thwart Spain's. So far, things had not gone well. The previous English attempt to colonise America had involved exporting Morris dancers ("to delight the Savage people") and Catholics (to delight the Protestants at home). It failed wretchedly. The savage people were undelighted; the K: of Spayne was insufficiently annoyed.

Then, in 1584, Elizabeth granted her favourite an exclusive patent to colonise North America. Raleigh duly set about professionalising colonisation and philosophising about it. Where the previous lot sent dancers, he dispatched a brilliant scholar and a painter; the settlement foundered, but their work shaped European views of Native Americans for centuries.

His later explorations were intellectual as much as physical. They had to be, since the man who helped open up the globe was incarcerated in the Tower of London three times, once by Elizabeth (for secretly marrying her lady-in-waiting) and twice by James I. While inside, Raleigh wrote a history of the world and experimented with making medicines that many, including royalty, swore by. Prince Henry, a son of James I, described imprisoning such a man as like keeping “a bird in a cage”. There are moments when Mr Gallay’s prose, which includes sentences about “gendered interpretations of the New World”, can feel as though it is doing the same. Still, his affection for his subject shines through.

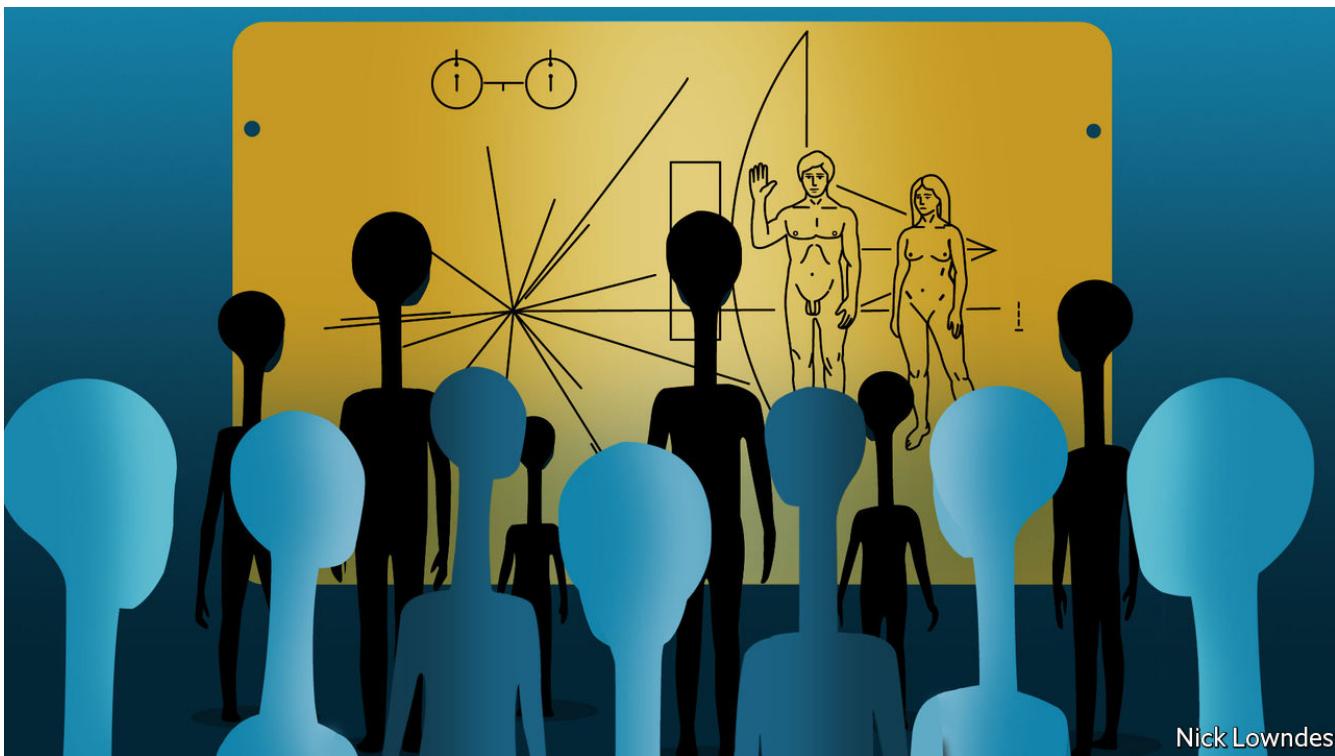
By 1618, after another bungled trip to that New World, James had enough of his caged bird. Since the “civilly dead” cannot commit new crimes, the old treason charge was reactivated and Raleigh was, once again, condemned. His curiosity was undimmed. On the morning of his death, he demanded to see the axe. The executioner at first refused. Raleigh chided him: “Dost thou think I am afraid of it?” When the axeman relented, Raleigh, who had made so many cures for others, fingered the blade. He smiled. “This is a sharp Medicine,” he said. “But it is a Physitian for all Diseases.” Two blows later, he was gone. ■

Johnson

## How to talk to aliens

*The challenge says a lot about talk among people, too*

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Nick Lowndes

**I**MAGINE DINING in a European capital where you do not know the local language. The waiter speaks little English, but by hook or by crook you manage to order something on the menu that you recognise, eat and pay for. Now picture instead that, after a hike goes wrong, you emerge, starving, in an Amazonian village. The people there have no idea what to make of you. You mime chewing sounds, which they mistake for your primitive tongue. When you raise your hands to signify surrender, they think you are launching an attack.

Communicating without a shared context is hard. For example, radioactive sites must be left undisturbed for tens of thousands of years; yet, given that the English of just 1,000 years ago is now unintelligible to most of its modern speakers, agencies have struggled to create warnings to accompany nuclear waste. Committees responsible for doing so have come up with everything from towering concrete spikes, to Edvard Munch's "The Scream", to plants genetically modified to turn an alarming blue. None is guaranteed to be future-proof.

Some of the same people who worked on these waste-site messages have also been part of an even bigger challenge: communicating with extraterrestrial life. This is the subject of "Extraterrestrial Languages", a new book by Daniel Oberhaus, a journalist at *Wired*.

Nothing is known about how extraterrestrials might take in information. A pair of plaques sent in the early 1970s with *Pioneer 10* and *11*, two spacecraft, show nude human beings and a rough map to find Earth—rudimentary stuff, but even that assumes aliens can see. Since such craft have no more than an infinitesimal chance of being found, radio broadcasts from Earth, travelling at the speed of light, are more likely to make contact. But just as a terrestrial radio must be tuned to the right frequency, so must the interstellar kind. How would aliens happen upon the correct one? The *Pioneer* plaque gives a hint in the form of a basic diagram of a hydrogen atom, the magnetic polarity of which flips at regular intervals, with a frequency of 1,420MHz. Since hydrogen is the most abundant element in the universe, the hope is that this sketch might act as a sort of telephone number.

Assuming that human messages actually reach their target, what would earthlings and aliens talk about? The obvious subject to focus on is mathematics; its basic concepts are often assumed to be universal. Any intelligent species might have an interest in natural numbers (1, 2, 3 and so on) as well as things such as  $\pi$ . But moving beyond that to wider conversation would be far harder. Scientists have worked on "self-interpreting" languages—written in a way that aims to teach the reader the language as they go—which might make the next steps possible.

Is there any reason to think alien communication systems would share the two key design features of human language, words and grammar? A word like “book” is a symbol for all objects that exhibit bookish qualities; would aliens also employ symbols, rather than having separate names for every object in their world? Mr Oberhaus adduces arguments that they might. Whatever type of society they inhabit, alien life-forms would have limited time and energy, as people do. It is efficient to use symbols. Similarly, human grammar allows a vast number of sentences to be made from a finite number of rules. Any resource-constrained Moon-man might develop such grammar, too.

Even if all such hurdles were overcome, however, distance would still be a problem. Human children learn their first language by listening, trying it out and getting instant feedback. This give-and-take allows them to use fluent sentences by the age of four. In 2015 the first known exoplanet at a “goldilocks” distance from its star (not too near and not too far), and with water, was discovered 110 light-years away. A message sent today would arrive in 2129; its reply, in 2239. The kinds of exchanges depicted in sci-fi films would take lifetimes.

The awesome challenges of communicating across the galaxy mean that some think it not worth the effort—to say nothing of a political question raised by Mr Oberhaus: “Who speaks for Earth?” But pondering these obstacles raises another thought, not about aliens but what humanity has in common. Linguists argue about whether languages share universal features or are unique products of local cultures; whatever the answer, the world’s 7,000-odd tongues are vastly closer to one another than anything to be found out there.

## Economic and financial indicators

Economic and financial indicators

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### Economic and financial indicators

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## Economic data

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|                | Gross domestic product |          |       |        | Consumer prices |                       |       | Unemployment rate |           |
|----------------|------------------------|----------|-------|--------|-----------------|-----------------------|-------|-------------------|-----------|
|                | % change on year ago:  |          | 2019† | latest | quarter*        | % change on year ago: |       | latest            | 2019†     |
|                | latest                 | quarter* |       |        |                 | latest                | 2019† |                   |           |
| United States  | 2.1                    | Q3       | 2.2   | 2.2    |                 | 1.8                   | Oct   | 1.8               | 3.6 Oct   |
| China          | 6.0                    | Q3       | 6.2   | 6.2    |                 | 3.8                   | Oct   | 2.7               | 3.6 Q3§   |
| Japan          | 1.3                    | Q3       | 0.2   | 1.0    |                 | 0.2                   | Oct   | 0.9               | 2.4 Sep   |
| Britain        | 1.0                    | Q3       | 1.2   | 1.2    |                 | 1.5                   | Oct   | 1.8               | 3.8 Aug†† |
| Canada         | 1.6                    | Q2       | 3.7   | 1.6    |                 | 1.9                   | Oct   | 1.9               | 5.5 Oct   |
| Euro area      | 1.2                    | Q3       | 0.9   | 1.2    |                 | 0.7                   | Oct   | 1.2               | 7.5 Sep   |
| Austria        | 1.5                    | Q2       | -1.4  | 1.5    |                 | 1.1                   | Oct   | 1.5               | 4.5 Sep   |
| Belgium        | 1.6                    | Q3       | 1.6   | 1.3    |                 | 0.5                   | Oct   | 1.3               | 5.6 Sep   |
| France         | 1.3                    | Q3       | 1.0   | 1.3    |                 | 0.8                   | Oct   | 1.3               | 8.4 Sep   |
| Germany        | 0.5                    | Q3       | 0.3   | 0.5    |                 | 1.1                   | Oct   | 1.3               | 3.1 Sep   |
| Greece         | 1.9                    | Q2       | 3.4   | 1.9    |                 | -0.7                  | Oct   | 0.6               | 16.7 Aug  |
| Italy          | 0.3                    | Q3       | 0.3   | 0.2    |                 | 0.2                   | Oct   | 0.6               | 9.9 Sep   |
| Netherlands    | 1.9                    | Q3       | 1.8   | 1.7    |                 | 2.7                   | Oct   | 2.7               | 4.3 Oct   |
| Spain          | 2.0                    | Q3       | 1.7   | 2.1    |                 | 0.1                   | Oct   | 0.9               | 14.2 Sep  |
| Czech Republic | 2.5                    | Q2       | 1.2   | 2.6    |                 | 2.7                   | Oct   | 2.8               | 2.1 Sep‡  |
| Denmark        | 2.2                    | Q2       | 1.2   | 2.1    |                 | 0.6                   | Oct   | 0.8               | 3.7 Sep   |
| Norway         | 1.3                    | Q3       | 0.1   | 1.0    |                 | 1.8                   | Oct   | 2.2               | 3.9 Sep‡‡ |
| Poland         | 4.2                    | Q2       | 5.3   | 4.0    |                 | 2.5                   | Oct   | 2.2               | 5.0 Oct§  |
| Russia         | 1.7                    | Q3       | na    | 1.1    |                 | 3.8                   | Oct   | 4.5               | 4.6 Oct§  |
| Sweden         | 1.0                    | Q2       | 0.5   | 1.3    |                 | 1.6                   | Oct   | 1.8               | 6.0 Oct§  |
| Switzerland    | 0.2                    | Q2       | 1.1   | 0.8    |                 | -0.3                  | Oct   | 0.4               | 2.3 Oct   |
| Turkey         | -1.5                   | Q2       | na    | -0.3   |                 | 8.6                   | Oct   | 14.8              | 14.0 Aug§ |
| Australia      | 1.4                    | Q2       | 1.9   | 1.6    |                 | 1.7                   | Q3    | 1.6               | 5.3 Oct   |
| Hong Kong      | -2.9                   | Q3       | -12.1 | -0.3   |                 | 3.1                   | Oct   | 3.0               | 3.1 Oct‡# |
| India          | 5.0                    | Q2       | 2.9   | 4.9    |                 | 4.6                   | Oct   | 3.4               | 8.5 Oct   |
| Indonesia      | 5.0                    | Q3       | na    | 5.1    |                 | 3.1                   | Oct   | 3.1               | 5.3 Q3§   |
| Malaysia       | 4.4                    | Q3       | na    | 4.4    |                 | 1.1                   | Oct   | 0.8               | 3.3 Sep§  |
| Pakistan       | 3.3                    | 2019**   | na    | 3.3    |                 | 11.0                  | Oct   | 9.8               | 5.8 2018  |
| Philippines    | 6.2                    | Q3       | 6.6   | 5.7    |                 | 0.8                   | Oct   | 2.3               | 5.4 Q3§   |
| Singapore      | 0.5                    | Q3       | 2.1   | 0.5    |                 | 0.4                   | Oct   | 0.6               | 2.3 Q3    |
| South Korea    | 2.0                    | Q3       | 1.6   | 1.8    |                 | nil                   | Oct   | 0.4               | 3.0 Oct§  |
| Taiwan         | 2.9                    | Q3       | 4.5   | 2.5    |                 | 0.4                   | Oct   | 0.5               | 3.7 Oct   |
| Thailand       | 2.4                    | Q3       | 0.4   | 2.4    |                 | 0.1                   | Oct   | 0.7               | 1.0 Sep§  |
| Argentina      | 0.6                    | Q2       | -1.3  | -3.3   |                 | 50.5                  | Oct‡  | 53.7              | 10.6 Q2§  |
| Brazil         | 1.0                    | Q2       | 1.8   | 0.8    |                 | 2.5                   | Oct   | 3.6               | 11.8 Sep§ |
| Chile          | 3.3                    | Q3       | 3.0   | 1.8    |                 | 2.5                   | Oct   | 2.4               | 7.0 Sep§# |
| Colombia       | 3.3                    | Q3       | 2.3   | 3.1    |                 | 3.9                   | Oct   | 3.5               | 10.2 Sep§ |
| Mexico         | -0.3                   | Q3       | 0.1   | 0.1    |                 | 3.0                   | Oct   | 3.6               | 3.6 Oct   |
| Peru           | 3.0                    | Q3       | 2.9   | 2.6    |                 | 1.9                   | Oct   | 2.1               | 6.7 Oct§  |
| Egypt          | 5.6                    | Q3       | na    | 5.6    |                 | 3.1                   | Oct   | 8.1               | 7.8 Q3§   |
| Israel         | 4.1                    | Q3       | 4.1   | 3.2    |                 | 0.4                   | Oct   | 0.9               | 3.4 Oct   |
| Saudi Arabia   | 2.4                    | 2018     | na    | 1.0    |                 | -0.3                  | Oct   | -1.2              | 5.6 Q2    |
| South Africa   | 0.9                    | Q2       | 3.1   | 0.6    |                 | 3.7                   | Oct   | 4.4               | 29.1 Q3§  |

Source: Haver Analytics. \*% change on previous quarter, annual rate. †The Economist Intelligence Unit estimate/forecast. §Not seasonally adjusted. ‡New series. \*\*Year ending June. ††Latest 3 months. #3-month moving average.

The Economist

## Economic data

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|                | Current-account balance<br>% of GDP, 2019† | Budget balance<br>% of GDP, 2019† | Interest rates<br>10-yr govt bonds<br>latest, % | change on<br>year ago, bp | Currency units<br>per \$ Nov 27th | % change<br>on year ago |
|----------------|--|-----------------------------------|---|---------------------------|-----------------------------------|-------------------------|
| United States  | -2.4                                       | -4.8                              | 1.7   | -140                      | -                                 |                         |
| China          | 1.5  | -4.3                              | 3.0   | \$\$                      | -20.0                             | 7.03                    |
| Japan          | 3.2  | -2.9                              | -0.1  | -26.0                     | 109                               | 3.1                     |
| Britain        | -4.2                                       | -2.1                              | 0.7   | -68.0                     | 0.78                              | nil                     |
| Canada         | -2.3                                       | -0.9                              | 1.5   | -86.0                     | 1.33                              | -0.8                    |
| Euro area      | 2.9  | -1.1                              | -0.4  | -71.0                     | 0.91                              | -3.3                    |
| Austria        | 1.7  | 0.1                               | -0.1  | -73.0                     | 0.91                              | -3.3                    |
| Belgium        | -0.1                                       | -1.6                              | -0.1  | -91.0                     | 0.91                              | -3.3                    |
| France         | -0.7                                       | -3.2                              | nil   | -76.0                     | 0.91                              | -3.3                    |
| Germany        | 6.6  | 0.5                               | -0.4  | -71.0                     | 0.91                              | -3.3                    |
| Greece         | -2.5                                       | 0.4                               | 1.5   | -292                      | 0.91                              | -3.3                    |
| Italy          | 2.9  | -2.2                              | 1.3   | -198                      | 0.91                              | -3.3                    |
| Netherlands    | 9.6  | 0.6                               | -0.2  | -74.0                     | 0.91                              | -3.3                    |
| Spain          | 0.8  | -2.3                              | 0.4   | -120                      | 0.91                              | -3.3                    |
| Czech Republic | 0.5  | 0.2                               | 1.5   | -57.0                     | 23.2                              | -1.6                    |
| Denmark        | 7.8  | 1.6                               | -0.3  | -65.0                     | 6.79                              | -3.1                    |
| Norway         | 5.4  | 6.5                               | 1.4   | -52.0                     | 9.18                              | -6.4                    |
| Poland         | -0.7                                       | -2.0                              | 2.0   | -122                      | 3.92                              | -3.6                    |
| Russia         | 6.5  | 2.3                               | 6.6   | -242                      | 64.1                              | 3.5                     |
| Sweden         | 3.7  | 0.4                               | nil   | -59.0                     | 9.59                              | -5.3                    |
| Switzerland    | 9.3  | 0.5                               | -0.6  | -55.0                     | 1.00                              | nil                     |
| Turkey         | -0.2                                       | -2.9                              | 12.2  | -448                      | 5.79                              | -8.6                    |
| Australia      | 0.1  | 0.1                               | 1.0   | -162                      | 1.47                              | -6.1                    |
| Hong Kong      | 4.4  | 0.1                               | 1.5   | -79.0                     | 7.83                              | -0.1                    |
| India          | -1.8                                       | -3.9                              | 6.5   | -126                      | 71.4                              | -0.6                    |
| Indonesia      | -2.2                                       | -2.0                              | 7.1   | -108                      | 14,095                            | 3.2                     |
| Malaysia       | 4.5  | -3.5                              | 3.4   | -74.0                     | 4.17                              | 0.5                     |
| Pakistan       | -3.5                                       | -8.9                              | 11.4  | †††                       | -83.0                             | 155                     |
| Philippines    | -1.3                                       | -3.2                              | 4.7   | -240                      | 50.8                              | 3.2                     |
| Singapore      | 14.3                                       | -0.3                              | 1.8   | -65.0                     | 1.37                              | nil                     |
| South Korea    | 3.0  | 0.6                               | 1.7   | -48.0                     | 1,177                             | -4.0                    |
| Taiwan         | 12.0                                       | -1.0                              | 0.7   | -28.0                     | 30.5                              | 1.3                     |
| Thailand       | 6.0  | -2.8                              | 1.4   | -105                      | 30.2                              | 9.3                     |
| Argentina      | -1.4                                       | -4.3                              | 11.3  | 562                       | 59.9                              | -38.7                   |
| Brazil         | -1.9                                       | -5.8                              | 4.7   | -324                      | 4.26                              | -10.3                   |
| Chile          | -1.5                                       | -1.7                              | 3.2   | -122                      | 818                               | -17.6                   |
| Colombia       | -4.4                                       | -2.5                              | 6.3   | -82.0                     | 3,513                             | -8.1                    |
| Mexico         | -1.1                                       | -2.7                              | 7.1   | -216                      | 19.6                              | 4.1                     |
| Peru           | -2.1                                       | -2.0                              | 5.6   | 64.0                      | 3.40                              | -0.6                    |
| Egypt          | -0.9                                       | -7.0                              | na  | nil                       | 16.1                              | 11.0                    |
| Israel         | 2.4  | -3.9                              | 0.8   | -161                      | 3.47                              | 7.8                     |
| Saudi Arabia   | 1.4  | -6.7                              | na  | nil                       | 3.75                              | nil                     |
| South Africa   | -4.0                                       | -5.9                              | 8.4   | -56.0                     | 14.7                              | -6.0                    |

Source: Haver Analytics. §§5-year yield. †††Dollar-denominated bonds.

# Markets

% change on:

| In local currency              | Index Nov 27th | one week | Dec 31st 2018 |
|--------------------------------|----------------|----------|---------------|
| <b>United States</b> S&P 500   | 3,153.6        | 1.5      | 25.8          |
| <b>United States</b> NAScomp   | 8,705.2        | 2.1      | 31.2          |
| <b>China</b> Shanghai Comp     | 2,903.2        | -0.3     | 16.4          |
| <b>China</b> Shenzhen Comp     | 1,602.0        | -2.0     | 26.4          |
| <b>Japan</b> Nikkei 225        | 23,437.8       | 1.2      | 17.1          |
| <b>Japan</b> Topix             | 1,711.0        | 1.2      | 14.5          |
| <b>Britain</b> FTSE 100        | 7,429.8        | 2.3      | 10.4          |
| <b>Canada</b> S&P TSX          | 17,100.6       | 0.6      | 19.4          |
| <b>Euro area</b> EURO STOXX 50 | 3,712.8        | 0.8      | 23.7          |
| <b>France</b> CAC 40           | 5,926.8        | 0.6      | 25.3          |
| <b>Germany</b> DAX*            | 13,287.1       | 1.0      | 25.8          |
| <b>Italy</b> FTSE/MIB          | 23,485.0       | 0.6      | 28.2          |
| <b>Netherlands</b> AEX         | 598.4          | 0.7      | 22.6          |
| <b>Spain</b> IBEX 35           | 9,362.7        | 1.5      | 9.6           |
| <b>Poland</b> WIG              | 57,867.9       | -0.3     | 0.3           |
| <b>Russia</b> RTS, \$ terms    | 1,441.1        | -0.5     | 35.2          |
| <b>Switzerland</b> SMI         | 10,529.3       | 1.4      | 24.9          |
| <b>Turkey</b> BIST             | 105,844.1      | -0.9     | 16.0          |
| <b>Australia</b> All Ord.      | 6,950.6        | 1.8      | 21.7          |
| <b>Hong Kong</b> Hang Seng     | 26,954.0       | 0.2      | 4.3           |
| <b>India</b> BSE               | 41,020.6       | 0.9      | 13.7          |
| <b>Indonesia</b> IDX           | 6,023.0        | -2.1     | -2.8          |
| <b>Malaysia</b> KLSE           | 1,587.2        | -0.9     | -6.1          |
| <b>Pakistan</b> KSE            | 38,122.7       | 0.2      | 2.8           |
| <b>Singapore</b> STI           | 3,215.5        | -0.4     | 4.8           |
| <b>South Korea</b> KOSPI       | 2,127.9        | 0.1      | 4.3           |
| <b>Taiwan</b> TWI              | 11,647.5       | 0.1      | 19.7          |
| <b>Thailand</b> SET            | 1,607.3        | 0.7      | 2.8           |
| <b>Argentina</b> MERV          | 33,929.7       | 1.5      | 12.0          |
| <b>Brazil</b> BVSP             | 107,707.8      | 1.7      | 22.6          |
| <b>Mexico</b> IPC              | 43,036.2       | -1.3     | 3.4           |
| <b>Egypt</b> EGX 30            | 13,759.7       | -3.3     | 5.6           |
| <b>Israel</b> TA-125           | 1,617.7        | 1.6      | 21.3          |
| <b>Saudi Arabia</b> Tadawul    | 7,853.1        | -2.5     | 0.3           |
| <b>South Africa</b> JSE AS     | 56,173.9       | -2.0     | 6.5           |
| <b>World, dev'd</b> MSCI       | 2,302.7        | 1.2      | 22.2          |
| <b>Emerging markets</b> MSCI   | 1,052.9        | 0.1      | 9.0           |

## US corporate bonds, spread over Treasuries

|                         |        | Dec 31st |
|-------------------------|--------|----------|
| Basis points            | latest | 2018     |
| <b>Investment grade</b> | 154    | 190      |
| <b>High-yield</b>       | 502    | 571      |

Sources: Datastream from Refinitiv; Standard & Poor's Global Fixed Income Research.

\*Total return index.

## Commodities

| The Economist commodity-price index |          |           | % change on |       |
|-------------------------------------|----------|-----------|-------------|-------|
| 2015=100                            | Nov 19th | Nov 26th* | month       | year  |
| <b>Dollar Index</b>                 |          |           |             |       |
| All Items                           | 109.9    | 111.2     | 1.2         | 9.4   |
| Food                                | 97.6     | 97.7      | 2.1         | 8.4   |
| <b>Industrials</b>                  |          |           |             |       |
| All                                 | 121.4    | 123.8     | 0.5         | 10.2  |
| Non-food agriculturals              | 98.4     | 98.9      | 2.5         | -10.2 |
| Metals                              | 128.3    | 131.2     | nil         | 16.1  |
| <b>Sterling Index</b>               |          |           |             |       |
| All items                           | 129.7    | 132.2     | 1.6         | 9.5   |
| <b>Euro Index</b>                   |          |           |             |       |
| All items                           | 110.0    | 111.9     | 2.1         | 12.9  |
| <b>Gold</b>                         |          |           |             |       |
| \$ per oz                           | 1,472.9  | 1,459.7   | -2.1        | 20.3  |
| <b>Brent</b>                        |          |           |             |       |
| \$ per barrel                       | 60.9     | 63.9      | 3.3         | 5.3   |

Sources: Bloomberg; CME Group; Cotlook; Datastream from Refinitiv; Fastmarkets; FT; ICCO; ICO; ISO; Live Rice Index; LME; NZ Wool Services; Thompson Lloyd & Ewart; Urner Barry; WSJ. \*Provisional.

The Economist

## Graphic detail

### Fiscal policy

#### Death and taxes

### Death and taxes

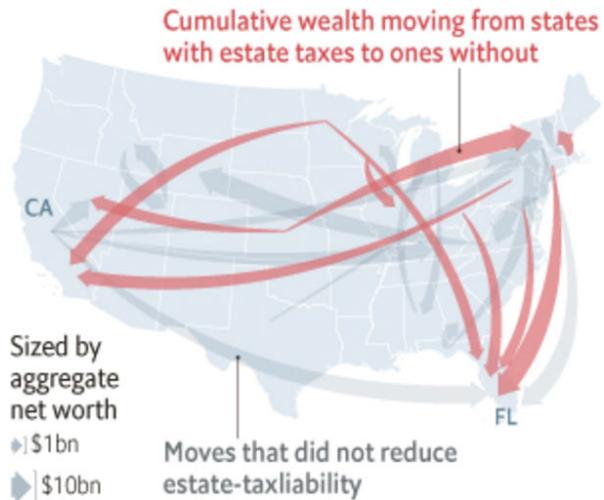
## A new study assesses whether inheritance taxes boost net revenues

*The rich who “age in place” yield a windfall when they die*

[Print](#) | [Graphic detail](#) Nov 30th 2019

### → States without estate taxes tend to lure ageing billionaires

Changes in listed residence for Americans aged 65 and over on the *Forbes* 400 list, 2002-17

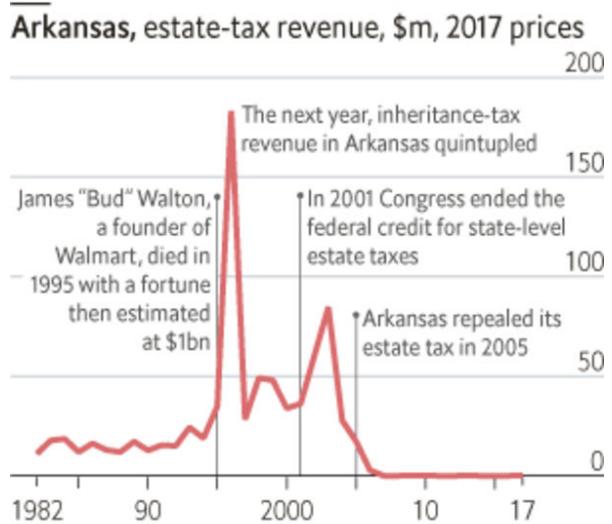


**A**MONG THE Democrats seeking America's presidency, wealth taxes are a core division between the left and centre. Experts disagree on whether plutocrats can wriggle out of such levies, because few rich countries use them. Data on inheritance taxes, a close cousin, are also spotty. But a new study by Enrico Moretti of the University of California, Berkeley and Daniel Wilson of the Federal Reserve Bank of San Francisco suggests that at the state level, governments can reap gains from estate taxes, even though they are easy to avoid.

Their working paper makes use of a natural experiment. Estate taxes in America vary by state. However, before 2001 all ultra-rich Americans paid the same rate, because the federal government offset state-level estate taxes with a dollar-for-dollar credit. George W. Bush's first tax law ended this rule. That made dying in Idaho, which has no estate tax, cheaper than in Washington state, which charges up to 20%.

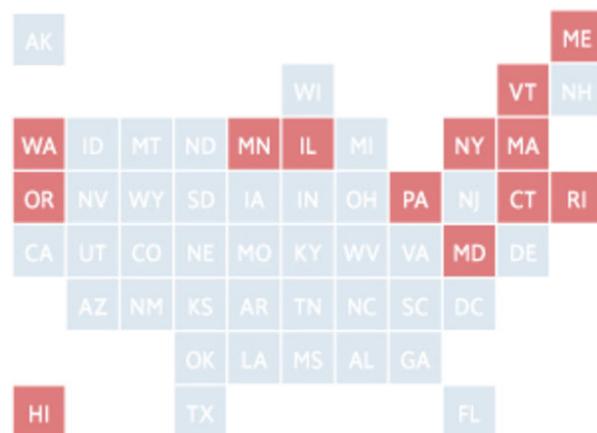
The rich can only avoid federal taxes by renouncing citizenship. However, they can dodge state levies by moving. If they prioritise preserving their heirs' fortunes, then states that taxed inheritances after 2001 should have become bereft of billionaires.

→ **But states that tax inheritances still reap windfalls from those who stay put**



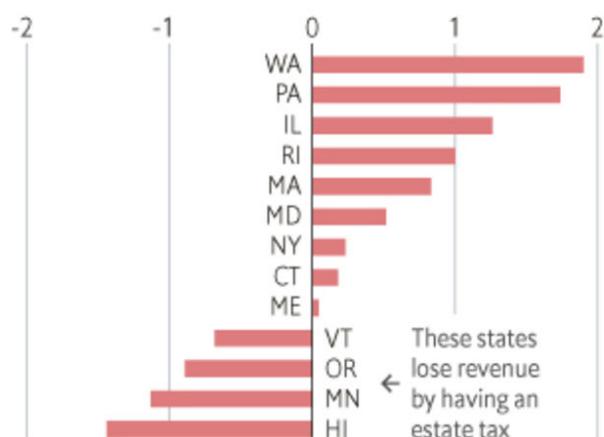
**States with an estate tax\***

2019



**Net fiscal impact of typical estate tax†**

% of GDP



\*Or functionally equivalent inheritance tax    †Change in net present value of billionaires' tax payments resulting from estate tax, based on a \$5.5m exemption and 16% top rate, Nov 2019

The study supports this theory. The authors did not know where the rich resided for tax purposes. Instead, they relied on *Forbes* magazine, which estimates billionaires' net worth and assigns them to specific states. Starting in 2001, people whose listed state changed were much more likely to switch from states that charged an estate tax to ones that did not than the reverse.

Overall, estate-tax states lost 35% of their listed billionaires, and 50% of those aged over 65. If such moves reflected real changes in tax residence, they would cost states both estate taxes and the income taxes the departed would otherwise have paid.

### → Despite billionaire flight, many states would profit from taxing inheritances

#### Georgia

Real net present value of future estate and income taxes paid by current billionaires, Nov 2019

Under current law (no estate tax)

\$4.86bn from income tax

If Georgia added a **16% estate tax**,  
it would stand to gain \$3.75bn in theory

\$4.86bn                    \$3.75bn

However, around 35% of billionaires would relocate  
to avoid the tax, reducing the net gain to \$1.38bn

\$3.57bn                    Net gain  
                                \$1.38bn  
                                \$2.67bn

However, the windfall from billionaires who stay is huge. In 1996 revenue in Arkansas rose by \$148m after Bud Walton, a founder of Walmart, died. The authors find that of the 13 states that kept the tax, nine came out ahead. On average, states lose 60-70% of potential estate-tax proceeds as the rich flee. The rest can go to schools and roads.

Estate taxes do not always raise money. A few states tax income so heavily that an estate tax which led the rich to move away would cost them revenue. But *Forbes*'s data imply that enough tycoons want to "age in place" to make their heirs juicy targets.

Sources: "Taxing Billionaires: Estate Taxes and the Geographical Location of the Ultra-Wealthy", by Enrico Moretti and Daniel J. Wilson, Oct 2019; *The Economist*

## Raymond Poulidor

Gloriously second

Gloriously second

### Obituary: Raymond Poulidor died on November 13th

France's favourite racing cyclist, "L'Eternel Second", was 83

[Print](#) | [Obituary](#) Nov 28th 2019



AFP

EIGHT TIMES Raymond Poulidor stood on the podium at the end of the Tour de France, soaked in sweat, exhausted and smiling his big gap-toothed smile. He was just never on the top step. In 14 Tours someone else always pipped him or, to be honest, passed him by quite a lot. He came second three times, third five times (including in his last tour, not bad for a 40-year-old), but never put on the treasured yellow jersey, the greatest prize in cycling. The closest he came to that was when winners offered to let him wear it at dinner parties, and he would shrug his big frame into it with no bitterness at all. Because, with or without it, "L'Eternel Second" was by far the most popular racing cyclist ever known in France.

His catalogue of mishaps in the Tour was long. In 1962, when he came third, he had a broken finger. In 1964, when he came second, he lost time at Monaco and had a puncture in the Pyrenees. In 1965, Italian riders ganged up on him. In 1967 he fell badly in the Vosges, and in 1968 he was hit by a motorbike. The race in 1973 began with his nearest chance, when he was behind by a mere 0.8 seconds in the Prologue, but he later fell down a ravine. In 1975, his worst Tour, when he came 19th, he had bronchitis. Something always came between him and the glory of the *maillot jaune*. And all Frenchmen and women who had ever repeatedly tried, and failed, to achieve some goal took him to their hearts accordingly. He was "Pouli" and "Poupou" (a stupid name, but he put up with it), carried aloft on a sea of *poupularité*.

They called him unlucky. He did not agree. He thought he had had a lot of luck, in fact. Over a 18-year career he had chalked up 189 victories in other races, including the Vuelta a España, his only Grand Tour, La Flèche Wallonne, the French national championship and the Paris-Nice (twice) against the great Belgian Eddy Merckx. He also won the Milan-San Remo, though true to form it almost slipped away when he got a puncture 125km from the finish and, on the final corner, was sent the wrong way by a policeman. Yet he held off the chasing field and won, by three seconds.

He was also lucky, to his mind, to be cycling at all. The alternative was to be labouring, like his parents, on the rocky hills of Creuse, trying to make the bad soil yield enough to get bread for the table and rent in the landlord's wallet. He had left school at 14, like his three brothers, prepared to toil, but also aware that his best times were when he was racing his bike between the

villages on fair-days or speeding round the hills with his brothers, for all the world like one of the grim sleek riders in *Miroir-Sprint* magazine. He could never be called sleek, more cuddly, and after his *service militaire* in Algeria pretty fat, but he shook off the weight and became a professional cyclist in 1960, when he was 24.

What he did not shake off, but made much of, were his peasant roots. Between races he went back to help on the farm, and his style of cycling—dogged and determined on hills, a bit too leisurely on the time trials—owed something to farm work, too. With his lined, wind-burned face and slow Limousin drawl, he reminded his followers of the old ways, *la France profonde* and all kinds of comforting verities that had been pushed aside by modern life. He kept a peasant's innocence, and in 1966 got into deep *merde* with his colleagues for agreeing to a newfangled drugs test which they were all refusing. But he also kept a shrewd business head on his shoulders. He knew the value of a franc, ever since he and his brothers had broken their bedroom window and been told, by their father, that there would be no money to mend it until the spring.

It was therefore oddly satisfying that his great rival, Jacques Anquetil, was everything he was not: a well-off, pale-faced, blond-quiffed, almost ghostly Norman, withdrawn and unflamboyant. Anquetil won the Tour five times, yet to his fury the French still loved Poupou more. The depth of their duelling was witnessed by half a million spectators when, in 1964, they battled up the Puy de Dôme in Auvergne side by side, Anquetil on the mountain side and Poupou on the precipice edge, so close that their elbows knocked and Poupou could feel the hot breath of "Maître Jacques" on his arms. He gained 42 seconds over him; it was not enough to win the Tour. But he did not mind too much, as he never did.

One reason to be relaxed was that he was making a lot of money—more even than Anquetil, some said. From the start he had been astonished at what cyclists earned. His first prize, 80,000 old francs for coming second, would have taken him six years to get by farming (or substantially less time at the poker table, where he was a skilled bluffer). The more Tours he lost, the more the crowds liked him and the more he earned. At the height of his celebrity, in the mid-1970s, almost half of respondents to one poll made him their first choice as a dinner guest. In 1974 alone more than 4,000 articles were written about him, besides university theses and sociological studies. He lent his name to sports bikes, and given half a chance would stand in supermarkets shouting "Just the right bike for you, sir!" Later, as a national treasure, he had a rose named after him, and appeared along the route of the Tour in yellow outfits and with trinkets in his hands, cheered by all who saw him.

This adulation came not simply because he failed, but because of the manner of his failing. He did not get up each morning with the thought of winning. He did not think of winning at all. His manager complained that he was always in a daydream, and it was true. Everything that was happening to him was marvellous enough. His memoir was called "*La gloire sans maillot jaune*", glory without the jersey, which in the end he didn't need. Eight times he had got within touching distance, and lost them all. But he could still say, as he often did, "Look how close I came!" ■