The Economist

Saudi Arabia's risky succession

Is the Fed bad for productivity?

Hong Kong: 20 years of coping with China

Fire-proofing tower blocks

JUNE 24TH–30TH 2017

Modi's India

The illusion of reform

The Economist

2017-06-24

The world this week

Politics this week

Jun 22nd 2017

Theresa May launched her minority Conservative government's slimmed-down programme for governing **Britain** over the next two years. The speech, as usual, was read out by the queen, but without much of the normal ceremony. The prime minister also used the speech as an opportunity to dump controversial manifesto promises on social care, selective education and corporate governance.

A van driven by an anti-Muslim extremist rammed worshippers leaving a mosque in London's Finsbury Park neighbourhood. Several people were injured and one subsequently died. The assault is the latest in a string of attacks in **Britain's** capital. See article.

Forest fires in **Portugal** killed at least 64 people and burned more than 26,000 hectares of land as temperatures topped 40°C. More than 2,000 firefighters were deployed to fight the blazes.

Emmanuel Macron's party, La République En Marche! and its allies, won a majority of 350 seats in **France’s** 577-seat National Assembly. The opposition Republicans and their allies took 136, while the Socialists and theirs ended with just 45. Three days later, the president reshuffled his cabinet after four ministers resigned in connection with financial inquiries. See article.

Edit undo

Donald Trump, America’s president, said he would partially reverse his predecessor Barack Obama’s opening to **Cuba**. New rules will make it harder for American tourists to visit by obliging some to join group tours rather than letting them travel as individuals. American citizens and firms will not be allowed to do business with Cuban enterprises controlled by the army, including many hotels. See article.

In Atlanta’s suburbs, the most expensive race ever for **America’s** House of Representatives resulted in a victory for the Republicans’ Karen Handel, who defeated the Democrats’ Jon Ossoff, a 30-year-old film-maker. Ms Handel takes the seat vacated by Donald Trump’s secretary of health, Tom Price. Republicans have held the seat since 1979; a loss would have been a great blow for the party.

A blast in Bogotá

An explosion at a shopping centre in Bogotá, **Colombia’s** capital, killed three women and injured 11 people. The attack happened on a busy weekend when many people were shopping for Fathers’ Day. The government called it a “terrorist act”. Investigators have not named any suspects.

The ELN, a guerrilla group, kidnapped two Dutch journalists near **Colombia’s** border with Venezuela. They were looking for the Colombian mother of a child adopted in the Netherlands.

Spyware sold to **Mexico's** government for snooping on criminals has been found on the mobile phones of prominent journalists and human-rights activists, according to investigations by the *New York Times* and other organisations. Among the 15 people identified so far whose phones were infected with the Pegasus software are Carmen Aristegui, a journalist who has been critical of Mexico's president, Enrique Peña Nieto, and employees of Centro Prodh, a group that worked with families of 43 students who disappeared in 2014. See article.

Family fortunes

Saudi Arabia's monarch, King Salman, named his son Muhammed bin Salman as crown prince, putting him next in line to the throne. The move marked a sharp break with Saudi tradition. The new crown prince is known for impetuousness abroad (he backed a military intervention in Yemen). At home he favours bold economic reforms, such as selling shares in the national oil firm. See here and here.

An American fighter jet shot down a **Syrian** warplane that had been preparing to bomb American-backed rebels who are fighting Islamic State. See article.

Fighting resumed in the town of Bria in the **Central African Republic**, leaving as many as 100 people dead. This is despite the signing of a peace agreement by almost all of the country's armed militias.

Islamic State (IS) fighters blew up the Great Mosque of al-Nuri in Mosul, **Iraq**, as government forces advanced on it. The mosque became a powerful symbol for IS in 2014 when its leader, Abu Bakr al-Baghdadi, used its pulpit to announce the formation of his caliphate.

The Catholic church released a report saying that at least 3,383 people have been killed since October in the central Kasai region of the **Democratic Republic of Congo** in fighting between the government and rebel forces. The church's research on the violence provides the most authoritative estimate so far of the number of casualties.

An outrageous death

Otto Warmbier, an American student jailed by **North Korea**, died on Monday in his home state of Ohio, a few days after being released. He was arrested in January 2016 for stealing a propaganda placard while visiting Pyongyang as a tourist. In March 2016 he fell into a coma for reasons that remain unclear, and was returned to America earlier this month "on humanitarian grounds". Three American citizens are still in North Korean jails. Donald Trump said it was a "total disgrace" that Mr Warmbier was not released sooner.

Islamic terrorists on the island of Mindanao in the southern **Philippines** attacked an army post and then briefly seized a nearby school. The attack took place about 80km south of the city of Marawi, where the army has been battling Muslim militants for weeks.

A prominent pro-democracy politician in **Hong Kong**, Cheung Man-kwong, was allowed to cross the border into mainland China for the first time in nearly 30 years. After the crushing of the Tiananmen Square protests in 1989, China blocked visits by some people in Hong Kong, such as Mr Cheung, who had supported the unrest. In recent months it seems to have eased restrictions on some of them.

How much is that doggie?

A controversial dog-meat festival began in the southern Chinese city of Yulin. The annual event has triggered widespread protests by animal-rights groups in **China** and elsewhere because of the brutal way in which dogs are sometimes slaughtered for their meat. Despite reports that the authorities would tone down this year’s event, dead dogs were reportedly displayed for sale on hooks.

| Section menu | Main menu |

Business this week

Jun 22nd 2017

Travis Kalanick resigned as **Uber's** chief executive. The ride-hailing firm has come under fire for its abrasive corporate culture and a series of sexism scandals, among other things. Mr Kalanick had already announced an indefinite leave of absence. That was not enough for five of the firm's big shareholders, who signed a letter demanding his departure. He will continue to serve on Uber's board. See article.

In its prime

Amazon, an American internet giant, announced that it would acquire **Whole Foods**, a fancy supermarket chain specialising in organic food, for $13.7bn. Share prices of other grocery stores plunged in the expectation that Amazon will change not just Whole Foods, but the whole sector. See article.

The **Bank of England** voted to keep interest rates at 0.25% in light of Britain's weak economy, despite higher-than-expected inflation of 2.9%. The bank reckons inflation could rise above 3% in the autumn, and remain above its 2% target for an extended period, due to a weakening pound. The bank also appointed Silvana Tenreyro, a professor at the London School of Economics and a critic of Brexit, to its monetary-policy committee.

America's current-account deficit widened to $117bn in the first quarter of this year, up by 2.4% from the last quarter of 2016. That was still less than analysts had expected.

Klarna, a Swedish payments firm, gained a banking licence. The firm, which has 60m customers across Europe and processed €13bn ($14.7bn) in transactions last year, is the largest European financial-technology firm so far to become a fully fledged bank. See article.

The integration of China into the world's financial markets took another step as **MSCI**, an index provider, decided to include shares of 222 companies listed in mainland China in its widely followed emerging-markets equity index, which is tracked by managers with $1.6trn in assets. The firms' shares will account for 0.73% of the total index, adding to the 28% already made up of Chinese shares listed elsewhere. MSCI held off on upgrading Argentina from a frontier market to an emerging market, contrary to the expectations of some. See article.

Argentina nonetheless sold $2.75bn in 100-year dollar-denominated bonds, joining the likes of Mexico, Ireland and Belgium in issuing such "century bonds". Argentina is the first to do so without the benefit of an investment-grade rating, having only recently returned to international capital markets. Demand from investors was strong, although the country has defaulted eight times on its sovereign debt since 1824. See article.

Russia also sold more than $3bn in sovereign debt, much of it to Western investors, in only its third issue after the imposition of sanctions over the conflict in Ukraine in 2014.

Imagination Technologies, a British chip designer, put itself up for sale. The company's shares fell by more than 60% in April when Apple, its largest customer, announced it would no longer use the firm's technology in its new phones.

Britain’s Serious Fraud Office charged **Barclays**, a bank, its former head, and three other former executives with fraud over deals with Qatar in 2008 that helped keep the bank afloat. The bank raised a total of £11.8bn ($21.4bn) in capital that year, much of it from the Qatari sovereign-wealth fund and a fund representing the country’s then prime minister; the bank granted the Qatari government a $3bn loan facility that November. The case marks the first criminal charges to be filed against the head of a big international bank as a result of the financial crisis. See article.

Frackers unite

EQT Corporation, an American natural-gas firm, agreed to acquire its competitor, **Rice Energy**, in a $6.7bn deal. Both firms are based in Pennsylvania and focus on fracking. The new firm will be America’s largest natural-gas producer.

Rio Tinto, an energy giant, rejected a $2.6bn bid for its Australian coal assets from Glencore, a Swiss commodities firm. Rio’s boss said an earlier offer for $100m less from Yancoal, the Australian subsidiary of a Chinese coal firm, offered greater “transaction security” to shareholders.

Lofty expectations

Vice Media secured a $450m investment from TPG, a private-equity firm. The deal values the media upstart, which also counts Disney and Rupert Murdoch’s 21st Century Fox among its shareholders, at a whopping $5.7bn.

Boeing unveiled a new, larger version of its 737 narrow-body aeroplane at the Paris Air Show. The **737 Max 10** can fit up to 230 passengers and has already won 240 orders. Airbus revealed new fuel-efficiency improvements for its A380 superjumbo, which received no new orders last year.

KAL's cartoon

Economist.com

Jun 22nd 2017

Leaders

- **India’s economy: Modi’s India** [Fri, 23 Jun 09:03]
- **Divided Britain: The tower and the anger** [Fri, 23 Jun 09:03]
- **American health care: Sunlight needed** [Fri, 23 Jun 09:03]
- **Succession in Saudi Arabia: A shake-up in Riyadh** [Fri, 23 Jun 09:03]
- **Human rights in Hungary: Stop spoiling Viktor Orban** [Fri, 23 Jun 09:03]

The economy under Modi

India’s prime minister is not as much of a reformer as he seems

But he is more of a nationalist firebrand

Jun 24th 2017

WHEN Narendra Modi became prime minister of India in 2014, opinion was divided as to whether he was a Hindu zealot disguised as an economic reformer, or the other way round. The past three years appear to have settled the matter. Yes, Mr Modi has pandered to religious sentiment at times, most notably by appointing a rabble-rousing Hindu prelate as chief minister of India’s most-populous state, Uttar Pradesh. But he has also presided over an acceleration in economic growth, from 6.4% in 2013 to a high of 7.9% in 2015—which made India the fastest-growing big economy in the world. He has pushed through reforms that had stalled for years, including an overhaul of bankruptcy law and the adoption of a nationwide sales tax (GST) to replace a confusing array of local and national levies. Foreign investment has soared, albeit from a low base. India, cabinet ministers insist, is at last becoming the tiger Mr Modi promised.

Alas, these appearances are deceiving (see article). The GST, although welcome, is unnecessarily complicated and bureaucratic, greatly reducing its efficiency. The new bankruptcy law is a step in the right direction, but it will take much more to revive the financial system, which is dominated by state-owned banks weighed down by dud loans. The central government's response to a host of pressing economic problems, from the difficulty of buying land to the reform of rigid labour laws, has been to pass them to the states. And at least one of the big reforms it has undertaken—the overnight cancellation of most of India's banknotes in an effort to curb the black economy—was counterproductive, hamstringing legitimate businesses without doing much harm to illicit ones. No wonder the economy is starting to drag. In the first three months of the year it grew at an annualised rate of 6.1%, more slowly than when Mr Modi came to power.

More an administrator than a reformer

India's prime minister, in short, is not the radical reformer he is cracked up to be. He is more energetic than his predecessor, the stately Manmohan Singh, launching glitzy initiatives on everything from manufacturing to toilet-construction. But he has not come up with many big new ideas of his own (the GST and the bankruptcy reforms date back long before his time). His reputation as a friend to business rests on his vigorous efforts to help firms out of fixes—finding land for a particular factory, say, or expediting the construction of a power station. But he is not so good at working systematically to sort out the underlying problems holding the economy back.

India does not just need power stations and parcels of land for development. It needs functioning markets for electricity and land—and capital and labour, for that matter. Lending to industry is contracting, for the first time in 20 years; Mr Modi should recapitalise state-owned banks and sell them off, to get loans flowing again. He should be working to simplify the over-exacting labour law, which perversely harms workers by deterring companies from hiring them formally. Property purchases are a forbidding quagmire; the government, at a minimum, should try to improve the quality of registers to reduce the scope for disputes.

Political conditions are about as propitious for reform as they are ever likely to be. Mr Modi's government is the strongest in decades. It has a big majority in the lower house of parliament and is edging closer to control of the upper house, as well. It runs most big states. The opposition is hopeless.

There are economic tailwinds, too. India is a big importer of oil; the low price of late has been boosting growth by perhaps two percentage points a year. Ageing has long weighed on Western economies and is starting to sap China's. India, by contrast, is still young. Over a quarter of the people joining the world's workforce between now and 2025 will be Indian. And there is enormous scope for catch-up growth: India is the poorest of the world's 20 biggest economies. By rights, it should be surpassing others' growth rates for years.

Mr Modi, in short, is squandering a golden opportunity. Some apologists claim that he is waiting until he wins a majority in the upper house before taking on bigger reforms. If so, he has given no inkling of what he is planning. In fact, he has not even made clear that economic reform is his priority.

More a chauvinist than an economist

As prime minister, Mr Modi has been just as careful to court militant Hindus as jet-setting businessmen. His government recently created havoc in the booming beef-export business with onerous new rules on purchases of cattle, in deference to Hindus' reverence for cows (see article). Yogi Adityanath, the man he selected to run Uttar Pradesh, is under investigation for inciting religious hatred and rioting, among other offences.

The fear is that, if the economy falters, Mr Modi will try to maintain his popularity by stirring up communal tensions. That, after all, is how his Bharatiya Janata Party first propelled itself to government in the 1990s. Mr Modi himself was chief minister of Gujarat in 2002 when rioting there killed at least 1,000 people, most of them Muslims. To this day, he has never categorically condemned the massacre or apologised for failing to prevent it.

Under Mr Modi, debate about public policy, and especially about communal relations, has atrophied (see article). Hindu nationalist thugs intimidate those who chide the government for straying from India's secular tradition, or who advocate a less repressive approach to protests in Kashmir, India's only state with a Muslim majority. One of the few media companies that dares to criticise the government has been raided by police on grounds that would not normally attract such heavy-handedness. Mr Modi himself has become the object of a sycophantic personality cult. The prime minister may intend all this as a way to keep winning elections. But it is not hard to imagine it going disastrously wrong.

Mr Modi's admirers paint him as the man who at last unleashed India's potential. In fact, he may go down in history for fluffing India's best shot at rapid, sustained development. And the worries about a still darker outcome are growing.

Divided Britain

The aftershocks of Grenfell Tower and the future of austerity

A devastating London fire that has killed at least 79 people raises questions for Theresa May's government

Jun 24th 2017

IT FEELS as if Britain has been visited by a battalion of sorrows. Deadly attacks by, and this week against, Muslims have shattered the belief that the security services can shield Britain from the terrorism afflicting the continent. A minority government has taken office under a prime minister who has no authority, ushering in chronic instability. And, as if to symbolise it all, an inferno at the Grenfell Tower in London's richest borough claimed at least 79 lives of its poorest residents. Britons are searching for a moral that measures up to the catastrophe.

Many possible morals have been overblown, sometimes to the point of exploitation. Capitalism has not failed. Britain's tall buildings should not, as some say, be branded unfit for human habitation—but be made safer instead (see article). The fire at Grenfell Tower was not the fault of European Union regulation: other countries ban the exterior cladding that is thought to have spread it, as Britain claims to for tall buildings. This was not an indictment of private property or a justification for expropriating nearby houses, however rich their owners. It was a moment for people to take care of grieving neighbours made homeless. Nor was it an argument against deregulation. Having too many rules leads to a culture of non-compliance that is every bit as lethal as having too few. And it does not mean that public works should never be put out to tender. Run well, contracts use competition to raise standards.

The most important lesson of the past few weeks is less far-reaching. Britons are tired of austerity (see article). In the election campaign, Labour's promise of greatly increased public spending appealed to voters who have felt Tory cuts begin to bite. When Jeremy Corbyn, Labour's leader, blamed terrorism on police cuts, many people agreed with him. And the complaints that hit home most deeply after Grenfell Tower were that the building had been clad on the cheap, that the local council had no capacity to respond to the disaster and that austerity has been imposed for longer and more harshly on the poor—the very people who lived in the tower.

That has two implications. The first is how a focus on paying for public services will affect the issue that will dominate this parliament. In setting out her aims for the Brexit negotiations, which got under way this week, Theresa May made controlling immigration a priority. Everything flowed from her insistence that Britain had to get immigration down to 100,000 or fewer, ideally within the next five years. Yet, if limiting austerity is now the aim, immigration must fall right down the list. Instead, Brexit should be about doing the best for the economy—as the chancellor, Philip Hammond, said this week (see Bagehot). Being open to immigration makes a compromise over access to EU markets easier and boosts growth directly.

A time for honesty

The second implication is that Britain needs a debate about the balance between public services and taxes. At the moment, voters demand standards of health care, education and local government for which they seem unwilling to pay. Mr Corbyn promised that someone else will do so: the very rich and companies. But the very rich will leave the country and companies will pass taxes on to citizens. An honest debate would focus not only on tax rates but also on value for money. It might involve more efficient regulation and outsourcing services that can be better supplied by private firms—the things the rushers-to-judgment condemned after Grenfell.

Do not imagine that this debate will be easy or civilised. It will be fought on the picket line and in the street as well as in Parliament. But it must take place, and its outcome will determine Britain's path for years to come.

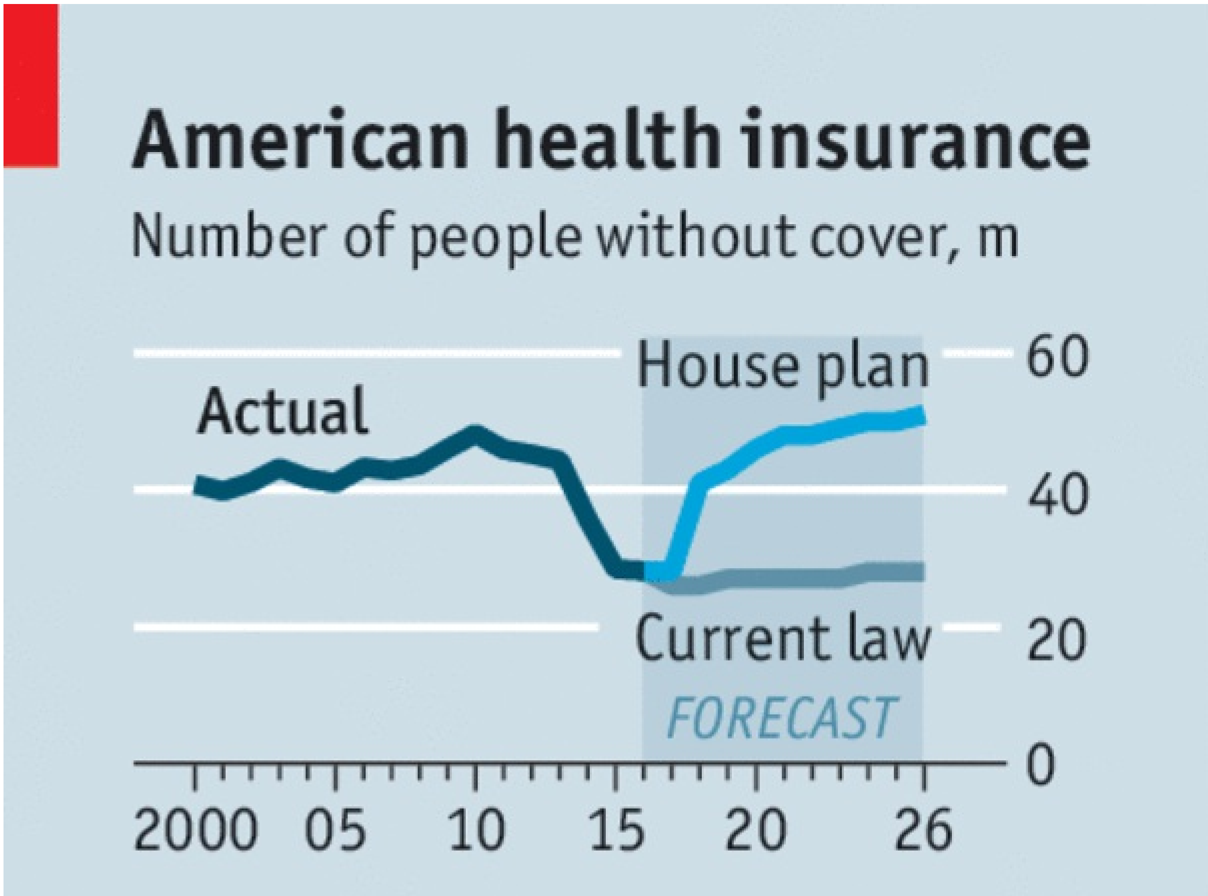
Sunlight needed

Rushing health care in America would be reckless and undemocratic

If Republicans' health-care policies are good, why fear scrutiny?

Jun 24th 2017

MITCH McCONNELL, the leader of the Republican majority in the Senate, once complained that President Barack Obama's health-care bill was thrown together in a back room and then dropped on the Senate floor "with a stopwatch running". Now he has made the tactic his own. Mr McConnell hopes to call a vote on a health-care bill that will have barely left the printer's. A week before a vote that could remake a sixth of the economy, even many Republican senators claim not to know what the bill contains.



Economist.com

Why the hush, hurry and hypocrisy? Mr McConnell wants to minimise the opportunity for critics to campaign against his proposals. When the House of Representatives considered its bill this year, the schedule was unusually tight. But there was still enough time for angry protests to spook some Republican congressmen. The bill was delayed. Eventually it passed after a minor amendment made a small concession to its critics. Republican senators, eager to move on to tax reform, do not want more delays before they "repeal and replace" Obamacare. If they pass a bill before a recess, neither constituents nor anyone else will have much of a chance to rally opposition to it.

The Senate may only tweak the House bill. If so, Republicans will argue that their ideas have already received plenty of public attention—except that their ideas have not withstood scrutiny. Just ask President Donald Trump who, having celebrated the House bill's passage in the Rose Garden, now says that it is too mean. The bill would gradually unwind the expansion of Medicaid, health insurance for the poor, which is responsible for providing an additional 12m Americans with cover. It would repeal tax increases, mostly for the rich, that paid for this expansion. And it would give states the right to opt out of some of Obamacare's regulations. For instance, states could let insurers cap the amount of care they will fund during any one patient's lifetime, a practice that is banned today.

The justification for this is rooted in sound federalism: the idea that states, not Washington, should write policy when possible. Republicans point to real problems with Medicaid, which is structured to encourage wasteful spending. They also identify trouble with Obamacare's insurance markets, which have been plagued by rising premiums and the departure of insurers (though the Trump administration is to blame for the latest palpitations, because it has threatened to cut off payments to insurers that are crucial to Obamacare's design).

Yet more federalism in health care would lead to many states leaving the poor and sick without decent coverage. Americans rightly think that would be intolerable in a rich country. Six in ten say that the federal government should make sure everyone is covered. Republicans choose not to contest the point. Instead, they promise vaguely that everyone will have "access to" insurance—a bit like saying everyone can have access to champagne, so long as they can afford it. Tom Price, the health secretary, has even denied that the House bill will reduce Medicaid coverage, perhaps because the president promised to leave Medicaid alone during his campaign.

Republicans say that federal regulations unfairly restrict consumer choice. But the reality of insurance markets is that, when possible, firms will design policies so as to attract only low-risk customers. Obamacare's regulations stop those with chronic conditions, such as HIV or diabetes, from being priced out of the market. Like the goal of universal coverage, these protections are popular. It is bad enough that states may be allowed to gut them. Republicans may later decide to let insurers in deregulated states sell policies nationwide—meaning that firms in states that kept to the rules would quickly lose healthy customers to cheaper, deregulated providers. Many states would be without a functioning market for health care.

The Senate should rewrite the House bill. Rethinking deregulation would be a start. It is possible to come up with well-funded mechanisms to improve on Obamacare without stripping health coverage from millions of Americans. But in fragile insurance markets the details matter. All the more reason to give the public, the press and the opposition time to scrutinise the bill—time that they are entitled to in any event. As things stand, Senate Republicans seem more interested in passing a bill than winning the argument. They are unwilling to defend their ideas, even when dealing with the lives and deaths of their voters.

A shake-up in Riyadh

The tasks facing the new Saudi crown prince

Muhammad bin Salman should curb his impetuousness abroad and concentrate on reform at home

Jun 22nd 2017

WHEN King Salman acceded to the Saudi throne in 2015, it was plain that his son, Muhammad, wielded the real power. He may formally have been second in the line of succession, but Muhammad bin Salman (known as MBS) ran most of the things that mattered: the plan to transform the Saudi state and wean the economy away from oil; the war in Yemen and the wider contest against Shia Iran; and much else besides. When he gave his first on-the-record interview, to *The Economist* in January 2016, MBS spoke about Saudi Arabia in the first person—talking of "my borders".

On the face of it, the elevation of MBS to crown prince, replacing his older cousin, Muhammad bin Nayef, means only that his job title has caught up with reality (see article). Yet it rewrites the kingdom's strange rules of succession. Whereas power once passed along the line of ageing sons of King

Abdel Aziz Al Saud, the state's founder, it now goes down the blood line of King Salman. No one would be surprised if Salman, who is 81, were to abdicate in favour of his 31-year-old heir.

That the old brothers are no longer up to the task of running the kingdom is not in doubt. Saudi Arabia must prepare its youthful population (70% of Saudis are under 30) for a fast-changing world in which they will have to work for a living. Oil is likely to remain cheap for a long time, the politics of religion are tearing at the region, and many Arab states have collapsed into civil war. Yet rule by a callow, hot-headed prince could be just as dangerous as stagnation under a gerontocracy.

Intelligent, ambitious and willing to entertain new ideas, MBS shows much promise, but a worrying tendency to act rashly. Abroad, he pushed his country to intervene in Yemen's civil war. This is now in its third year and has reached a grim stalemate; Yemenis, already the poorest Arab nation, have become even more wretched through bloodshed, hunger and disease. MBS is also thought to be behind the recent diplomatic assault on Qatar. Saudi Arabia and several Arab countries have cut land, sea and air links with the emirate, on vague accusations that it supports terrorism (a charge often levelled at the Saudis, too).

At home, MBS presides over a country still too dependent on hydrocarbons. His gamble of allowing oil prices to fall to drive out high-cost producers failed. More recently, an attempt to support prices by co-ordinated production cuts has not worked either. Now the Saudis face the worst of all worlds: low oil prices and a falling market share for their crude.

This will make it harder for the prince to remake the Saudi state and economy. His plan, known as Saudi Vision 2030, is a radical programme of privatisation (cuts in subsidies and investments in non-oil industries). The first really big step is supposed to be the sale of 5% of the shares in Saudi Aramco, the world's largest oil company (see article). This would be the world's biggest listing—even if Aramco is worth less than the $2trn that MBS places on it. The company is streamlining itself to look more like a public company. Tax rates on Aramco's profits have been slashed from 85% to 50%, closer to international norms. But the prince's tendency to micromanage and play politics with the listing worries investors.

A young prince in a hurry

Saudis largely agree that their system of bountiful benefits and do-nothing public-sector jobs needs to change. But few welcome austerity. Faced with a backlash, the prince has revoked cuts in allowances and bonuses for civil servants; soldiers fighting in Yemen were given a two-month pay bonus. Some princes now mockingly call MBS *al-walad* (the boy). Despite these difficulties, or perhaps because of them, MBS is hurrying to consolidate his power. He may feel encouraged by the gung-ho way that President Donald Trump has aligned America with Saudi interests, as defined by MBS, supporting the isolation of Qatar against the better judgment of Rex Tillerson and James Mattis, the secretaries of state and defence.

Saudi Arabia matters immensely, both as a swing producer of oil and as the birthplace of Islam. It has avoided the bloody upheaval that has rocked the Arab world of late, but its stability is far from assured. So reform is urgent. MBS should share some power with modernising princes, while checking the excesses of religious reactionaries and the sprawling royal family. He should relax strict social controls, particularly on women, and encourage more debate and dissent. He should halt the pointless row with Qatar, and seek a political deal to end the war in Yemen. That way he can focus on his biggest task: turning his country's rentier economy into something more dynamic. Having created a huge job for himself, MBS will be judged on whether he creates lots of jobs for young Saudis.

Stop spoiling Hungary’s prime minister

What to do when Viktor Orban erodes democracy

Europe has the tools to make an autocrat back down

Jun 22nd 2017

IN 1989, during the dying days of the Soviet Union, a long-haired 26-year-old dissident called Viktor Orban addressed a crowd in Budapest’s Heroes’ Square. The charismatic young liberal told the Russians to withdraw from Hungary. He rejected “the dictatorship of a single party”. He called for free elections.

How things change. Today Mr Orban, Hungary’s prime minister, is one of Vladimir Putin’s closest friends in Europe. His country is increasingly dominated by one party, his own. Elections may be free, but they are not fair. Mr Orban has rewritten the constitution, dismantled checks and balances (“a US invention” unsuited to Europe, he says), muzzled the press and empowered oligarchs. Refugees, who supposedly threaten Hungary’s Christian identity, are beaten by police and mauled by police dogs. Debates over values, Mr Orban thinks, “unnecessarily generate social problems”. He wants to fashion an “illiberal state” modelled on China, Russia and Turkey.

Mr Orban has recently escalated his attack on Hungary’s remaining independent institutions (see article). In April his Fidesz party passed a law that threatens to close the respected Central European University in Budapest, which was founded by George Soros, a Hungarian-American philanthropist whom Mr Orban detests. Last week the government passed a law to force NGOs to disclose whether they receive foreign funds. Mr Orban’s creeping authoritarianism is not just a problem for Hungary. It is a direct challenge to the “fundamental values” of the European project—values that Hungary accepted when it ratified the Lisbon treaty. Where Hungary leads, others may follow; Poland already has. “We were black sheep, but now we are a success story,” Mr Orban crowed after the inauguration of Donald Trump, whose nationalism he admires.

For too long, the EU has turned a blind eye to Mr Orban’s excesses. Happily, that may at last be changing. There is talk in the European Parliament of stripping Hungary of its voting rights in ministerial discussions. For years Mr Orban has been lent a spurious respectability by Fidesz’s membership of the European People’s Party (EPP), a big group of centre-right parties in the European Parliament. Belatedly, the EPP’s leaders are publicly criticising Mr Orban; they should go further and kick Fidesz out of their club.

The EU should use upcoming budget negotiations to apply fiscal pressure, too. Hungary is a big recipient of the aid dished out to its poorer members, receiving nearly €6bn ($6.7bn) a year. More than 95% of public investment projects in Hungary are co-financed by the EU. In general the EU should stay out of members’ internal affairs, but governments that flagrantly violate democratic norms should face sanctions, such as receiving fewer handouts from EU structural funds. (German politicians favour similar sanctions for those, like Hungary, that fail to accept their share of refugees.) At the very least, the EU should do more to stop European taxpayers’ money from being stolen. The European Anti Fraud Office uncovered “fraud and possible corruption” amounting to €300m in the construction of just one subway line in Budapest (Fidesz blames the previous government). Hungary refuses to join the European Public Prosecutor’s Office, a new anti-graft body. Doing so should be a condition for receiving any more EU cash.

Hungary for justice

Some fret that if the EU confronts Mr Orban, he will try to turn Hungarians against it. But that would be a perilous strategy for him, and one he has already tried, with little success. Mr Orban has spent the past two years attacking Europe over its refugee policy, and has erected billboards across the country proclaiming “Let’s Stop Brussels!” Yet the EU remains popular. Three-quarters of Hungarians want to remain members of the union. More trust the EU than their own national government. A huge majority of Hungarians say it is “very important” to live in a place where democratic principles are respected, and while some do not think Mr Orban is violating them, others do. The memory of Soviet tanks on Hungarian streets still lingers; for many in Hungary, Europe represents freedom. The EU should not let them, or itself, down.

Letters

- **On Japan, Chinese officials, MPs, tax, tech-unicorns and punctuation: Letters to the editor** [Fri, 23 Jun 09:03]

Letters

Letters to the editor

On Japan, tech-unicorns, punctuation and more

Jun 22nd 2017

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

Japan and UN rapporteurs

The Japanese government fully co-operates with the UN's special rapporteurs ("Bristling with indignation", June 10th). However, like any other country, we may refute inaccurate comments if they make unilateral assertions. In 2015 the rapporteur on the sale of children admitted that there were no objective data supporting her estimate, after Japan challenged the figures. The report by a special rapporteur on violence against women contained evidence that later turned out to be a fabrication.

Recently, we complained about a letter written by a rapporteur on privacy, as the Japanese government had been given no opportunity to explain its position before he publicised the letter. We pointed out that the draft bill to fulfil the obligations of the UN Convention against Transnational Organised Crime is restrained in comparison with the domestic laws of the treaty's 187 parties.

On the recent report by the rapporteur for freedom of expression, with whom we have already been in touch, let me emphasise that the Japanese government has been and will remain fully committed to freedom of expression and freedom of the press.

NORIO MARUYAMA
Press secretary
Ministry of Foreign Affairs of Japan
Tokyo

China's unfeeling officials
Just as bricking up Salary Alley in Beijing is a microcosm of changes in China's urban planning, so the careless, if not ruthless, manner in which it was done also reflects the usual official haughty stance in handling domestic matters ("Hollowed-out hutong", May 20th).

Such attitudes are only to be expected when local governments are bound by targets, deadlines and appraisal ratings set by senior policymakers, instead of being answerable to the public. It brings about a blind obedience to grand political schemes, such as the effort to limit Beijing's population to 23m people. But it also foments disdain towards public servants, who seem to be aloof most of the time and turn oppressive when pressed from above.

Obsessed with his fight against corruption in the past four years, President Xi Jinping should take a moment to recall a lesson from his teenage years. It's not always the venal governors who plague the nation: the callous ones do as well.

LIU YIKE
Yueyang, China

The best and the brightest
Bagehot is right that we need higher-calibre MPs in Parliament (June 10th). However, his belief that academic achievement is the best indicator of leadership talent is misplaced. Harold Wilson's cabinet in the mid-1960s had seven first-class degrees from Oxbridge, but collapsed into chaos by 1970. Neither of our two great war-leaders, David Lloyd George and Winston Churchill, nor the finest foreign secretary of the 20th century, Ernest Bevin, attended university.

Diversity is important, but let us broaden the definition of "those who have already succeeded in their professions" to include head teachers, police and army officers, health professionals, entrepreneurs, regional leaders, the heads of voluntary organisations, sportsmen and women and those from the creative industries.

What we definitely do not need are more Oxbridge-educated special political advisers, ambitious alumni of Goldman Sachs and McKinsey, or, for that matter, journalists. "Smarts" generally lack nous, and all too often lack integrity, as the past decade has decisively shown.

ANDREW MITCHELL
London

Blockchain melody

* In your piece about blockchains being used by governments you mention a number of tests and trials ("Land Grab", June 3rd). The States of Alderney have provided government timestamping on mutual distributed ledger (aka blockchain) technology since 2015. This service, called MetroGnomo, is open to all of Alderney's inhabitants, and also free globally, as part of our research into the applications and governance of distributed ledger operations. It uses Z/Yen Group's ChainZy ledgers and in its first year, recorded 8.2 million events, most of them from clinical assessment systems, but also contractual timestamps and index timestamps. Over the years it has developed into a successful international gaming regulatory service. There is similar potential for distributed ledgers and we are actively developing our skills to meet the future regulatory needs for this technology.

ROBERT McDOWALL
Former Chairman of the Policy & Finance Committee
The States of Alderney
Alderney, Guernsey

Tax point

"An ORSome wheeze" (May 27th) painted a highly jaundiced portrait of Hong Kong's Occupational Retirement Scheme, suggesting it is used by the "rich and tax-shy". However, Hong Kong has taken a robust approach to the Common Reporting Standard on tax evasion. The real concern is about the appalling standards of data protection of taxpayer-information among many of the CRS's nearly 100 signatories.

If you are a wealthy person living in a developing country (and yes, there are many) then you have a legitimate worry that your private data—for example the account numbers, sort codes and current balances of your foreign bank accounts—will end up in the hands of corrupt civil servants, thieves or kidnappers. This is the real reason the "rich" are frequently seeking out countries with sensible CRS-implementation policies.

To conflate an understandable desire to preserve confidentiality with an intention to evade tax is simplistic and misleading. Life, as always, is far more complex.

JAMES QUARMBY
Partner
Stephenson Harwood
London

Merger mania
* Your article on mergers in the chemical industry ("Chain Reaction", May 27th) identified a number of important concerns about the current wave of mergers, in particular, amongst agrochemical companies. However, you highlight the role of regulations in driving up the costs of bringing new

agrochemicals to market without delving into the historical reasons for this increase in regulation. Ecological disasters like DDT and growing concerns about neonicotinoid pesticides, both approved under less stringent regulatory regimes, illustrate the costs of inadequate testing.

This raises one other point of concern about the current wave of corporate consolidation. While the advantages of scale in research, development, and marketing as a driver of the mergers were addressed, it neglects another key advantage which increasing scale provides, namely increased strategic and financial capacity to lobby for reduced regulation. For example, the planned acquisition of Monsanto by Bayer is anticipated to put one company in control of 93% of canola seed sales in Canada, putting the company in a strong position to negotiate with regulators. The impact of this example and future mergers, which collectively risks making key companies in food supply chains too big to fail and also potentially too big to regulate, should give everyone pause, not just farmers and environmentalists.

KATIE SANDWELL
Transnational Institute
Amsterdam

Alice in IPO-land
Most tech unicorns, which are individually worth at least $1bn, do not generate a profit, instead focusing on revenue growth at all costs ("Not the enemy", May 27th). As the red ink flows some investors hope they will one day rein in costs, while others believe they have tapped into providing a service to customers who are accustomed to receiving things free.

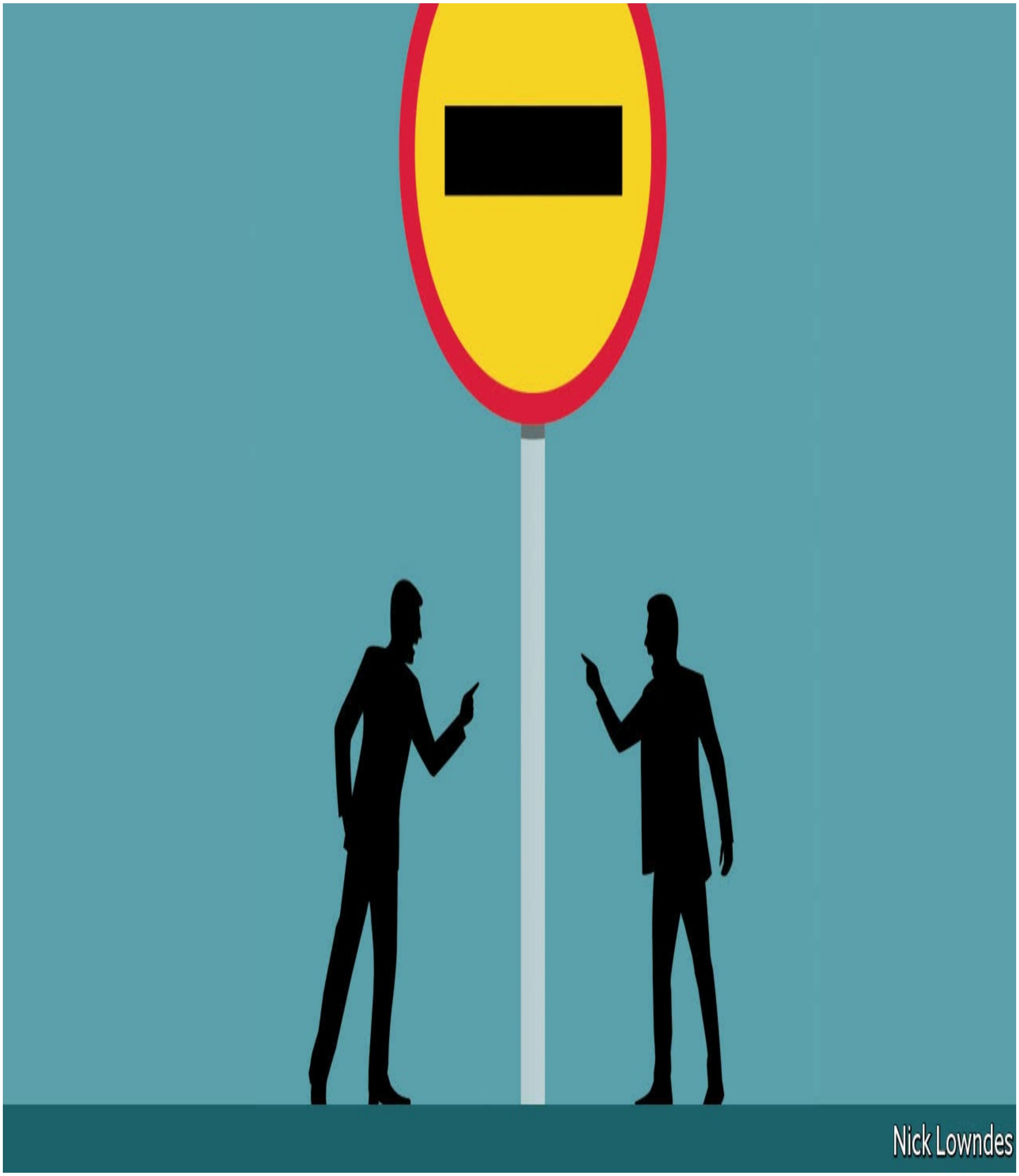
Tech unicorns have survived in this twilight zone of capitalism because interest rates have been under 1% since 2008. Institutional investors starved of returns have flocked in droves to riskier asset classes, such as private startups. This has ballooned their valuations within the private market.

But all that must and will eventually come to an end, and the many retail and less sophisticated investors who tend to get caught up in the glitzy hype of unicorn initial public offerings on the stockmarket should not be left holding the empty bag.

Companies such as Zynga, Twitter, Groupon and GoPro have been epic failures post-IPO, their share prices trading 75% below their all-time highs. Many less visible unicorns have had a similar fate, albeit only after seed investors have reaped the benefits.

There was once a time when only the owners and founders of private businesses that had established consistent profits and practised good governance were rewarded with the successes of an IPO. Perhaps we should all return to those times of accountability rather than expect the public markets to teach the unicorns common sense.

ALEJANDRO PERELLÓN
New York



I must dash

Johnson's welcome article about hyphens (June 10th), leads me to suggest that you follow up with a piece about commas, which your newspaper does not use enough of, in my opinion.

RICK GREER
Morristown, New Jersey

Johnson’s ruminations over punctuation reminded me of the pedantic editor who agonised over whether to use a hyphen in “anal-retentive”.

GEORGE KOVAC
Miami

* Letters appear online only

Briefing

- **India’s economy: The constant tinkerer** [Fri, 23 Jun 09:03]

The constant tinkerer

Narendra Modi is a fine administrator, but not much of a reformer

Tax reform does not go far enough; land and labour reforms have barely been tried

Jun 24th 2017 | MUMBAI

FEW countries would see a tax requiring some businesses to file over 1,000 returns a year as an improvement. But India might. A nationwide Goods and Services Tax (GST) is set to come into force on July 1st. It will replace such a tangle of national and local levies and duties that even the prospect of 37 annual filings (three a month plus an annual return) for each of India's 29 states in which a business operates is a relief by comparison.

By replacing domestic tariffs, the new tax should rid India of checkposts at internal borders, where lorries carrying goods typically languish for hours. Less red tape, however, comes with complications. Most countries with a value-added tax settle on a single rate for many goods and services. India has opted for six, ranging from zero to 28%. Officialdom decrees, for example, that shampoo, wallpaper and fizzy water are luxuries to be taxed at 28%;

eyeliner, curry paste and plain water will attract an 18% levy. Restaurants will pay 12%, unless they are small (5%) or air-conditioned (18%).

Hopes that liberalising reforms would breathe new life into India’s economy have permeated the air since Narendra Modi swept to power as prime minister in May 2014. But the GST is perhaps the most obvious example of an opportunity wasted. Economists think a simple GST, which would have ensured businesses focus on goods and services that consumers want rather than those favoured by the tax code, might have added two percentage points to GDP growth. The complicated version will probably yield less than half that and only after a painful transition.

When Mr Modi was elected many business leaders (and this newspaper) winced at the sectarian and polarising bent of his Bharatiya Janata Party (BJP). However, they also saw him as a reformer promising “minimum government, maximum governance”. Three years on, those hopes are fading. His supporters had hoped he would reshape the economy. They thought he was the leader to rekindle the short-lived enthusiasm for liberalisation of 1991, when India faced bankruptcy. They hoped that the state apparatus would be aimed away from trying to do everything (often badly) and towards providing basic services, such as education, health care, a functioning market for land and labour, a working judiciary, and a stable and predictable regulatory environment in which the private sector could create jobs.

Mr Modi has shown that he is an astute administrator of the economic machinery he inherited. Corruption seems to have abated, at least at the highest levels of government. But he has demonstrated little appetite for the reforms which would bring sustained growth of the sort that could transform the lives of India’s 1.3bn citizens. The few Mr Modi has carried out must be weighed against those he has botched, the areas that have gone without reform, and the sticking plasters that cover up the effects of bad policy rather than deal with their causes.

Economist.com

Mr Modi does deserve credit for bringing macroeconomic stability. Perennial scourges such as double-digit inflation and ballooning current-account deficits have been absent. India has until recently grown faster than all other big emerging economies (see chart 1), though plenty question the veracity of its GDP figures. The sporadic liberalisation of investment rules has helped to attract record amounts of foreign cash, albeit from an abysmally low level. The stockmarket has boomed. Tech giants such as Apple and Amazon see India as the next frontier.

Luck and judgment

This is down to a mix of good fortune and good sense. The luck is oil. India is a huge importer and prices have tumbled from well over $100 a barrel in May 2014 to less than half that now. Analysts estimate that this alone has boosted GDP by 1-2%. Mr Modi also benefited from the tenure of Raghuram Rajan, a respected central-bank governor appointed by the previous prime minister, whose inflation-targeting regime has helped keep prices in check. (Mr Rajan was, in effect, sacked by Mr Modi in 2016.)

Mr Modi should also receive credit for sensibly using the oil windfall to pare fuel subsidies and keep the budget deficit mostly in check. Growth of 7% or so is nothing to scoff at. But Mr Modi's ministers speak of an economy expanding by 8-10% a year, if not more—the sort of rates necessary to absorb the 1m Indians who enter the labour market every month. Achieving this would require deep and broad reforms.

A couple of initiatives show some promise. A new bankruptcy law, introduced in May 2016, may enable the enforcement of lending contracts. India's judicial system is broken: more than 24m cases are pending, nearly 10% of them for over a decade. As a result even basic legal procedures, such as a bank seizing the assets of a company that has defaulted on its loans, have proven all but impossible to apply. Many lenders are waiting to see how the new law works in practice before hailing it as a success.

Mr Modi has also championed a nationwide biometric scheme known as Aadhaar, which has made many Indians visible to the state for the first time. Linking digital identities to mobile phones and bank accounts has made it possible to get subsidies straight to the needy, cutting out venal intermediaries, who in the past pilfered up to three-quarters of the money in the system. The gains made from Aadhaar could end up being sizeable.

Add in the GST, along with its many drawbacks, and in terms of big reforms since Mr Modi took office, that has been it. The problem is not that the prime minister lacks boldness. The most eye-catching economic initiative of the past three years, the surprise "demonetisation" of large-value banknotes in November, which at a stroke withdrew 86% of all currency in circulation, was certainly brave. But that did not make it sound policy. A lack of planning and unclear objectives mean the exercise has damaged the economy; its potential benefits remain hard to judge.

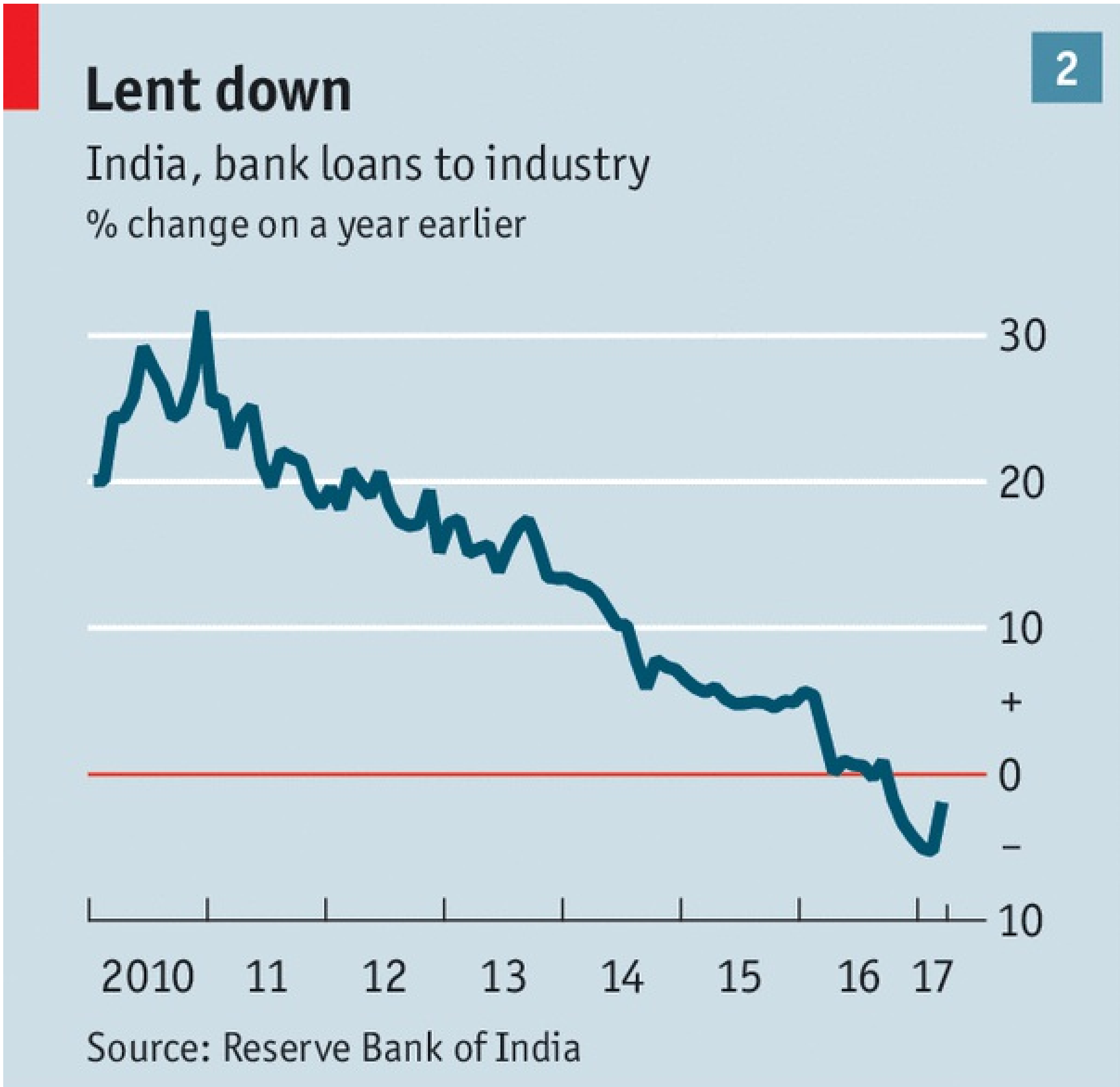
Despite an ensuing cash vacuum that caused distress, particularly in rural areas, it seems to have paid off politically. The BJP thumped opponents in local elections in February in Uttar Pradesh, India's most populous state. Poor Indians queued for days on end to exchange old banknotes but were apparently consoled by claims that the rich were suffering far more (they were not).

The problem is that Mr Modi has shown little bravery elsewhere. Too often, he ducks essential reforms. When courting voters he talked tantalisingly about relinquishing the commanding heights of the economy to the private sector. "I believe that government has no business to be in business," he proclaimed. But the much-discussed privatisation of state-owned firms has yet to take place. The state still makes everything from prefabricated housing and condoms to fighter jets that even its own armed forces refuse to buy.

Mr Modi's cautious approach has most obviously been found wanting in his dealings with India's ailing financial system. State-owned banks account for 70% of all loans but are in dire straits after having extended credit to large industrial groups which went on to finance projects that failed to pay off. Around 20% of loans are either not being repaid or are likely to require restructuring. The government has known about the problem for years but has done little to resolve it.

Delhi-dallying

The upshot is that lending to industry, which once grew at a cracking rate of 30% a year, is now shrinking for the first time in two decades (see chart 2). Infrastructure projects are stalled for lack of cash and corporate India is in the doldrums. A comprehensive solution would be to let the public shareholding of banks fall below 50%, so they can be run as private companies. Instead, the quasi-bureaucrats running them are reluctant to restructure loans that are heading for default, lest they be accused of using public funds to aid tycoons.



Economist.com

More broadly, the state has remained front and centre in the economy, a position it shows no intention of giving up. There has been no reform of dysfunctional markets for land, labour or capital. If a business needs land, it must woo a state government which controls some, lest legal challenges on private-land purchases keep it tangled up in court for decades. State chief ministers allocate land in much the same way the “licence raj” of old doled out production quotas.

Such opacity and discretion in areas of great importance to the private sector is a recipe for politicians to "pick winners"—or demand bribes. Liberalising land laws was briefly a priority for Mr Modi's administration. But progress stalled and the tricky task was handed down to states, which share responsibility for land regulation. Only a handful have enacted reforms.

On the labour market, plans are afoot to consolidate over 40 central laws into four codes but not to repeal rules that have made companies reluctant to expand. Larger firms face stricter regulations, with predictable consequences. Only a tenth of manufacturing workers in India toil in factories with more than 200 employees, compared with over half in China. "Labour is India's most abundant resource but the organised sector, which should be the engine for creating good jobs, has been heavily biased against using it," says Vijay Joshi of Oxford University in "India's Long Road", a new book.

Staff cutbacks in some industries need the approval of the authorities. It is seldom granted; again, only a few states have picked up the baton that the centre has dropped. The costs of inaction are obvious. Around a third of young Indians are not in education, employment or training. Labour-participation rates are low, especially for women. Meanwhile, only a tiny minority of staff who are formally employed by registered firms actually benefit from the proffered workers' rights.

More fundamentally, India lacks the capable and healthy workforce it needs to thrive. Educational standards are woeful but the government has done little to change a system where teachers bribe their way into jobs from which they can never be fired. Health care is largely in the hands of the private sector, not out of ideology but because the government has long done such a lousy job of providing it.

Capital is still viewed with a measure of suspicion and regulated accordingly. Gone are the days when ministers could press bankers into lending to their industrialist chums. But the heavy hand of the state lives on in the obligation of banks to make at least 40% of all loans to "priority sectors" such as farms and small businesses. This is on top of about 20% of banks' lending capacity that the government commandeers for its own borrowing.

Such resolve as Mr Modi has shown has proved the exception rather than rule. To the surprise of his supporters and critics alike, Mr Modi's searing rhetoric has been translated into incrementalism. “We elected a radical, we got a tinkerer,” rues a banking boss.

Where Mr Modi has acted it is often to tackle the symptoms of bigger problems rather than the problems themselves. His economic credibility was built during his 12-year stint as chief minister in Gujarat. His pet projects yielded tangible returns: electricity provision was improved, new roads laid, foreign investors glad-handed and bureaucrats kept honest.

As prime minister, Mr Modi has kept the focus on smaller projects at the expense of broad reforms. The government has proved adept at dealing with the consequences of bad policy rather than recasting policy itself. Power is a telling example. One government scheme put forward by Mr Modi bailed out state-owned electricity-distribution firms at vast expense, because their weak financial position was hampering efforts to electrify rural India.

The electricity firms remain fundamentally unprofitable, however, because authorities refuse to end the practice of giving farmers free power or to crack down on widespread theft by consumers (whose votes politicians crave). To avoid depending on the state grid, 40% of Indian firms therefore go to the bother and expense of generating their own electricity—building power plants and even sourcing coal.

Railways are receiving more investment, but fares remain absurdly cheap for political reasons. This means freight prices are pushed up, which then nudges companies to use roads instead. As a result, logistics costs in India are three to four times international norms (and often bigger than wage bills), hurting exports.

Modi’s operandi

The prime minister’s approach is not sweeping reform but the endless unveiling of small-bore government schemes. By one count there have been nearly 100 in the first half of his five-year term. These are hard to miss. Each is accompanied by a public-relations blitz and billboard adverts inevitably featuring Mr Modi. From encouraging more housebuilding to irrigation schemes, improving tourism infrastructure or providing subsidised loans to women to buy vans, many probably do more good than harm. But they are often aimed at providing a quick fix to a symptom of economic malaise, rather than tackling a thorny underlying cause.

The glitzy “Make in India” campaign, designed to lure foreign manufacturers, is a good example. It has loudly proclaimed the country open for business, organising conferences and photo-opportunities for Mr Modi and foreign bosses. This signalling is no doubt useful, but little has been done to tackle the shortcomings that discourage foreigners from building factories in India in the first place.

Progress on making it simpler for firms to operate has been slow. India places a lowly 130th out of 189 in the World Bank’s ease-of-doing-business ranking. Most economic activity takes place in the shadows: around nine in ten workers toil in informal jobs. One of the aims of demonetisation was to bring more of India into the open. If it has achieved that, it is only by clobbering the informal sector rather than helping the formal one.

Firms prefer to remain small because scale makes them vulnerable to corrupt officials squeezing them for bribes (or liable to filling out yet more tax returns). The country has only 270 companies with sales over $125m, compared with 1,295 in Brazil, 3,430 in Russia and 7,680 in China, according to McKinsey, a consultancy.

That is not surprising, as India still throws up the kind of regulatory surprises businesses loathe. The threat of retroactive tax rulings that claw back foreign companies’ gains, a frequent occurrence under previous regimes, is not entirely gone. Companies deemed to earn excessive profits are hounded: makers of stents, pharmaceuticals and seeds have been forced to cut prices recently.

Mr Modi’s allies are adamant that their many schemes add up to a substantial change of direction for the country. But after the headlines are printed, many come to nothing. A plan to improve the skills of 500m Indians by 2022 has been hastily dropped. A 400bn-rupee ($6.2bn) public-private fund unveiled in December 2015 to finance infrastructure is reportedly yet to find a single investor or project. “This government moves from decision to decision, without checking performance or compliance,” says a retired bureaucrat.

Arun Jaitley, India’s finance minister, begs to differ. “No government in India has reformed as much as this one,” he says. Allowances must be made for the limited resources of the state and India’s vast population, argues Mr Jaitley. But what of reforms to land, labour, tax and so on? “*The Economist* does not need to win votes. The BJP does.”

Are more reforms in the pipeline, Mr Modi?

The answer will cheer those who think that Mr Modi is a reformer at heart and that he is simply biding his time until he secures a second term in May 2019. With even senior ministers relegated to the edges of a policymaking machine run by a tight group around him, few people know what Mr Modi has in mind. But most conclude that his core beliefs are already in evidence. And with the economy ticking along nicely thanks to the oil dividend, overhauling it has not required, or received, much attention.

Sub-continental drift

That may have to change. GDP growth unexpectedly faltered in the latest quarter. The sag seems to have begun before demonetisation but has surely been aggravated by it. Statistics showing the creation of ever fewer jobs in the formal sector have added to a recent sense of economic malaise. Political attacks on the government's job-creation record are common.

The response so far has not been a new resolve to reform India permanently but a swerve to economic populism. Rules issued in May to protect cows (which are considered sacred by Hindus and championed by the BJP's Hindu-nationalist backers) have put in jeopardy a large and growing buffalo-meat export industry (see article), as well as dairy and leather producers. State governments are caving in to demands for farmers' loans to be forgiven, a policy that will bring short-term relief but make it harder for farmers to borrow in future. It could also add two percentage points to the fiscal deficit, single-handedly nullifying the hard-won consolidation of recent years.

Even Mr Modi's backers fear more erratic decision-making as the government aims to prove it is "doing something". That would be an expensive way to conceal an absence of reform. Time is running out to enact genuine change. If he continues in this vein, Mr Modi will leave India a little better off but otherwise not much different from how he found it.

United States

The art of the deal

The promise and pitfalls of privatising public assets

Privatisation can increase efficiency and spur investment. It can also go wrong

Jun 22nd 2017 | WASHINGTON, DC

DONALD TRUMP ran for office promising to spur the private sector to rebuild America's roads, bridges and airports. But it seems that Republicans want to start their modernisation in the sky. On June 21st House Republicans unveiled a bill that would privatise air-traffic control, a policy the president announced earlier this month. If the administration is to be believed, this is just one of many privatisations that could increase efficiency and encourage infrastructure investment. Could such a national sell-off work?

Unlike much of the world, America has never seen a big push to privatise. That is partly because America did not see a wave of nationalisations after the second world war, as countries like Britain did. As a result, it has few public assets, like airlines or telephone companies, that are obvious candidates to be sold. An exception is land owned by the federal government, which covers 28% of the country. Another is the Tennessee Valley Authority, a public electrical utility established as an economic development project after the Great Depression. (President Obama entertained privatising the TVA during his second term, but did not get round to it.)

Yet America is hardly at the forefront of private infrastructure ownership, either. Its airports, for example, are mostly publicly run, whereas in European cities such as London multiple privately owned airports compete. Though America's railway tracks are privately owned, its national passenger services are all run by one lumbering state-owned firm, Amtrak. And air-traffic control is choked of investment by the annual budget process. Countries like Canada have turned their systems over to self-funding, non-profit bodies, which are investing in technology. Tracking aircraft with satellites rather than radar may soon allow planes to fly closer together on some routes. America is already five-to-ten years behind, says Bob Poole of the Reason Foundation, a free-market think-tank.

Privatisation works when firms can run assets or services more efficiently than the government can, or when competition between firms can bring down costs over time. Sometimes it is easier for private companies to set prices properly. For example, America's airports charge planes to land in proportion to their weight; were they privately owned, they would probably base price on runway congestion, which small planes are prone to cause.

Privatisation can also provide a cosmetic accounting benefit, by keeping costly infrastructure investment from pushing up deficits. This may lie behind the administration's wish to encourage "asset recycling", a term coined in Australia. The idea is to lease one piece of infrastructure, such as a toll road, to investors, and spend the money raised on something new.

Cheerleaders for asset recycling envisage states leasing stretches of the sprawling interstate highway system to private tolling companies, raising vast sums for new investment. This has not happened much before, partly because a law from 1956 bans tolls on many interstate roads. But much of the system is now at the end of its intended lifespan and politicians are mostly unwilling to raise petrol taxes sufficiently to replace or upgrade it. So lifting the ban on tolls seems appealing.

Whether asset recycling works depends on the details of any given deal. It has a mixed record. In 2006 Indiana sold a 75-year lease on a 157-mile (253km) toll road in the north of the state for $3.8bn. The funds were invested in other roads. The state built 413 miles of new highway and resurfaced another 4,000. The firm that bought the toll rights overpaid and went bankrupt in 2014. But other investors have since taken over the lease, with no noticeable downsides for drivers, according to Aaron Renn of the Manhattan Institute, a think-tank. In fact, the public purse benefited from the overpayment.

But it is equally easy for the taxpayer to end up on the bad side of a deal, and for an unwieldy monopoly to be created. In 2008 Chicago leased its parking meters to a consortium for 75 years for $1.2bn, a price that was almost $1bn too low, according to a report by the city's inspector-general. Big rises in parking charges caused a public backlash, while the city lost the right to change parking policies without compensating investors. Worst of all, rather than being invested in new assets, the money raised was used to plug the city's short-term deficits.

Avoiding the temptation to squander the proceeds is the first challenge for any privatisation. It is also important to get the length of the lease right. Very long-term deals are likely to have to be renegotiated, says José Gomez-Ibanez, of Harvard Kennedy School, because circumstances change. The public must also be won over. The ideal model for roads would be to impose tolls only once they have been repaired, says Mr Poole.

It would be up to the states to get such details right. They own most of the relevant assets, like the interstate highways (though these are regulated in Washington). The federal government's role would be to help, or just to get out of the way. During his campaign, Mr Trump promised to provide $167bn in tax credits to the private sector to encourage investment. His administration also recently promised to allow more private infrastructure projects to issue tax-free debt, much as cities can while they are in charge.

The problem, though, is not a lack of willing investors, says Mr Poole. Infrastructure funds will jump at the chance to invest in American projects, as will pension funds seeking long-lived assets. The problem is a lack of opportunities. The logical place to start, then, would be to expand existing pilot programmes. In 1996 Congress set up such a scheme for privatising airports. Only one, in San Juan, Puerto Rico, has so far taken advantage of it. Similarly small pilots exist for putting tolls on interstate highways. The White House has also said that it is considering encouraging states to privatise assets by paying them a bonus for doing so.

The privatisation push may not succeed; it will certainly spark political opposition. (The air-traffic control proposal is said to have too little support to get out of committee in the Senate.) If it does go ahead, America's infrastructure will probably benefit. But do not expect every deal to go well.

Boundary police

Is partisan gerrymandering unconstitutional?

A Supreme Court case could rejig electoral lines for 2020

Jun 22nd 2017

Economist.com

THE Supreme Court will hear a case in the autumn that puts a new spin on an old scourge: partisan gerrymandering. In recent years the justices have cracked down on electoral districts drawn by politicians along racial lines. A ruling in 2015 held that Alabama had violated the 14th Amendment's equal-protection guarantee by packing too many black voters into state electoral districts, diluting their influence in neighbouring areas. Last month, in *Cooper v Harris*, the court reprimanded North Carolina for doing the same in two legislative districts. But the justices have looked the other way when districts are drawn with party advantage rather than race in mind. Partisan gerrymandering may be "unsavoury", as Justice Samuel Alito puts it, but it has not yet been held to offend against the constitution.

Gill v Whitford, one of the most important cases the justices will hear next term, calls Justice Alito's view into question. The timing is key. With the 2020 census round the corner, new electoral maps will soon be on the draughtsman's table. If the challenge to hyper-partisan line-drawing succeeds, it could tighten the link between voter preferences and who gets elected.

America has strayed further from this ideal in recent years, and it is mainly Democrats who have suffered as a result. After an electoral surge in 2010, Republicans used their new-found control of state legislatures and governor's mansions to redraw district boundaries. In races for the House of Representatives in 2012, well over 1m more voters opted for Democrats, but Republicans wound up with a 234-201 majority. The phenomenon was even more pronounced in state elections. In Wisconsin 51% of voters picked Democrats in the 2012 state legislative contests, but Republicans took 60 of the 99 Assembly seats. Democrats tend to bunch together in cities anyway, but partisan gerrymanders can make their under-representation worse.

The plaintiffs in *Gill* say these skewed outcomes stem from "pinpoint-precision technology that sliced-and-diced American communities." REDMAP, as the Republican redistricting programme was called, did not conceal its goal to "maintain a Republican stronghold in the US House of Representatives for the next decade". Until now, this strategy has been constitutionally kosher. In 1986, the Supreme Court turned back a challenge to partisan line-drawing. Eighteen years later, four justices insisted it was impossible to determine when politically motivated district-drawing crossed a constitutional line, while the four liberal justices each floated a standard for doing just that. The decisive vote came from Justice Anthony Kennedy, to this day the court's centre of gravity, who rejected each of the liberals' proposals but refused to give up hope that one day, in another case, a red line might be found.

Eric McGhee, a political scientist, and Nicholas Stephanopoulos, a law professor who is advising the plaintiffs, think they have found what Justice Kennedy wanted: a way of measuring the extent of the partisan imbalance. In all elections, the losing candidate gets some votes and the winning candidate gets more votes than he needs to win; these are all so-called "wasted votes". Subtract one party's wasted votes from the other's, and then divide that difference by the total number of votes cast. This yields an "efficiency gap". If it is large enough (7% or higher, they say), one party can be said to hold a "systematic advantage" over the other. In Wisconsin, the efficiency gap has been as high as 13%.

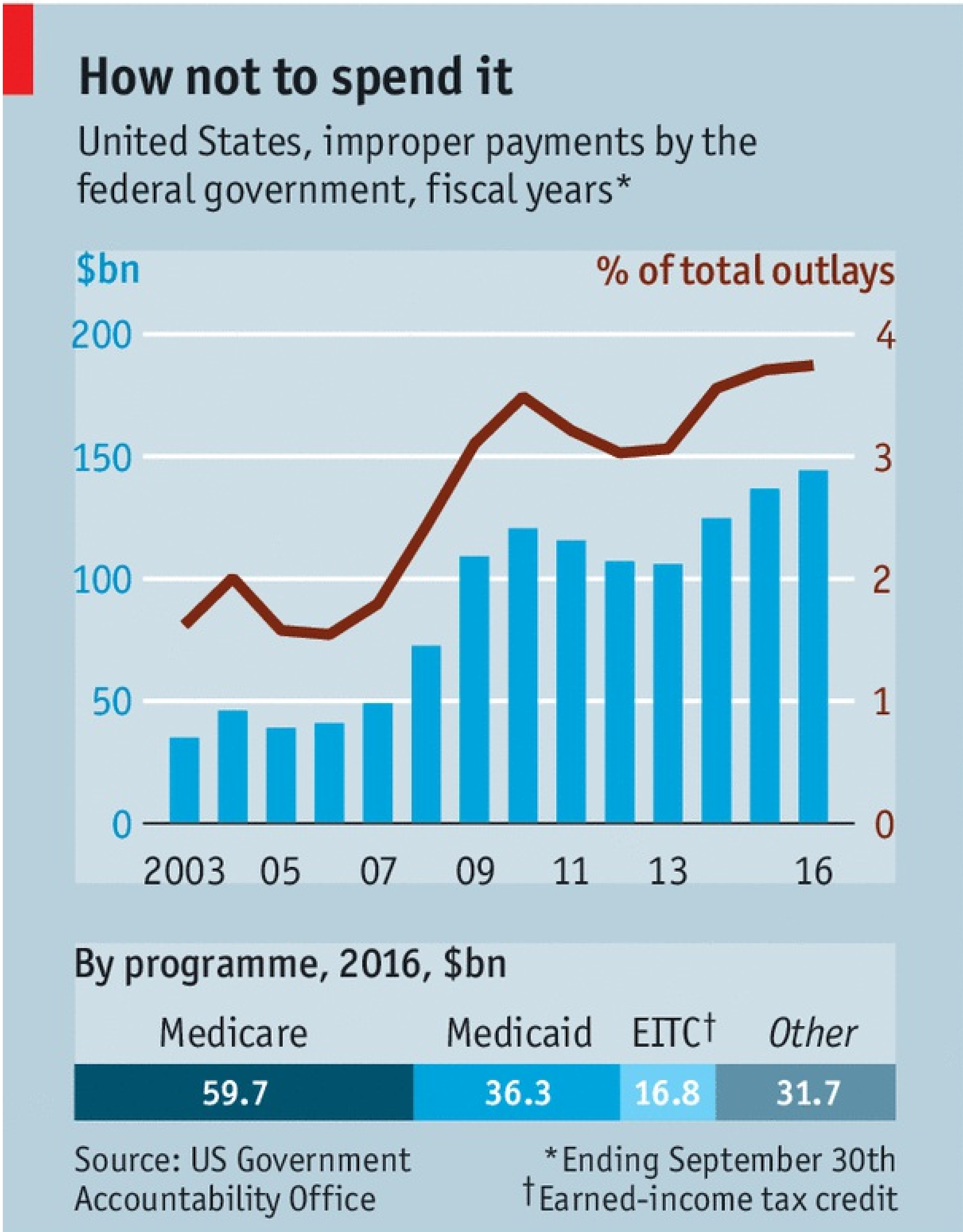
Will Justice Kennedy, who lamented in 2004 that legislators were "in the business of rigging elections", find a way to curb them in *Gill*? In an early possible sign to the contrary, he joined the four conservative justices on June 19th in putting the lower court's ruling on hold pending the Supreme Court's ultimate decision. But his earlier opinion inspires another view. If "workable standards" for unrigging elections were to surface, he wrote, "courts should be prepared to order relief".

Uncle Sam overpays

Why cutting even wasteful spending is so hard

Donald Trump is repeating promises made, and not kept, by Barack Obama and George W. Bush

Jun 22nd 2017



Economist.com

HE WAS known as "Mr Social Security". Eric Conn, a disability lawyer fromPikeville, Kentucky, gained notoriety in his impoverished part of Appalachia for his ubiquitous billboards and flashy TV commercials, which featured Rolls-Royces, beauty queens and a 19-foot replica of the Lincoln Memorial. But what earned Mr Conn his nickname was his uncanny ability to secure Social Security payouts for nearly 100% of his clients. Mr Conn's luck has since run out. In March, the 56-year-old lawyer pleaded guilty to defrauding the government of $550m in federal disability benefits, the largest case of Social Security fraud in the country's history.

Although scams like these outrage lawmakers and taxpayers alike, they represent just a small fraction of the billions in excessive, unnecessary and illegal payments made by the federal government. In the past decade these improper payments have increased by more than 250% (see chart). Donald Trump has vowed to cut them in half over ten years. Past efforts suggest that doing so will not be easy. In 2010, Barack Obama vowed to reduce wasteful, fraudulent and abusive payments by $50bn. Nine years earlier George W. Bush set a goal of eliminating them entirely. Neither president succeeded.

The federal government doles out $3.1trn every year, not far short of Germany's annual GDP. Most of these funds are disbursed without a hitch. But when payments are made to the wrong person, in the wrong amount, or with invalid documentation, they are deemed "improper". According to the Government Accountability Office (GAO), a congressional watchdog, such payments totalled $144bn in 2016, nearly four cents out of every federal dollar spent. Many of these payments are legitimate: missing paperwork does not necessarily denote an undeserving recipient, and underpayments as well as overpayments can be deemed improper. But a portion is fraudulent. Deloitte, a consulting firm, reckons it could be as much as a third.

Agencies that spend large sums of money with little scrutiny are particularly vulnerable. Medicare, the public-health programme for the elderly, processes 1.2bn medical claims each year, collectively worth over $600bn. Medicaid, the health-insurance scheme for the poor, pays out another $350bn. To ensure patients receive treatment in a timely fashion, both programmes are required to pay doctors, hospitals and other health-care providers within 30 days. Handling such an enormous volume of transactions requires automated systems designed for speed and efficiency, not accuracy. Fraudulent claims often go undetected. In 2016, 10% of Medicare and Medicaid outlays, equal to $96bn, were spent on services that were not delivered, were unnecessary or were otherwise erroneous.

Programmes that rely on self-reported, unverified information are also susceptible to fraud and waste. In 2016 the earned-income tax credit (EITC), a wage subsidy for low-income workers, paid out $67bn in refunds to 27m taxpayers. Whereas EITC benefits come out of the Treasury's coffers, eligibility for the tax benefit—which is based on income and a number of other variables—is determined by taxpayers themselves and cannot easily be verified. The IRS is not allowed to correct erroneous EITC claims automatically and it lacks the resources to audit more than a small fraction of households that receive the benefit. As a result, the IRS estimates that in 2016 nearly a quarter of all EITC payments, totalling $17bn, were issued improperly.

Many of the incentives that dictate how the government spends federal tax dollars tend not to prevent fraud and waste but to encourage it. The private contractors employed to pay the government's health-care bills are under pressure to process claims as quickly and inexpensively as possible. As Malcolm Sparrow of Harvard's Kennedy School of Government points out, "The cheapest way to process a claim is to pay it without question." Lawmakers are reluctant to boost spending on fraud investigation and enforcement—despite returns on investment as high as 500%—for fear that such measures might delay legitimate payments to providers or beneficiaries. "They want to get benefits out the door," says Beryl Davis, the GAO's director of financial management.

Officials say they are getting cleverer at reducing wasteful spending, and are moving away from a "pay-and-chase" model, in which auditors scramble to recover money spent on fraudulent claims, towards one that prevents such payments from being made in the first place (which is what credit-card issuers do). In 2012 the Centres for Medicare and Medicaid Services (CMS), the agency that administers America's two public health-care schemes, spent $40m on software that screens and verifies health-care providers, using thousands of private and public databases. The year before the agency shelled out another $77m on a fraud-detection system that scans real-time claims data for suspicious billing patterns, and flags those most likely to be fraudulent. The Office of Management and Budget has a "Do Not Pay List" to help agencies verify the eligibility of firms and individuals before sending them money. The results have been underwhelming. The new CMS screening tool was supposed to keep illegitimate providers out of the system, but the GAO estimates that more than one in five Medicare providers lacks a valid address; nearly one in ten is based out of the equivalent of a UPS store.

As for Mr Conn, the lawyer, he slipped away from house arrest on June 2nd; his ankle tag was found in a backpack by the Interstate 75 near Lexington, Kentucky. He remains at large.

| Section menu | Main menu |

Children's welfare

Adoptions in America are declining

Meanwhile, more children need foster care

Jun 24th 2017 | CHICAGO

SHOULD state-funded adoption agencies be able, for religious reasons, to turn down prospective parents? An increasing number of states say they should, or are beginning to consider it. South Dakota has had such a law since March; Alabama's governor signed a version in May; the governor of Texas, Greg Abbott, has a bill on his desk awaiting signature. Opponents argue that such laws discriminate against couples who are non-Christian, gay or unmarried. These proposed laws also reflect a mismatch in the supply of infants and demand for adoptions.

As the teenage pregnancy rate has fallen and the stigma attached to single motherhood has faded, the number of babies placed for adoption has declined. In 1971, 90,000 children were placed. By 1975 the number had fallen by half, mainly because of the legalisation of abortion in 1973. In 2014, only 18,000 infants under the age of two were placed for adoption.

Meanwhile, adopting from abroad has also become harder. According to the State Department, almost 23,000 children were adopted from abroad in 2004; last year, only 5,400 were. Unicef, Save the Children and other international charities consider such adoptions a last resort; relatives and local adoptive parents are preferred. Russia has closed all international adoptions to American citizens as a response to Western sanctions, and corruption or child-trafficking scandals have ended adoptions from several countries, such as Guatemala. The federal government has also become more hostile. The result, says Elizabeth Bartholet of the child-advocacy programme at Harvard University, is that thousands of children linger in grim institutions.

The increased difficulty of adopting from abroad might have resulted in more parents adopting children from the domestic foster system. But foster-care adoptions levelled off at around 50,000 annually a few years ago. At the same time, after steadily declining between 2005 and 2012, the number of children in need of foster care is increasing in most states. In 2015, the most recent year for which statistics are available, 428,000 children were in foster care, compared with 397,000 in 2012.

“The main reason for the alarming rise of children in foster care is the opioid epidemic,” says John DeGarmo, who with his wife has fostered over 50 children. Misuse of drugs, especially painkillers, and use of heroin have become, between them, the second-most-common cause for a child’s removal from parental care, after neglect (often made worse by drug use). The deeply religious DeGarmos, who have three children of their own, adopted three of their foster children, all offspring of drug addicts. The goal of fostering is reunification with birth parents once they get better. Sadly, only about a quarter of addicts do.

One reason for the shortage of foster parents is the reluctance of prospective parents to deal with the often needlessly bureaucratic public foster agencies. And around 80% of those who try to foster a child give up within two years. “Fostering is very hard for all involved,” admits Mr DeGarmo. On average, foster children stay for only 14 months at foster parents’ homes. One of the girls he and his wife fostered for a year and a half was subsequently adopted by an aunt and uncle, who raped and abandoned her. She is now in a mental-health clinic.

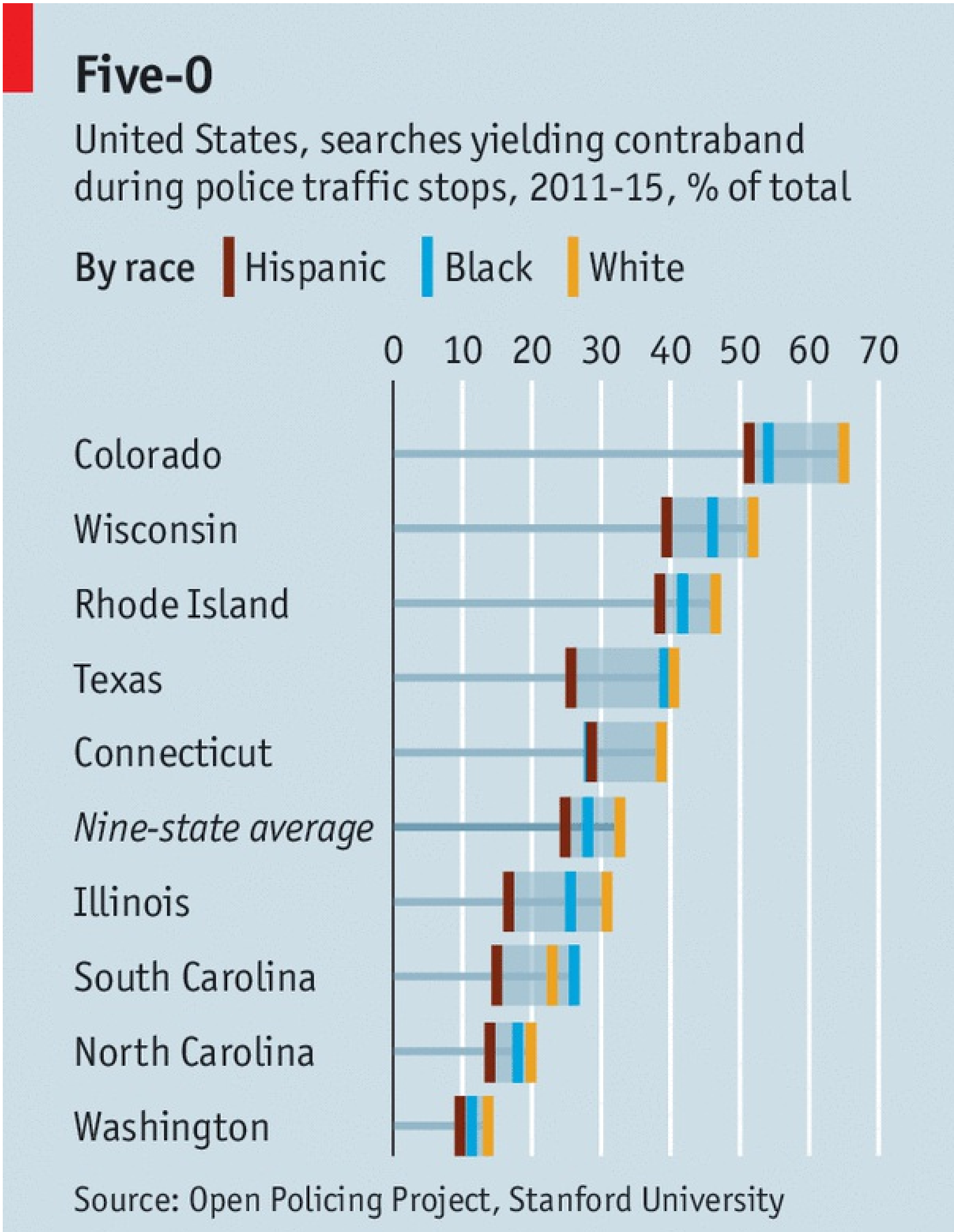
For the approximately 20,000 children who every year “age out” of the foster system, which means that states fail to reunite them with their families or place them in permanent homes, the outlook is bleak. They are far less likely to finish high school or go to college. Around 60% of the boys and half the girls end up in jail at some stage, says Chuck Johnson, boss of the National Council for Adoption, an advocacy group. About 120,000 children in foster care are currently waiting to be adopted. State legislators should not put another obstacle in their way by worrying about the religious beliefs of their would-be adopters. Instead, statehouses should be thinking hard about how to find loving homes for more of these children.

Ticket to ride

Measuring racial bias in police forces

Is driving while black really an offence?

Jun 22nd 2017 | GERMANTOWN, MARYLAND



Economist.com

IN HIS 14 years policing the streets of Montgomery County, Maryland, Sergeant Robert Sheehan has witnessed deadly shootings and stopped big-money cannabis deals. But on a sunny afternoon it is the windows of a passing car that raise his suspicion. Maryland law dictates that car windows should be no more than 65% opaque. He stops the black Chevrolet, whose driver is female and black, and by using a special meter he proves that the car breaks that law.

Debate on racial bias in policing tends to be dominated by the shootings of unarmed black men by police officers. Though terrible, such shootings are not common enough to allow the crunchers of big data sets to get to work. Routine traffic stops, on the other hand, occur about 50,000 times a day across America. They are the most common form of contact with the police: one in eight drivers was stopped in 2011.

Until recently these data have mostly been kept under lock and key. But a team of academics from Stanford University's Open Policing project has spent two years amassing a trove of 130m traffic stops from 31 state police agencies. Their data, released this week, find that between 2011 and 2015 black drivers were stopped by the police twice as often as white drivers, suggesting that there is indeed something to the idea that "driving while black" is an offence.

Higher rates of stopping and searching are not sufficient to demonstrate that racial bias exists, though. The pool of drivers that the police might stop could be unrepresentative in all sorts of ways. Some ethnic groups might drive more than others, or perhaps there is some mysterious racial difference in driving style that leads to more police stops. To answer the question properly the late Gary Becker, a Nobel-prizewinning economist, devised a simple measure for racial bias in 1957. Becker argued that tests for racial discrimination should focus on the outcome alone: in this case whether police searches of vehicles yield contraband, such as drugs or illegal weapons. If black motorists were stopped more often, even though they were actually less likely to have something illegal in the glove compartment, that would provide solid proof of racial bias.

The Stanford data show that searches of white drivers yield contraband 32% of the time. By contrast, when the driver was black or Hispanic, the contraband hit rate was 26%. That suggests a significant amount of bias. Delve deeper, though, and the difference is caused by a small number of bad counties. Among the 496 counties for which the Stanford researchers have complete data, just 30 had a gap of more than 25 percentage points separating whites from minorities. Remove a hundred of the worst counties, and racial bias narrows from six to three percentage points. That tallies with other research on police bias. A recent working paper from graduate students at Princeton found that bias in leniency among Florida's police officers could be explained by decisions made by one fifth of all officers.

A different way to perform Becker's test is to look at whether drivers receive the same treatment from police when they commit the same motoring offence. An analysis by *The Economist* of 1m traffic stops in Montgomery County in Maryland since 2012 suggests that Hispanics are significantly more likely to receive tickets than whites or African-Americans. When stopped for running a traffic light, white and black females got a ticket 30% of the time. Hispanic men received tickets 40% of the time for the same offence. This finding tallies with data from North Carolina, where police stops recorded since 2000 show persistent bias against Hispanics.

Back in Maryland, Sergeant Sheehan smells cannabis in the blacked-out Chevrolet. A search yields a jar of it in the glove compartment. He gives a warning to the driver, then lets her young son honk the horn of his patrol car.

A kick in the Ossoff

The race in Georgia’s sixth district

In which the Democrats spent plenty, but ended up disappointed

Jun 22nd 2017 | ROSWELL

TOWARDS the end of the marathon election in Georgia’s sixth congressional district, Jon Ossoff was in Cobb County for a “Juneteenth” celebration—commemorating the abolition of slavery—in the company of John Lewis, a fellow Democrat who represents much of nearby Atlanta. *The Economist* asked Mr Lewis if the race was worth the more than $50m spent on it, making it easily the costliest in congressional history. “It’s worth everything,” Mr Lewis said. “We’re talking about the future of America.” The moment captured the oddity and excitement of the contest, and previewed what, for Democrats, was ultimately bitter disappointment.

To begin with, compare the two men. Mr Lewis is a revered civil-rights leader. Composed and eerily disciplined, Mr Ossoff is a 30-year-old political novice: an unlikely champion of his party’s hopes, though that is what he became, in a vote that came to be seen as a referendum on Donald Trump and the Republican agenda. Judging by the volume of lacerating tweets he dispatched, Mr Trump himself took it personally, even if he misspelled the name of Karen Handel, the eventual Republican winner. He, Mike Pence and Paul Ryan went to Georgia to stump for her.

Next, consider the district itself. The bits of Cobb and two neighbouring counties of which it is comprised are replete with smart housing developments and pristine lawns. It ought to be safe Republican territory—not least because it has been gerrymandered to make it so. “These lines were not drawn to get Hank Johnson’s protégé to be my representative,” one local Republican confessed, referring to a congressman for whom Mr Ossoff formerly worked. And, until very recently, it was safe: Tom Price, whose appointment as health secretary set off the race, won it by 23 percentage points in November. John McCain and Mitt Romney took the district easily.

Mr Trump only squeaked it. That is partly because the area is changing. Whites are still a majority in what were classic white-flight places, but a smaller one: Cobb, once a reactionary bastion, will soon be “majority-minority”. The sixth is now the best-educated Republican-held seat in the country. It is, in other words, the sort of relatively cosmopolitan suburb the Democrats ought to conquer—in California, Texas, Virginia and elsewhere—if they are to regain control of the House in next year’s midterms. David Wasserman of the Cook Political Report notes that Hillary Clinton scored better in only 26 seats held by Republicans. The Democrats’ target in 2018 is 24 seats. “This is right at the tipping point,” Mr Wasserman says.

Mr Ossoff scouted out one possible, delicate path to that goal. Initially he fired up the Democratic base, and appealed to young voters, by vowing to “Make Trump Furious”. He recruited thousands of volunteers, many of whom had never been involved in politics. During the campaign, one devotee waving a “Vote your Ossoff” placard said she previously feared that admitting left-leaning views in Georgia would mean “your kids will never have a play date”. But, especially after he fell just short of a majority in the first round of voting in April, Mr Ossoff recalibrated his tone to draw in the sliver of moderate Republicans he needed, leaving the Trump-bashing to outside groups. He offered himself as a centrist, almost non-partisan figure and hammer of wasteful spending.

Great, again

Ms Handel and her backing PACs, which helped her keep pace with Mr Ossoff's fundraising, were having none of it. They relentlessly tied him to Nancy Pelosi, the House minority leader, and her "San Francisco values". (One group lowered the tone from testy to combustible by linking Mr Ossoff to "unhinged leftists" who allegedly cheered the recent shooting of a Republican politician.) Ms Handel faced a dilemma over her own orientation towards Mr Trump. Her approach was to support him if pressed, but not to emphasise him.

"It is not about what's going on around the rest of the country," she declared at her election-eve rally. That also featured a gee-up from Nathan Deal, who beat her in Georgia's governor's election in 2010; an electoral veteran, Ms Handel previously lost a Senate race, too. (Her attacks on Mr Deal, his spokesman once sniffed, were "sadder than the end of "Old Yeller"," a sappy film.) A man in an Uncle Sam suit roared his approval for the counter-slogan, "Keep your Ossoff my lawn".

Ms Handel won the run-off on June 20th by four points, confounding polls that predicted a closer result. In retrospect the first round, in which 11 Republicans split their party's vote, was Mr Ossoff's best chance. Despite the apposite demography, that unusual format, plus the manic attention and spending—a bonanza for local broadcasters—makes the outcome only a muted bellwether for the mid-terms. But that will not stop it being seen as one.

Even though both candidates implied that Mr Trump was not on the ballot, everyone else thought he was, and Ms Handel's strategy of tacit loyalty will be emulated in other tight races. The president's acolytes were duly jubilant. Given that health care was probably the campaign's pre-eminent issue, with Ms Handel supporting the replacement of Obamacare, some congressional Republicans may be reassured about the consequences of repeal.

In truth Mr Ossoff's performance, like those of Democrats in special elections in Kansas, Montana and South Carolina, was encouraging for his party, given the terrain. But some Democrats have seen in his defeat further evidence that centrism is defunct and a more radical brand of opposition necessary, even if that is unlikely to succeed in the South. “The fight goes on,” he vowed at his election-night party, as Mr Lewis consoled the crowd and elation gave way to deflation, with an afterburn of defiance. Quite how remains to be seen.

Lexington

Why nationalists are so bad at foreign policy

Donald Trump, a skilled populist, is oddly unworried by global unpopularity

Jun 22nd 2017

NATIONALIST politicians come in many varieties, from blustering to downright scary, but most share a common flaw. They forget, or do not care enough, that foreigners have politics, too. The marrow-deep hopes, fears and grievances of their own citizens fascinate them. But all too often, nationalist and populist leaders behave as if other countries are bloodless technocracies, guided by coolly weighed interests.

President Donald Trump is guilty of just this error whenever he predicts that other governments will bend to his will because they know what is good for them. Whether demanding that allies pay more for their own security, browbeating commercial rivals, or menacing geopolitical adversaries, Mr Trump seems sure that once foreign rulers realise he is serious about putting America first, and calculate the costs of defying him, they will swallow their pride and obey. He is oddly incurious about foreign publics.

A European ambassador recently told Lexington an instructive tale. On November 9th, a day after Mr Trump won the presidency, top officials held a crisis meeting in the envoy's capital to discuss their country's defence spending, which falls short of the target agreed to by NATO members, which is 2% of GDP. We're screwed, the officials concluded, or words to that effect. We want this alarming new president to stand by NATO, so we are going to have to find more money for tanks, planes and bombs.

Then came the NATO summit in Brussels on May 25th. On the eve of the summit American diplomats briefed the envoy's government that Mr Trump would, after months of equivocation, formally commit himself to Article 5, the mutual-defence clause that anchors the alliance. But to the dismay of the assembled leaders Mr Trump left that line out of his speech, instead scolding them for owing "massive" sums to NATO (he finally endorsed Article 5 in a press conference on June 9th).

Soon after that Brussels summit, the same group of government mandarins convened in their European capital again, and this time their political calculations had changed. Screw Trump, we're not going to spend another cent on defence, they agreed, or words to that effect. Our voters despise this American president. As for the biggest European leaders, Angela Merkel distrusts him and Emmanuel Macron dislikes him. So we're off the hook.

Americans may be forgiven for finding this tale frustrating. Many European countries are free-riders when it comes to defence. Indeed, though Barack Obama never used the phrase "America First", he was vocal about prodding allies to take more responsibility for their own security, so that America could wind down costly overseas wars and start nation-building at home.

Where the current president breaks new ground is in his willingness to offend foreign publics, and bet everything on deal-making with national leaders. Mr Trump and close aides concede that it was once shrewd public policy to help war-ravaged nations, from Europe to Japan, rebuild and prosper as allies, markets and bulwarks against communism. But Mr Trump believes that foreign governments have abused that generosity, aided and abetted by stupid, weak and feckless American leaders, so that it is time to become more ruthless and selfish.

The German Marshall Fund, a think-tank, this month gathered American, Chinese and European diplomats, officials, politicians and analysts for the "Stockholm China Forum", a biannual conference. Among other questions, the forum considered whether Europe or China might come forward to lead the liberal, international world order if America tires of that task.

Since Mr Trump came to power, optimists have suggested that his boldest America First moves, such as withdrawing from the Paris climate-change accords, or abandoning the planned Trans-Pacific Partnership, a trade pact with 11 Asia-Pacific nations, might prompt other powers to unite and promote global goods without him. The most starry-eyed watched a speech defending globalisation given by Xi Jinping, China's president, to the World Economic Forum, and saw a new global leader emerge.

Uncorking the nationalist genie

Not so fast, was the gloomy message from the Stockholm forum, which Lexington attended. Without American leadership, squabbling self-interest remains the rule. At a summit this month with the European Union, Chinese envoys made clear that their country is more interested in the trappings of global leadership than in the responsibilities that go with it. Asked to help on climate change, China reverted to arguments about being a developing country that can only do so much. Warm talk about trade cannot conceal the barriers that shield China's domestic markets.

At a summit in April with Mr Xi, Mr Trump thought he had secured personal assurances to put unprecedented pressure on North Korea to stop developing nuclear weapons and missiles that could carry them to American soil. Alas, Mr Xi appears to fear the collapse of North Korea on his border more than he fears displeasing Mr Trump—especially given the need for domestic stability ahead of a reshuffle of Chinese leaders later this year.

Mr Trump seems to have over-estimated his personal bond with Mr Xi, telephoning him so often to ask about Korea co-operation that Chinese officials grumbled to American contacts that their president is "not our North Korean desk officer". On June 20th Mr Trump tweeted something between an admission of failure and a warning that he is losing patience: "While I greatly appreciate the efforts of President Xi & China to help with North

Korea, it has not worked out. At least I know China tried!”

As for the EU, it failed to reach a common position on Chinese human-rights abuses at a UN meeting this month. EU unity was blocked by Greece, a recipient of hefty Chinese investment and run by populists sworn to put Greeks first. A looming America-EU trade row over steel could turn nasty. As Mr Trump is finding out, America has no monopoly on nationalist grievances.

The Americas

- Cuba and the United States: Looking backwards [Fri, 23 Jun 09:03]
- Bello: Who governs Peru? [Fri, 23 Jun 09:03]
- Canada: The frozen rodeo [Fri, 23 Jun 09:03]
- Mexico: Hacking the hacks [Fri, 23 Jun 09:03]

Looking backwards

Donald Trump closes the door to Cuba—a bit

He wants to hurt the regime, but may end up hurting ordinary Cubans

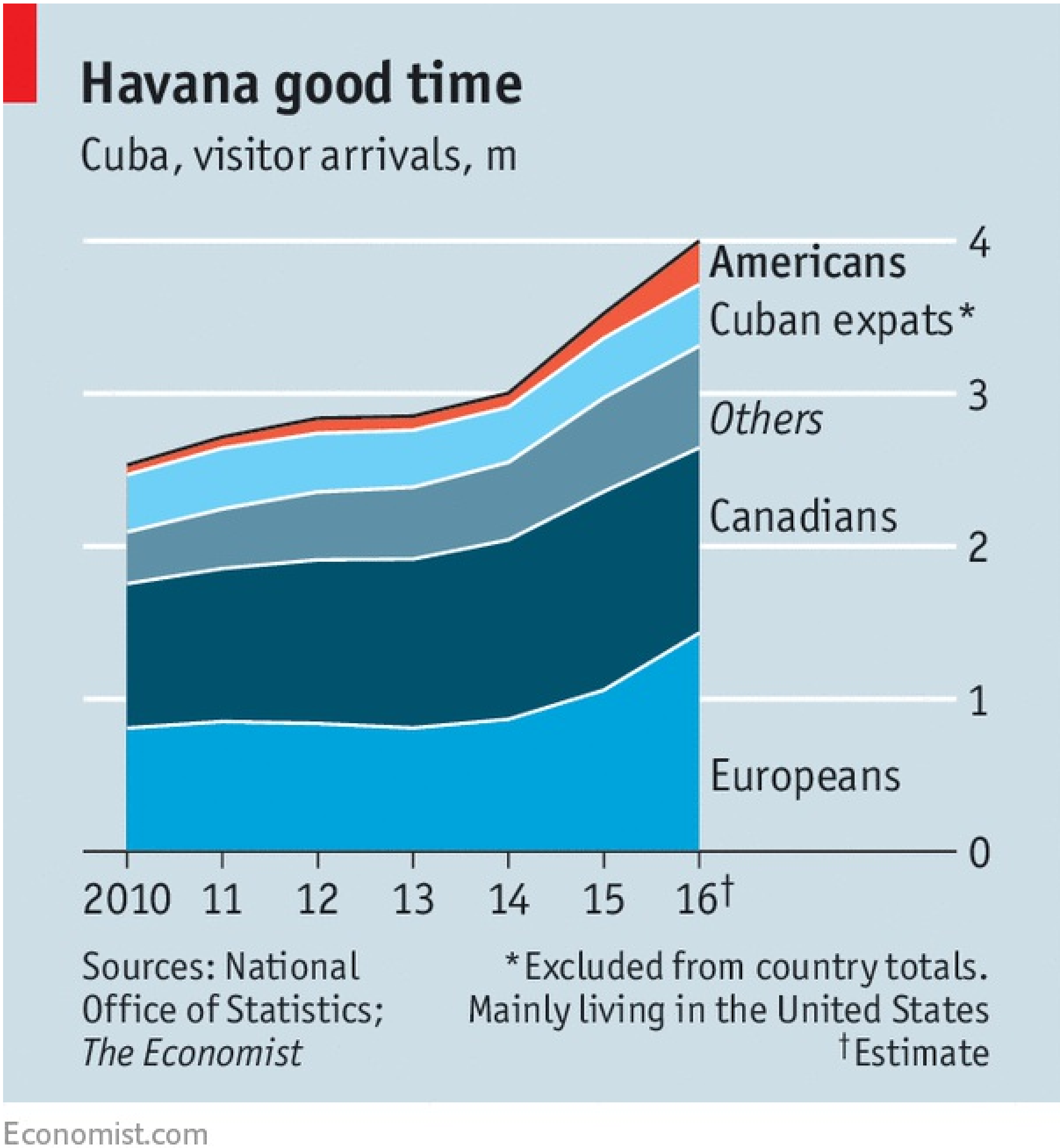
Jun 22nd 2017

IT WAS typical Trumpian pageantry. On a bunting-trimmed stage at the Manuel Artime theatre in Miami's Little Havana neighbourhood, the president of the United States declared on June 16th that he was "cancelling" the "completely one-sided deal with Cuba" made by his predecessor, Barack Obama. There is much less to this than Donald Trump's pugnacious rhetoric suggests. But the new policy will still hurt Cuba's fledgling private sector, discourage economic reform and damage Uncle Sam's prestige in Latin America.

The deal struck in 2014 by Mr Obama and Cuba's president, Raúl Castro, restored diplomatic relations after an interruption of 54 years, softened the United States' trade embargo, eased travel between the countries and removed Cuba from the list of state sponsors of terrorism. Much of that will not change. Mr Trump's main innovation is to make tourism harder, supposedly to deny income to Cuba’s armed forces. Commercial flights and cruises, though, will continue. He thus hopes to satisfy a diehard pro-embargo minority without rupturing relations.

Under Mr Obama’s rules, Americans eager to sample mojitos in their country of origin merely had to declare that they would engage in “people-to-people” exchanges in order to travel independently. Under Mr Trump’s, independent travellers will have to declare that they have some other mission, like supporting civil society, unless they are of Cuban origin. People-to-people visitors will have to join organised tours. He also intends to ban transactions by individuals and firms with companies linked to Cuba’s army and intelligence services. This could have bigger consequences. GAESA, a conglomerate run by the armed forces, is thought to control up to 60% of the economy. Its holdings include petrol stations, supermarkets and ports. One of its companies, Gaviota, owns 29,000 hotel rooms, some of which are managed by foreign chains like Kempinski, Meliá and Starwood, an American firm.

What all this will mean in practice will depend on rules issued by the US Treasury and Commerce departments. But the new policy could end the upsurge in American tourism started by Mr Obama’s rapprochement. Visits from the United States jumped by a third in 2016 (see chart). Future visitors face more complexity and confusion. Even if they avoid army-owned hotels, they might unknowingly enrich the soldiers by renting a car, taking a boat trip or even swimming with dolphins. Military enterprises offer all these services. It is not clear whether Americans will be able to stay in such popular (though overpriced) hotels as the Hotel Nacional and the Parque Central. These are owned by the tourism ministry, whose head is an army-reserve colonel.



Tour organisers will no doubt steer their clients away from army-owned businesses. Independent travellers will have to do their own due diligence. Mr Trump's order will dissuade some from going in the first place.

Cuba's entrepreneurial class, which owes its existence to the country's cautious economic reforms and much of its prosperity to the rise in tourism, is worried. Mr Trump "is undermining the very private sector he claims to support", laments the owner of a *paladar* (a family-owned restaurant) in the

Vedado district of Havana. On paper, the changes announced by Mr Trump are "subtle, but in practice they will have huge consequences", predicts an entrepreneur who runs a small consultancy.

Although Americans are just 7% of foreign tourists in Cuba, they are generous tippers and patronise private businesses. Cubans who let out their homes through Airbnb have collected nearly $40m in revenue since April 2015. On average they get $2,700 a year, nearly ten times the typical salary. Tour organisers have tended to book their clients into hotels.

Ironically, Cuba's government has joined Mr Trump in cracking down on the country's emergent capitalism. Shortly before his announcement, with talk of tougher American policy in the air, the government restricted the opening of new restaurants and licences to rent out rooms in Havana's old city. It has stopped allowing self-employed entrepreneurs to form company-like "co-operatives". A recent session of the legislature reaffirmed the state's control over the economy and its opposition to concentration of private property.

This is not surprising. Half a century of American sanctions did not promote liberty. In fact, they gave Cuba's government an excuse not to open the economy or hold free elections. Although Mr Trump portrays his toughness as a way to spur democracy, it may do the opposite. The government will do nothing that looks like a concession to Mr Trump, says José Jasán Nieves Cárdenas, a journalist in Havana.

The hardening of attitudes may persist after Mr Castro steps down as president, which he plans to do next February, probably in favour of Miguel Díaz-Canel, Cuba's "first vice-president". That will end nearly 60 years of rule by the Castro family (Mr Castro's brother, Fidel, led the country's revolution in 1959 and governed until 2006). It might have been an opportunity to liberalise, but, says Mr Nieves, Mr Trump has given conservatives "a perfect instrument to manage the speed of change".

After Mr Trump turned up the heat, Cuba kept its cool. The government criticised his "hostile rhetoric" but said it will continue "respectful dialogue and co-operation". A joint fight against drug-trafficking, for example, may continue. The new policy may damage the United States' dealings with other Latin American countries, which have long seen the embargo as bullying.

That may make it harder to fashion regional responses to such issues as the economic and political crisis in Venezuela.

Before an adoring crowd in the Manuel Artime theatre, Mr Trump proclaimed the United States a “symbol of hope”. It was one for more people before he spoke.

Bello

Who governs Peru?

The president must face down the fujimorista congress

Jun 22nd 2017

TO LOSE a minister to congressional censure is a normal hazard of democratic life. For a government to lose four in its first year, including the ministers of finance and the interior, on spurious grounds smacks of a parliamentary conspiracy. That is the drama that may soon face Pedro Pablo Kuczynski, Peru's president.

A year ago Mr Kuczynski, a former investment banker, narrowly won a run-off election because slightly more Peruvians abhorred his opponent, Keiko Fujimori, than supported her. In an election for congress two months before, his political group had won just 18 of the 130 seats while Ms Fujimori's Popular Force won 73 (partly because less populated regions are over-represented).

Popular Force, helped by opportunistic allies, has made its majority felt with spoiling operations. In December congress censured Jaime Saavedra, the capable education minister, who was promptly hired to run the World Bank's global education division. Last month the transport minister resigned rather than face censure over a (justified) revision to a contract for a new airport for Cusco, the former Inca capital. On June 21st congress voted to sack Alfredo Thorne, the finance minister; it is poised to do the same to Carlos Basombrío, the interior minister.

Mr Basombrío's sins include not arresting a few peaceful demonstrators carrying pictures of Abimael Guzmán, the jailed leader of the Shining Path terrorist group. Mr Thorne's troubles began after he received the comptroller-general, Edgar Alarcón. The encounter was surreptitiously taped, apparently by Mr Alarcón. During it, Mr Thorne mentioned the comptroller's budget and urged him to approve the contract for the Cusco airport. It was politically maladroit to discuss the two issues in the same meeting. But it is Mr Alarcón, not Mr Thorne, who is ethically challenged. The comptroller, who has aligned himself with the *fujimorista*s, is being investigated for illicitly dealing in cars and using public money to pay off a former mistress (which he denies).

The differences between the government and the *fujimoristas* are not ideological, according to Mr Kuczynski. "Here we have a group that resents my being the president," he told Bello. "They have collaborated on the big stuff but they like little gestures that show their dissatisfaction with not being in the palace." Ms Fujimori has taken defeat hard. She has barely appeared in public in the past year. She has had only one conversation with Mr Kuczynski, and that had to be arranged by Lima's Catholic archbishop.

Mr Kuczynski inherited a slowing economy. He wanted to speed up public investment and move forward stalled mining projects. He and the country suffered a double dose of bad luck. An admission of corruption by Odebrecht, a Brazilian contractor, forced the suspension of several big infrastructure projects in Peru. Then floods killed 147 people, washed away roads and, reckons the president, reduced annual economic growth by a percentage point, to 3%. Reconstruction will take two years and cost $6.5bn, he says. The climate of suspicion in congress slows new government contracts, while political uncertainty discourages private investment. Plans to reform Peru's corrupt and inefficient judiciary have been stymied, a case of "big stuff" being blocked by the opposition.

Mr Kuczynski faces a choice. He could seek a grand bargain, for example by pardoning Ms Fujimori's father, Alberto, an autocratic former president jailed for abuses of power. But that would alienate the anti-*fujimoristas* whose votes won him the presidency. A better strategy would be to call his opponents' bluff. Peru's constitution allows the president to turn a ministerial censure into a matter of confidence in the government as a whole. If two successive cabinets are rejected by congress, the president can call a fresh legislative election, in which the *fujimoristas* would probably lose seats.

Mr Kuczynski seems to be following both tracks. He says he is looking at the possibility of pardoning Mr Fujimori: "The time to do it is about now." But he also says that he will "definitely" make Mr Basombrío's permanence a matter of confidence. Do that, and "they are unlikely to censure anyone", he declared.

Some of his travails are his fault. Although he has government experience, Mr Kuczynski is not a political animal. His cabinet consists of technocrats and business people. The result is an administration that lacks a political strategy and discipline in the way it communicates. Find them, and Mr Kuczynski—and Peru—can win this battle against pique and obstruction. The alternative is to drift on, like a rudderless boat whose occupants are picked off by sniper fire.

The frozen rodeo

How to protect offshore oil platforms from roaming icebergs

It is best to lasso them

Jun 22nd 2017 | ST JOHN’S, NEWFOUNDLAND AND LABRADOR

RICK DURNFORD lassoes icebergs for a living. The ship he captains, the *Maersk Detector*, unspools thick polypropylene rope, circles around a floating island of ice to form a loop, tows the berg away and releases it onto a new course. It is a tricky process. In the patch of the North Atlantic where Captain Durnford operates, not far from where the *Titanic* sank, waves can reach 30 metres (100 feet) in height and fog blinds him 40% of the time in the clearest months. Icebergs can break apart or roll without warning. But the biggest risk is that the rope will get entangled in the ship’s propellers in high seas. “There is a little bit of skill involved,” he says.

The *Detector* mainly diverts icebergs not to protect shipping but to shield five offshore oil platforms on the Grand Banks, 300km (200 miles) east of the Canadian province of Newfoundland and Labrador. The threat can come from icebergs that rise above the water to the height of office blocks, one of which ran aground off Ferryland in April, or from growlers, the size of cars above the water’s surface. These can be blasted with a water cannon.

Economist.com

When the Hibernia oilfield was discovered in 1979 on the Grand Banks, a plateau in shallow waters, many doubted that petroleum could be pumped safely. The area lies in the path of the Labrador Current, a conveyor belt for icebergs calved off Greenland's glaciers. Anything bigger than a medium-sized berg (with a submerged portion that extends down 80 metres) can run aground if it is not carried east or west by the current. This year more than

900 icebergs, double the average number, have drifted below 48°N, the latitude south of which they pose a danger to shipping. Most went nowhere near the oilfields. But it takes just one to mangle pipes bringing oil to the surface. Even growlers are a threat to floating platforms and ships on the open ocean. Since Hibernia's crude oil started flowing in 1997 no platform has been seriously damaged, though floating platforms have had to suspend production to move out of the path of an iceberg that abruptly changed course.

Iceberg avoidance may soon get harder. On June 14th the 750,000-tonne Hebron platform was set down on the seabed of the Grand Banks, providing icebergs with another target. Oil firms are eyeing opportunities in the deeper waters of the Orphan Basin and in the Flemish Pass, popularly called Iceberg Alley. There, bergs that would ground on the Grand Banks sail through on stronger currents.

Captain Durnford's berg-towing operation is the low-tech end of an increasingly high-tech enterprise. Satellites are the first scouts, spotting objects that might pose a threat. A scattering of white pixels could be a ship, a pod of whales or even a range of high waves, says Desmond Power, head of remote sensing at C-CORE, which developed software to interpret satellite scans. Based on facial-recognition technology, it can distinguish bergs from belugas.

To get a closer look, Beechcraft King Air prop planes operated by PAL Aerospace survey as far north as the Davis Strait during iceberg season, from April to the end of June. Craig Trickett, a sensor operator fresh from a flight that spotted 100 icebergs of interest, thinks he has the "the coolest job on the planet".

The closer they come to the platforms, the more their operators want to know. Software from Rutter, a Canadian firm, uses ordinary radar data from supply ships like the *Maersk Detector* to help judge whether an iceberg is on a collision course with an oil platform. The SeaDragon, a prototype vessel, uses lasers above the water and sonar below to provide three-dimensional pictures, which can help predict an iceberg's path.

The firms behind the iceberg-deflecting technology are finding other uses for it. C-CORE is using satellite imagery to watch how buildings respond to tunnelling for Ottawa's public-transport system. Rutter helps spot drug-smugglers in the Caribbean. Brad de Young, who developed the SeaDragon, says its successor, the SeaDuck, could survey submerged structures like the bases of offshore wind turbines.

The technology does not replace the work of Captain Durnford, who is temporarily in command of the *Maersk Detector* until he rejoins his usual ship. Despite its dangers, "I've never missed a night's sleep," he says. As oil platforms move farther into Iceberg Alley, he and other ice-wranglers will cheerfully follow.

Hacking the hacks

Is Mexico’s government spying on its critics?

An investigation finds spyware on the phones of journalists and activists

Jun 22nd 2017 | MEXICO CITY

MEXICANS do not trust their government. Just 29% have some confidence in the institution, according to Latinobarómetro, a polling firm. A report in the *New York Times* on June 19th, widely broadcast by the Mexican media, must have reduced that number. It said that software sold to the government to spy on suspected criminals had turned up on the mobile phones of journalists and human-rights campaigners who criticise the government perfectly legally.

Investigations by the *Times*, Citizen Lab (a research centre in Toronto) and three NGOs named 15 people, most of them critics of the government of President Enrique Peña Nieto, whose phones were found to have the spyware. They include Carmen Aristegui, a journalist who helped uncover a controversial purchase of a house by Mr Peña’s wife from a government contractor. Another target was employees of Centro Prodh, a human-rights group that represents the families of 43 students who disappeared in 2014. Many Mexicans excoriated Mr Peña for what they saw as his limp response to this crime, which reportedly involved local police and drug gangsters.

The software, called Pegasus, is sold by an Israeli firm, NSO Group, to governments that agree to use it only to fight crime. It is activated when an unsuspecting person clicks on a link in a text message. Pegasus then gets access to all the data on the phone, including calls, texts and photos. No one knows who authorised the targeting of journalists and activists. The Mexican army, the attorney-general's office and the intelligence services have all bought the software. To snoop legally, any government agency would need warrants from a court; there is no evidence that any were issued. The government denies that it targeted non-criminals and notes that the report provides no information on who authorised the eavesdropping attempts.

This will not lessen the outrage. The spying on journalists victimises a profession already under assault by criminal gangs. More than 125 have been killed or disappeared in Mexico since 2000; at least five have been murdered so far this year. On June 21st the opposition National Action Party claimed that attempts had been made to hack the phones of four of its leaders. The government has so far not said it will investigate why the phones of law-abiding citizens have been tapped. If anger grows, it may have no choice.

Asia

- Free speech in India: Falling into line [Fri, 23 Jun 09:03]
- Mongolian politics: Herd it all before [Fri, 23 Jun 09:03]
- North Korea: Another victim [Fri, 23 Jun 09:03]
- Public health in Japan: Passive obsessive [Fri, 23 Jun 09:03]
- Banyan: Pride on the march [Fri, 23 Jun 09:03]

Falling in line

India’s raucous democracy is becoming more subdued

Narendra Modi’s government is extremely sensitive to criticism

Jun 24th 2017 | Delhi

THE candidate that India’s ruling Bharatiya Janata Party (BJP) has put forward for the largely ceremonial post of president looks like a canny choice: Ram Nath Kovind, a longtime devotee of a Hindu group allied with the party, but also a dalit—the bottom rung in India’s caste system. He should appeal both to the party’s religiously motivated base, but also to other dalits, who make up close to 20% of the population. Given the strength of the BJP and its allies in Parliament, which elects the president, his ascent is all but assured.

The BJP is always looking for ways to shore up its support, but not all of them are so positive. When Mr Kovind’s nomination was announced, Rana Ayyub, a journalist critical of the party, lambasted the choice on Twitter. It took a spokesman for the party less than eight hours to file a complaint with the police, claiming that she was stirring up hatred on the basis of caste—an offence in India—even though the tweet had made no mention of caste.

Under the leadership of Narendra Modi, the prime minister, the BJP has won a string of impressive electoral victories, at both the national and state level. The opposition is in disarray; another BJP triumph seems likely in 2019. Yet the BJP is extremely sensitive to criticism.

Mr Modi has a very easy time with the press. India's big media conglomerates are either owned by fans of the BJP, or else reliant on the government's favour. There are few legal limits and little oversight of government spending on advertising. Mr Modi's image is everywhere: on giant billboards trumpeting new roads and bridges, in full-page newspaper spreads for BJP election campaigns, in television spots touting myriad government programmes. During the first week of June, state-sponsored projects accounted for three of the top five brands advertised on television, amounting to some 30,000 "insertions". The risk of losing such revenue hangs heavily over editorial decisions.

Checks and imbalances

It is not only the media that are largely tame. Agencies such as India's Central Bureau of Investigation (CBI), the Enforcement Directorate of the finance ministry, the tax authorities and even local police forces are often accused of doing the government's bidding. Since the upstart Aam Aadmi Party won control of the local assembly in Delhi, India's capital, from the BJP in 2015, its leaders have been hit by a barrage of investigations. Their impressive reforms to health and education have won widespread praise, but Delhi's government has trouble filling administrative posts because career bureaucrats refuse its vacancies for fear of harassment. Not surprisingly, the BJP trounced Aam Aadmi in municipal polls in Delhi earlier this year, as voters abandoned the upstart in favour of a party that faces less resistance in getting things done.

In early June the CBI raided properties belonging to the owners of NDTV, a television channel that tries to give equal airtime to the government and its critics (and whose boss is a distant relative of a senior editor at *The Economist*). The agency said it was investigating an old loan that the channel had taken out nine years ago. It was repaid within months and the bank had no complaint, but the gumshoes insist that the bank should have earned more interest. To many observers it does not seem coincidental that only days before the raid, an NDTV presenter had engaged in a testy exchange with a spokesman for the BJP, who accused the channel of pursuing an anti-government agenda.

NDTV faces a separate investigation by the Enforcement Directorate. A decade ago GE, a giant multinational, bought a $150m stake in a new venture with the channel. The project was not a success and GE, in the wake of the global financial crisis, bailed out with a significant loss. India’s financial watchdog sees this business failure as a case of international money laundering. It intends to press criminal charges.

Law-enforcement agencies have not shown similar zeal against friends of the government, or against Hindu-nationalist vigilantes who have, in recent months, shown increasing boldness in enforcing their agenda. Their victims usually happen to be from India’s 14% Muslim minority, whether these are cattle-traders beaten up—and in one recent case, killed—by self-appointed protectors of the sacred cow, or cricket enthusiasts cheering the wrong team. Following India’s loss to Pakistan in an international match on June 18th, 21 men were denounced by neighbours for celebrating. They have been charged under India’s colonial-sedition laws, and remanded in custody.

Mr Modi cannot be blamed for the over-enthusiasm of righteous citizen-proctors. But his government has created an enabling environment. At state and national level, the BJP has passed laws, such as one that sharply restricts cattle-trading on “humane” grounds, or taken actions that promote the dominance of a conservative brand of Hinduism. Its leaders have either maintained a disturbing silence in the face of mounting disquiet, or added to the unease. Yogi Adityanath, the saffron-robed new chief minister of India’s most populous state, Uttar Pradesh, recently said that its most famous monument, the Taj Mahal, does not represent “authentic Indian culture”—presumably because the 17th-century tomb was built by a Muslim king for his Muslim wife. Minority groups as well as secular-minded Hindus are increasingly fearful that the country’s diversity is under threat. “We are turning into Pakistan,” says a society hostess in Delhi.

One reason for Mr Modi’s apparent indifference to such worries is that he faces growing pressure from his own Hindu-nationalist base. For decades, a network of conservative religious groups have quietly built their strength, struggling, as they see it, against the long-dominant, secular, left-leaning establishment in Delhi. It is these groups which, at the street level, have lent their vast numbers and organisational genius to Mr Modi’s electoral machine. Now they want their pound of flesh.

Herd it all before

Mongolians prepare to elect a new president

Disillusionment with politics is rife

Jun 22nd 2017 | Ulaanbaatar

ADDRESSING more than 3,000 supporters in a packed arena five days before the first round of Mongolia's presidential election on June 26th, Khaltmaa Battulga, the Democratic Party (DP) nominee, promised the things candidates everywhere tend to promise: modern infrastructure, better jobs and restored national pride. Other pledges were more specific to Mongolia, such as one to secure a fairer shake for nomadic herders. His voice was rough as rawhide, but not because of frenetic speechmaking. It has been rough ever since he sustained throat injuries during a previous career as a judo champion.

His time as a sportsman and a subsequent career as a businessman position the 54-year-old Mr Battulga well for his third calling, politics. Outside the arena, an enthusiastic DP supporter called Byamba says what he likes best about Mr Battulga (pictured above, on the pennant) is his success in business.

The other main candidate, Miyegombyn Enkhbold of the Mongolian People's Party (MPP), is, he says, "not a businessman, but an oligarch".

Shortly before parliamentary elections a year ago, a 90-minute tape was released that purportedly captured Mr Enkhbold and other MPP leaders discussing a plan to sell off a roster of government jobs for 60bn togrog ($25m). Individual prices ranged from 10m togrog to become a clerk in a ministry to 1bn to become a minister. Law-enforcement agencies said they could not be sure the recording was authentic and so declined to pursue the matter. In private, a former MPP minister says that even if the recording is authentic, it was all just talk that never came to anything.

Voters seem unbothered. The recording notwithstanding, the MPP won a huge majority—65 out of 76 seats—in the parliamentary vote. It stands a solid chance of taking the presidency too, which has been in the hands of the DP since 2009. In a survey conducted in late March by the Sant Maral Foundation, a Mongolian polling outfit, the MPP came out well ahead, with 24% of respondents naming it as the party best able to solve the country's problems, compared with 11% for the DP.

But 35% answered "no party". That reflects growing disillusionment with the democracy that was so jubilantly welcomed in 1990, when 70 years of Soviet-style (and Soviet-imposed) communism came to a peaceful end. The sudden switch to a free-market economy and freewheeling multiparty democracy has produced patronage politics, abrupt policy pivots and much dirty dealing when it comes to the licensing and regulation of mining projects, property deals and other business.

For the MPP, the reformed heir to the Communist Party, winning the presidency would deliver full control over the government, in which powers are split between parliament and the president. According to Batsaihan Jamichoi of Mongolia Opportunities Partners, a private-equity firm, business would prefer undivided government.

Since last year prices for Mongolia's biggest exports, copper and coal, have rebounded. This, together with a levelling off of the economic slowdown in China (which buys 84% of them) has helped the country recover from a balance-of-payments crisis. An IMF-led assistance package worth $5.5bn now seems to be moving ahead despite opposition to some of the terms, which include a gradual increase in the retirement age from 60 to 65. As Speaker of parliament, Mr Enkhbold helped to arrange the bail-out.

A third candidate, Sainkhuugiin Ganbaatar of the Mongolian People's Revolutionary Party, is critical both of the IMF and of China's dominant role in the economy. He is thought to be unlikely to win, but if he defies expectations it would prompt fears that Mongolia might yet again renegotiate the terms of big mining projects. That would put off international investors at a time when the country is in urgent need of foreign capital. However disillusioned Mongolians may be with their politicians, Mr Batsaihan observes, "unfortunately the politics matter".

| Section menu | Main menu |

Another victim

The outrageous death of Otto Warmbier complicates American policy on North Korea

A travel ban for American citizens to the country may be in the offing

Jun 22nd 2017 | Seoul

“HOW safe is it? Extremely safe!” So read the guidance for North Korea on the website of a Chinese travel company when Otto Warmbier, a 21-year-old American student, signed up for a five-day trip in December 2015. Mr Warmbier was arrested the next month at the airport in Pyongyang, as he was leaving, and accused of attempting to steal a propaganda placard. He was tried in March 2016, and sentenced to 15 years’ hard labour. “I have been very impressed by the Korean government’s humanitarian treatment of severe criminals like myself,” he said during a televised confession.

The North Korean authorities denied access to Mr Warmbier after his trial. But on June 13th they released him, in a vegetative state, “on compassionate grounds”, after talks between the North’s ambassador to the UN and America’s point-man on the country. He was flown home to Ohio, where he died six days later. Doctors said he was suffering from a catastrophic brain injury, probably sustained shortly after his trial. But the cause of the injury is unclear. The doctors could find no evidence either of the North Korean explanation—botulism, a food-borne disease—or of the obvious alternative, a severe beating.

On past precedent, it seems likely that the harm done to Mr Warmbier was unintended. Although 18 American citizens have been detained by North Korea over the past two decades (and ten since Kim Jong Un, its leader, took power five-and-a-half years ago), they have rarely been hurt. Foreign travellers are typically held either on espionage charges or for "hostile acts" against the North Korean state—bilingual Bibles left in bathrooms, for example. These prisoners are mainly kept as bargaining chips in the hope of negotiations.

Mr Warmbier's case will fuel growing calls in America for a ban on travel to North Korea. About 1,000 Americans visit each year, roughly one-fifth of all tourists to North Korea. Backers of a ban say that such tours do "nothing but provide funds to a tyrannical regime". Yet revenue from tourism, estimated at $30m-40m a year, is only a small sliver of even the North's backward economy. Opponents of a ban say it would simply help North Korea shut out the outside world.

Even if travel restrictions are put in place, talks like those that secured Mr Warmbier's release may still continue, says Scott Snyder of the Council on Foreign Relations, an American think-tank. China, with which America held security talks this week, is keen to promote dialogue over North Korea's quest to build nuclear missiles capable of hitting America. Indeed, it will argue that growing tensions make talks more necessary than ever.

Passive obsessive

Japan’s government is in two minds about smoking

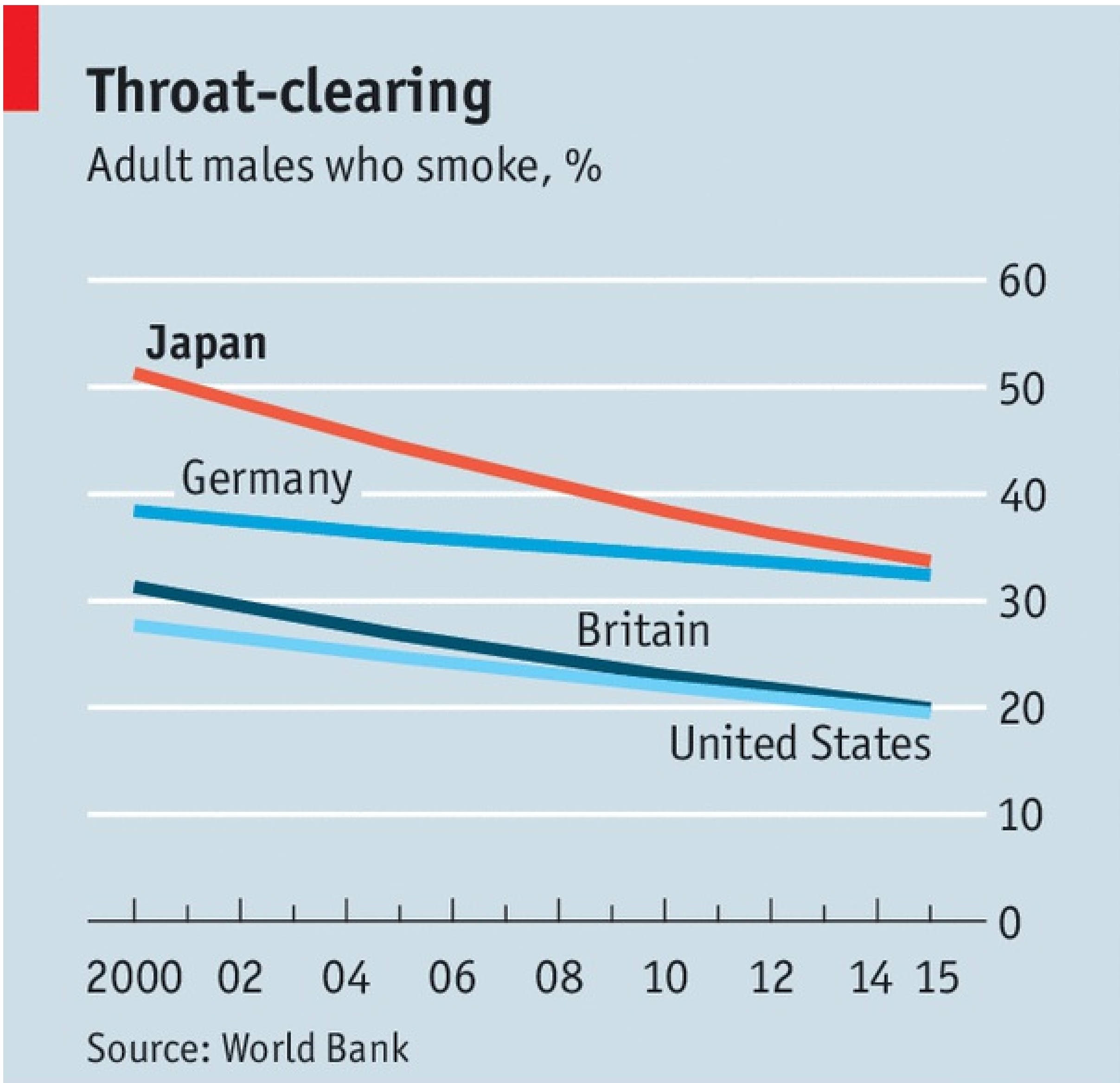
It brings in a lot of money but makes lots of people ill

Jun 22nd 2017 | Tokyo

TARO ASO, Japan’s finance minister, is a seasoned champion of the political gaffe. Among his most notorious observations was that health costs could be cut if elderly people would just hurry up and die. Even by that standard, however, the doubts he has expressed about the link between cigarettes and lung cancer have raised eyebrows. Mr Aso’s scepticism might just be wishful thinking: he is, after all, a lifelong smoker. But his ministry also rakes in more than ¥2trn ($18bn) a year from tobacco taxes and owns about a third of Japan Tobacco, the world’s fourth-largest cigarette-maker.

Campaigners have railed for years against the anomaly of a government that simultaneously sells cigarettes and discourages smoking. One likens it to accelerating a car with the brakes on. The debate has come to a head over a proposed ban on smoking inside most buildings other than private residences, to protect people from passive smoking. The health ministry wants it in force before millions of tourists arrive in Tokyo for the Olympics in 2020.

Nearly 70% of MPs from the Liberal Democratic Party (LDP), to which Mr Aso belongs, have joined a group that opposes the ban. Egging them on are a small but influential group of tobacco farmers, and the huge catering industry, which frets that the measure would force thousands of small bars, restaurants and *izakayas*—Japan's beloved and ubiquitous gastropubs—out of business. Most passive smoking, responsible for at least 15,000 deaths a year, occurs in such premises, the health ministry says.



Economist.com

Health bureaucrats have fought a series of skirmishes with the industry, with some effect: smoking rates among men have fallen by 17 percentage points since the early 2000s (see chart); about 18% of adults smoke. Tokyo and some other cities prohibit smoking on the street. But the only passive-smoking law is non-binding, merely requiring property owners and employers to “endeavour” to protect customers and workers from exposure. Among the odd consequences is that Japanese smokers must often nip indoors for a puff.

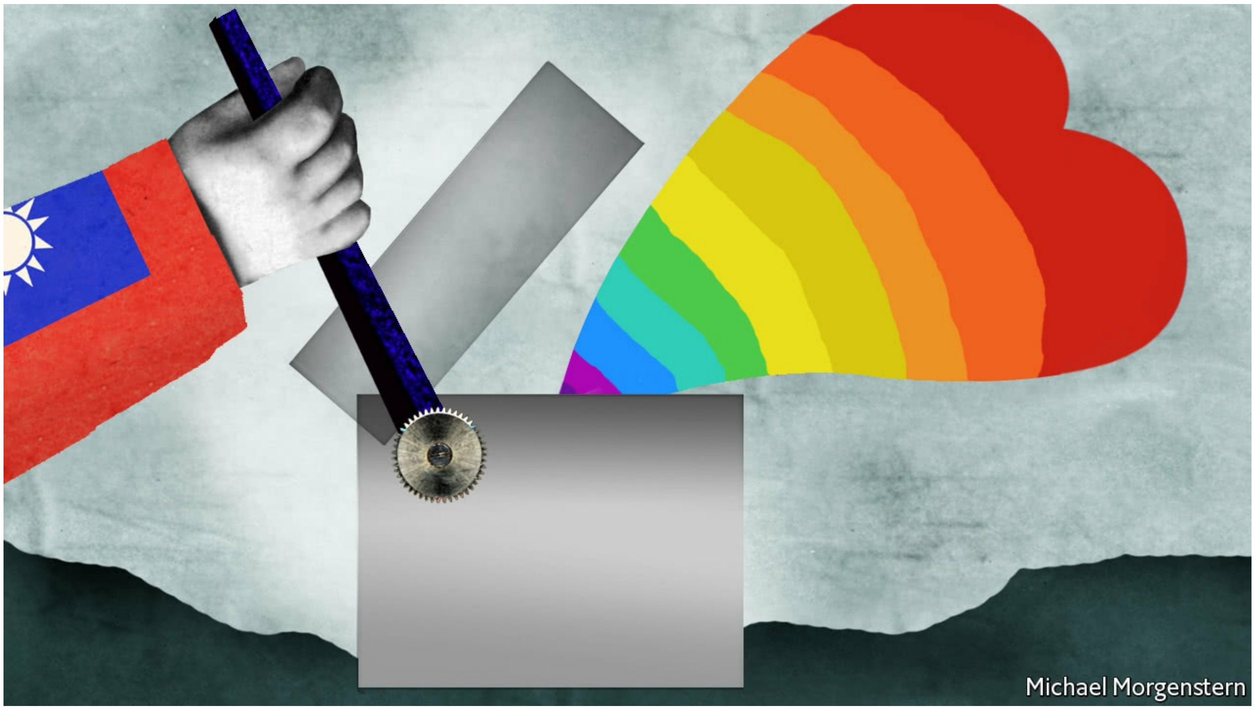
Both sides have dug in, stalling legislation that was supposed to have been passed before the Diet shut up shop for the summer on June 18th. The health ministry fears that the proposed ban may now go up in smoke. The LDP wants smoking to remain widely permitted, with bars and restaurants required only to post a sign at the entrance to indicate whether it is allowed or not. That would still lead to many needless deaths, says Tokuaki Shobayashi of the health ministry. Instead, it suggests an exemption only for small establishments.

Mark Levin of the University of Hawaii argues that the catering lobby’s fears are groundless: laws requiring smoke-free premises do not reduce business at most venues, and sometimes even increase it. After all, he says, “most customers appreciate clean air”. A noted bon viveur, Mr Aso is known to love a cigar after a good meal. But he and his colleagues do at least seem ready to concede a tightening of the rules in places other than bars and restaurants. Every man should enjoy his pleasures, says Mr Shobayashi, but elected officials should decide policy based on science and the public good, not because they fear they’ll run out of places to light up.

Banyan

One country in Asia has embraced same-sex marriage. Where's next?

Hong Kong looks promising



Jun 22nd 2017

LET'S hear it for Taiwan. Late last month its highest court ruled that the law allowing marriage only between a man and a woman was invalid. Sexual orientation, it said, is "an immutable characteristic that is resistant to change"—rebutting a widespread view across Asia that homosexuality is a curable disease. Barring same-sex couples from marrying violated the right to be treated equally, the court concluded. It gave parliament two years to change the law. If it fails to do so, gay couples will be able to go ahead and register as married anyway.

For Chi Chia-wei, the case's most ardent backer, it has been a long fight. He was a teenager when he came out to his family in 1975. When he made a public declaration of his homosexuality in 1986, Taiwan was still under martial law; he was arrested and jailed. Nineteen years after the Netherlands became the first country to legalise same-sex marriage, Taiwan has become the first in Asia. Which will be second?

Certainly not Afghanistan, where sexual acts between men are punishable by death. Indonesia does not have a national law against sodomy. But that did not help two young men caught by vigilantes having sex in Aceh province, which was allowed to adopt *sharia* law in 2001 as part of a deal to end an insurgency. They were whipped in public, as a crowd jeered and filmed the spectacle on their smartphones. A member of the Acehnese clerics' council told the crowd that the canings were thoughtful, educational and "do not violate human rights".

The way gay people are treated in Asia is confusingly diverse. Three main factors affect it. The first is the degree of civic freedom a jurisdiction enjoys, in the form of a thriving democracy and a strong civil society. The second is the degree of social openness—ie, how accepting is society of sexual minorities? Last comes religious tolerance: how aggressively do religious institutions object to deviation from sexual norms?

It is not hard, therefore, to understand why Afghanistan is such an awful place to be gay. Civil society remains fragile or, in Taliban-controlled areas, non-existent. Society is largely governed by traditional norms. And Afghan clerics are fiercely conservative. By contrast, Thailand may be socially accepting, but the generals have hollowed out politics and pinioned civil society.

Taiwan scores strongly in two areas. Its civil society is Asia's most vibrant, and social acceptance of gays has grown rapidly in recent years. In 2001 nearly three-fifths of Taiwanese were against same-sex marriage. Today, polls suggest that half support it, and another quarter do not have strong views. Yet even in Taiwan, acknowledging same-sex relationships faced resistance. Christian groups helped to stall a bill by threatening to turf out any legislator who favoured gay marriage. Taiwan's president, Tsai Ing-wen, was an advocate of gay rights on the campaign trail but is timid on the subject in office.

Even stronger Christian conservatism colours another ex-dictatorship with a vigorous civil society: South Korea. There, national security is used to justify some illiberal impulses. Civilian law protects gays from discrimination, but in the armed forces, where there is conscription, sexual relations between men are deemed to be "reciprocal rape" and subject to up to two years in prison. Last month a captain broke down in the dock after being given a suspended six-month sentence. Human-rights groups accuse the army of "hunting down" gay soldiers—more than 30 have been investigated this year. Almost three-quarters of South Koreans in their 20s see gay issues as a matter of human rights, and many have protested against the army's actions. But their elders remain conservative. South Korea's new president, Moon Jae-in, although a progressive in other respects, said in a presidential debate that he "opposed" homosexuality.

Some think Singapore may be number two. In nine years attendance at its annual "Pink Dot" event has swollen from 2,500 to perhaps 30,000. Gay Singaporeans bring relatives along, and the involvement of non-gay groups, says Paerin Choa, a lawyer and one of the organisers, does a lot for the cause. Singaporean businesses are increasingly open-minded. After the government ruled that foreign firms could not sponsor political rallies, 120 local ones replaced the donations that multinationals had previously made. Yet sex between men remains illegal under section 377A of the penal code. Counting as "outrages on decency", it is sandwiched between "sexual penetration of a corpse" and "sexual penetration with living animal". What is more, religious conservatives agitate against a review of the code. Disapproving Christians and Muslims meet on a Facebook page called "We are Against Pink Dot in Singapore"—an unusual union in itself.

India, the biggest democracy, will win no prizes, having a conservative society, a Hindu-nationalist party in power and a colonial-era law against gay sex almost identical to Singapore's. China does a bit better. In 1997 it decriminalised "hooliganism", which was a euphemism for gay sex. But television is banned from showing "abnormal" relationships. In late May China's biggest lesbian dating app, with 5m users, was suddenly shut down.

Special permissive region

What about Hong Kong? Homosexuality was decriminalised in 1991, though same-sex couples are recognised only in the territory's domestic-violence ordinance. An anti-discrimination law applies only to government employees, with some multinationals adopting their own codes. Yet Hong Kong does pretty well in all three areas. Homosexuality is not taboo among the young. Civil society is vibrant. And though a striking number of politicians are Christian, they tend to be in the territory's democratic camp. Joshua Wong, a devout 20-year-old who rose to prominence in the "umbrella protests" of 2014 in favour of universal suffrage, is a good example. One of the people whose ideas he campaigns against is his father, a prominent anti-gay activist.

China

- **Politics in Hong Kong: Still on borrowed time** [Fri, 23 Jun 09:03]

Still on borrowed time

Two decades after taking over Hong Kong, China is getting tougher

Will the territory's new leader, Carrie Lam, stand up to its meddling?

Jun 22nd 2017 | HONG KONG

TWO decades ago a media circus descended on Hong Kong to witness its transfer, after a century and a half as a British colony, to Chinese rule. The handover on July 1st 1997 was an extraordinary, and for many, a poignant moment—not least for the people of Hong Kong, who had created a phenomenal economic success and who were now being placed in the care of a Leninist one-party state.

Britain's acquisition of the "barren rock" of Hong Kong in 1842 after a brief, unequal war marked the rise not just of a small, aggressive, mercantile, maritime power but the ascent, in general, of the West. Equally, it marked the decline of a once-great civilisation. Hong Kong's return brought the narrative full circle. For all the pomp, it was clear that Britain was just another so-so power, and China a fast-rising one that might one day eclipse the West. For the government in Beijing it was a moment of triumph: China was back.

On July 1st, in the same convention centre in which the handover ceremony was held, the country's president, Xi Jinping, will join celebrations to mark the 20th anniversary of the handover—his first visit to the territory as China's leader. He will preside over the swearing-in of Carrie Lam (pictured) as Hong Kong's chief executive in place of "C.Y." Leung Chun-ying. Mrs Lam, who previously served as head of the civil service, will be the first woman to lead the territory.

Mr Xi is certain to praise the success of "one country, two systems", the formula China prescribed for Hong Kong. But he will be uneasy. Many people in Hong Kong are bitterly frustrated by their lack of say in how they are governed. And the growth of a "localist" movement in Hong Kong over the past five years, demanding self-determination or even independence, has greatly angered a Communist Party for which absolute sovereignty—ie, the regime's security—is the bottom line.

Carrie Lam faces tough times ahead

Two systems, converging

China’s formula was intended to reassure Hong Kong that it could keep its capitalist economy, its independent courts and its politically liberal (if undemocratic) culture. Yet it will be lost on no one that Mrs Lam, like her predecessors, was chosen not by ordinary Hong Kong people but by 777 votes in a nominating process tightly controlled by the party. A striking feature of Mr Leung's five years in office has been the growing sway and visibility of the central government's organ in Hong Kong. Known as the Liaison Office, it was once low-key. Some now divine a parallel government operating in the territory.

Just as they will be on July 1st, the people of Hong Kong were mere extras 20 years ago. They had not been consulted about the terms of the handover, including the drafting of the territory's new mini-constitution, the Basic Law, which promised a "high degree of autonomy" and a way of life that would remain unchanged for 50 years. A lack of confidence in Hong Kong's future had prompted a rush to obtain full British or other Western passports and to find boltholes abroad.

Yet as the handover date approached, a generally positive mood prevailed among ordinary citizens. Opinion polling by Hong Kong University showed twice as many people satisfied with their lives as not. After all, China's economy was beginning to take off. Indeed the whole region was booming. Hong Kong seemed extraordinarily well-placed to benefit. Early impressions of Chinese rule reinforced optimism. When the People's Liberation Army crossed the border into Hong Kong, they disappeared into barracks. The goosestepping was confined largely to the convention centre (most people have yet to see a Chinese soldier on the streets).

Hong Kong remains distinct—not only the most prosperous part of China but also the freest. Hong Kong's courts are still respected globally for their professionalism and unbiased rulings. The press still airs vigorous criticism of the local government and of China's leaders. Political debate is vibrant and protest is permitted, including by organisations such as Falun Gong that are banned on the mainland. Hong Kong's way of doing business has not noticeably eroded, despite an influx of Chinese "red-chip" companies raising capital in Hong Kong (its stock exchange is vying to attract them, see article).

But since the handover, and especially in the past five years, anxieties have grown. They have been fuelled by subtle changes in Hong Kong's political culture ("mainlandisation", as some describe it) and intrusions by the Chinese state. In 2015 Chinese secret police abducted a bookseller to the mainland; earlier this year they did the same to a Chinese tycoon.

Democrats complain about ever-more-blatant attempts by China to manipulate elections, journalists about self-censorship in the media and university staff about politically driven appointments. Lawyers fear an erosion of judicial independence caused by China's efforts to make sure that the Basic Law is interpreted to suit the party's political needs. Its latest constitutional pronouncement, in November, aimed to prevent two localist legislators from taking up their posts on the ground that they had deliberately garbled their oaths when they were sworn in. A court in Hong Kong was already considering the legality of their oaths; China wanted to stop it reaching the wrong decision.

Dashed hopes

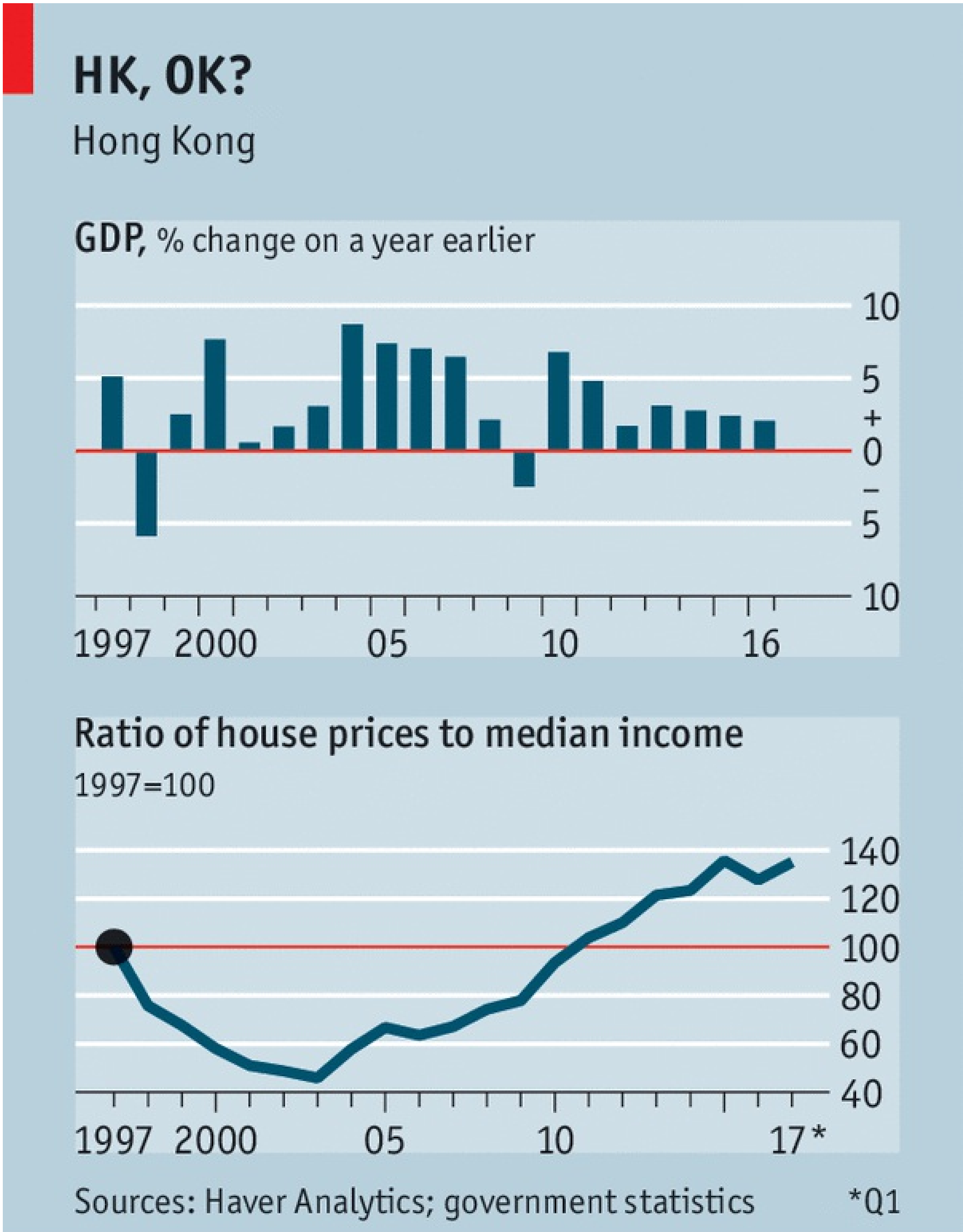
At the time of the handover, *The Economist* expressed hope that Hong Kong would serve as a laboratory for political change on the mainland. "What if", we asked, "Hong Kong takes over China?" Instead, over the past two decades, and especially under Mr Xi, the party has shut down dissent on the mainland. Politics there has grown only more illiberal. Protecting Hong Kong from this trend will require considerably greater vigilance by its government and people. The greatest risk, as one former senior official says, is that political and business elites in Hong Kong, rather than strongly making the case for Hong Kong's autonomy, fawningly cede it to the Liaison Office, or to the party in Beijing.

In the past it was easier to argue that China risked damaging itself by interfering in Hong Kong. At the time of the handover, the colony, with a population of 6.5m (now 7.3m), had an economy equivalent to a fifth of that of the mainland, with its population of over 1bn. This may partly explain why, for the first few years after the handover, China let Hong Kong's government rule much as it wished, as long as it did not challenge the mainland politically. Anson Chan, who represented continuity as civil-service chief under both the last British governor, Chris Patten, and the first chief executive, Tung Chee-hwa, says that not once in four years did she have contact with the Liaison Office as part of her work.

But China no longer feels so beholden to Hong Kong for its economic welfare. The territory's GDP is now less than 3% of the faster-growing mainland's. And as China's economy rapidly becomes more integrated with the rest of the world, Hong Kong's no longer looks so special to officials in Beijing. In his book, "A System Apart", Simon Cartledge (formerly of the Economist Intelligence Unit, a sister firm of this newspaper) argues that Hong Kong's economy is "stuck, with remarkably little change to show for the last two decades". Trade and logistics, which are exemplified by Hong Kong's container port, make up nearly a quarter of GDP, little different from the mid-2000s. Finance accounts for 17%—little changed either.

China, however, has changed a lot. In many ways it is now a rival. Ports in the city of Shenzhen just across the border now do more business than Hong Kong. And Hong Kong's role as a financial hub is no longer as important to China as it once was. The bourses in Shanghai and Shenzhen do far more trade and are strengthening their links with global markets (see article).

The rise of an economically powerful China—one less bashful about asserting its authority in Hong Kong—has coincided with growing gloom in the territory about its own economy. When measured by GDP per head, Hong Kong's performance over the past two decades has been respectable. It is worse than other Asian tigers (and Ireland, the Celtic tiger), but better than almost everyone else. Yet its boom days are over. In the 1970s Hong Kong's annual GDP growth averaged 9%; in the 1980s, 7.4%. But from 1998 to 2016 it averaged just 3.3%. And during Mr Leung's tenure, the figure was 2.3% (for annual rates, see chart). Even the one notable growth area, tourism, contributes mainly low-paying jobs and a huge influx of mainlanders whom many Hong Kongers resent. They call them "locusts" for the frenetic way they shop.



Economist.com

A slowdown is inevitable as any fast-growing economy matures. Yet many people are disgruntled. Inequality is rising, soaring property prices make it hard to afford a flat (nearly half of Hong Kongers live in public housing), and general satisfaction is sharply lower than it was a decade ago.

The economy has long been dominated by the same conglomerates and increasingly elderly tycoons. Property development is the most conspicuous example. A few giants are allowed a lock on a lucrative market because property is the government's chief source of taxation. But other industries, often related to the developers, also operate as monopolies, duopolies or cartels. They include supermarkets, power, ports and aviation. From nothing, Shenzhen has given birth to such tech giants as Tencent, Huawei and ZTE; entrepreneurs in Silicon Valley salivate over the Chinese city's prospects. Hong Kong has no such energy. Preserving wealth trumps creating it. A seventh of Hong Kongers are poor. On the streets at night old women collect cardboard to make ends meet.

With pinched prospects and inequality on the rise, it is hardly surprising that many feel the government is out of touch. There was an underappreciated economic dimension to the dissatisfaction expressed in the "Umbrella" protests in favour of free elections that blocked several major roads for more than 11 weeks in 2014. Similar sentiment was evident in elections for the Legislative Council (Legco) in September, in which localists secured a fifth of the popular vote, as well as in the underwhelming public reception of Mrs Lam's elevation.

In Beijing, Hong Kong's political mood is interpreted as rank ingratitude at best, treason at worst. Both the central government and Hong Kong's pro-Beijing elites long to turn Hong Kong back to what they like to call an "economic" city, putting politics back in the bottle. That is wholly to miss the point. China's efforts to keep Hong Kong's economy running as it did in colonial days have compounded the local government's political problems today.

Under the British, the government was pro-business but not of business. Since 1997 business interests have been baked into the political system (Mr Tung, the first chief executive, was a shipping magnate). Conflicts of interest have multiplied. Cronyism has grown. To date, the tenures of all chief executives have ended in ignominy or failure. The government has been reluctant to foster change. It could have tried to broaden the tax base so as to reduce its dependence on property. To broaden its appeal, it could have sought to let political parties be represented in government. It has done neither.

In office, Mrs Lam will struggle to break with this legacy. Though a hard-working bureaucrat, her cosy relations with the central government undermine her credibility locally. She is prone to curious gaffes, such as admitting she did not know where to buy lavatory paper. Above all, she is struggling to bring together a competent administration. As a gulf of legitimacy grows between the government and the governed, able people from outside the bureaucracy are less willing to take cabinet positions. Mrs Lam can always recruit members of the civil service into political posts, but that drains a respected service of competent and experienced administrators.

Shadowy government

One unwelcome consequence of the mess is that the baneful presence of the Liaison Office is even more likely to grow. As it is, the central government's outpost has abandoned any pretence at remaining low key. It provides loans to businesses. It has bought up Hong Kong's largest publishing house and book-chain owner. (Titles critical of the party have, of course, been removed.) It openly lobbied for Mrs Lam to be endorsed by Hong Kong's tame election committee. Some analysts believe it influenced her decision to choose Hong Kong's immigration chief—whose relations in that capacity with mainland authorities had been central to his work—as her future chief secretary, despite his lack of administrative experience.

One of these characters wields great power

The office's representatives get pride of place at civic functions. And it backs candidates sympathetic to the Communist Party in elections to district councils and Legco. Last year the office's chief, Zhang Xiaoming, allowed his calligraphy extolling moral strength to be auctioned to raise funds for the main pro-Beijing party, the DAB (he is pictured above at the event, wearing a blue tie). A businessman with mainland interests bid HK$18.8m ($2.4m) for the art. “And it was really bad calligraphy,” says a former official. Many in the democratic camp see the creeping arm of the Liaison Office, Hong Kong’s “second team”, as a breach of China’s promises to Hong Kong—and a possible conduit for mainland-style corruption.

Economist.com

For those Hong Kongers with the territory's interests at heart, the past 20 years offer some lessons. One is that for all the Communist Party's might, and a want of democratic representation, popular opinion—strongly expressed—counts for something. Mr Tung's attempt to pass an anti-subversion law demanded by the central government led to huge protests in 2003, the bill's shelving, and Mr Tung's eventual resignation. Protests in 2012 stopped a move to foist on schools a programme of Communist-inspired patriotic education. And even though Mr Leung patiently wore down the Umbrella protests by refusing to make concessions, his actions fostered a younger generation of political activists, many of them teenagers. That generation identifies far less with the mainland than do those who witnessed the handover.

Localism may help to preserve some of what makes Hong Kong distinct, but its rise is creating fractures in the pro-democracy camp. Under pressure from localist radicals, moderates are finding it more difficult to compromise with the government. Hence their rejection of a political-reform package in 2014 that would have allowed universal suffrage in choosing the chief executive, but with only vetted candidates running. Localism has also encouraged hardliners in Beijing to treat the territory as a potential political threat. Mrs Lam will take over an administration that feels overwhelmed by such conflicting pressures. Once a gung-ho place, Hong Kong these days struggles even to put in place sensible rubbish-recycling policies or push forward oft-stalled plans for a world-class cultural district. The quotidian falls victim to broader ideological struggles.

For all the current protest-fatigue, those struggles are bound to continue. Under British rule, Hong Kong was often referred to as a borrowed place on borrowed time (a description inspired by the title of a classic book about the territory by Richard Hughes). Time still haunts it. Nathan Law, an advocate of self-determination who at 23 is Legco's youngest member, points out that 20 years since the handover is also just 30 years until July 1st 2047, when all formal promises about Hong Kong's autonomy are void. In May last year, protesters displayed a countdown in seconds to that date on Hong Kong's tallest skyscraper; see picture. To Mr Law's generation, he says, 2047 is not far away; he will still be in his prime. It is why, he argues, there is all to play for now.

Counting down to the next big date

The Communist Party and its Hong Kong backers are clear about how to play the game: restrain democracy and try to exclude from elections any candidate they deem to be sympathetic to independence. Chinese officials have been making it clear to Mrs Lam that they want the shelved anti-subversion bill to be revived; as they see it, such a law would be a useful weapon against separatists.

A better approach

So Hong Kong needs a new form of politics that involves playing a long game cannily. Mrs Lam does not seem the kind of person to argue doggedly in defence of Hong Kong's rule of law, its way of life or its right to have free elections. But both she and her critics must find the confidence to seek new ways of co-operating with China economically. That will stick in the craw of people keen to safeguard Hong Kong's distinctiveness. Yet dogged opposition to everything China does will make the party all the more inclined to tighten control. Let the game begin.

Middle East and Africa

Heir lifted

Understanding Saudi Arabia's new crown prince

Muhammad bin Salman is a shocking yet predictable choice

Jun 22nd 2017 | CAIRO

FROM the moment he was named deputy crown prince in April 2015, Muhammad bin Salman seemed destined for the throne. The favourite son of King Salman, aged only 29 at the time, was handed control of the kingdom's economy and made responsible for its defence. His youthful face was plastered on billboards around the kingdom—but with him, always, was the image of his older cousin, Muhammad bin Nayef, who as crown prince stood between the king and his favoured successor.

That is no longer the case. On June 21st King Salman dismissed the crown prince and replaced him with Muhammad bin Salman, who sealed the changeover by kissing his cousin's hand as the former crown prince left the Safa palace in Mecca (see picture). "I pledge allegiance to you through the best and the worst," said the demoted prince. Video of the exchange went viral. The authorities are keen to give the impression of an orderly transition.

State media reported that 31 of the 34 princes in charge of succession approved the change.

But the move will surely irk some royals. King Salman is the sixth son of Saudi Arabia's founding monarch to reign. He shook things up in 2015, when he passed over his remaining brothers and named Muhammad bin Nayef, his nephew, as crown prince. The elevation of his son is an even more striking break with tradition. Power is now concentrated in a single branch of the family tree. Royals on the other limbs see the new crown prince as a man in a hurry—too much of one. Concerns abound over his ambitious agenda at home and his rash interventions abroad.

Muhammad bin Salman (or MBS, as he is called) hopes to wean the economy off oil and bring down vast budget deficits. Economists have welcomed his plan, known as Saudi Vision 2030. But its implementation seems precarious. When civil servants howled about plans to cut their ample pay, the government backed down in April. As the king announced MBS's promotion, he also promised to reinstate bonuses and benefits that MBS had cut. That will add billions to this year's budget deficit, already projected to reach 12% of GDP. The government says its finances are improving, but businessmen question its figures and the oil price is tumbling again.

The happy prince

Analysts fear that MBS's personal ambition makes him a less effective reformer. His recent economic manoeuvring, which also included promises of free housing, may have been aimed at shoring up support ahead of his promotion. Similarly, after taking the kingdom to war in neighbouring Yemen in 2015, he was happy for a while to pose as a dashing military leader. But as the conflict turned into a quagmire, he has stepped back from the limelight, and the decision to go to war has been recast as a collective one.

Even so, the war has hurt his credibility, and he seems to have learned little from it. On June 5th Saudi Arabia led other Arab countries in blockading Qatar, alleging that the tiny gas-rich monarchy supports terrorism and is too cozy with Iran—charges it denies. No one knows what MBS's endgame might be. Some fear that, in attempting to assert the kingdom's primacy in the region, he risks destabilising it. Even the prospect of this unnerves foreign investors, whom MBS is trying to woo.

It is possible that the king had hoped to consolidate his succession before his health failed him. (It is not unusual for the fortunes of Saudi royal offspring to take a turn for the worse on the death of their father.) Some put the timing down to President Donald Trump's visit to Riyadh, the Saudi capital, in May. MBS curried favour with Mr Trump by buying $110bn worth of American weapons, cynics say.

A number of important positions changed hands on June 21st, and even more in the past several months. All the recent moves seemed aimed at consolidating power around MBS. He has, for example, won the loyalty of royal uncles by giving their sons prominent posts. His own brother, Prince Khalid, was appointed ambassador to the United States in April. A young and little-known prince called Abdulaziz bin Saud bin Nayef was named interior minister, thus ending Muhammad bin Nayef's long involvement in the kingdom's security. His efforts to defeat terrorists were generally considered successful. Allies saw him as a reliable partner. His ministry was perhaps the best-run government office in the kingdom.

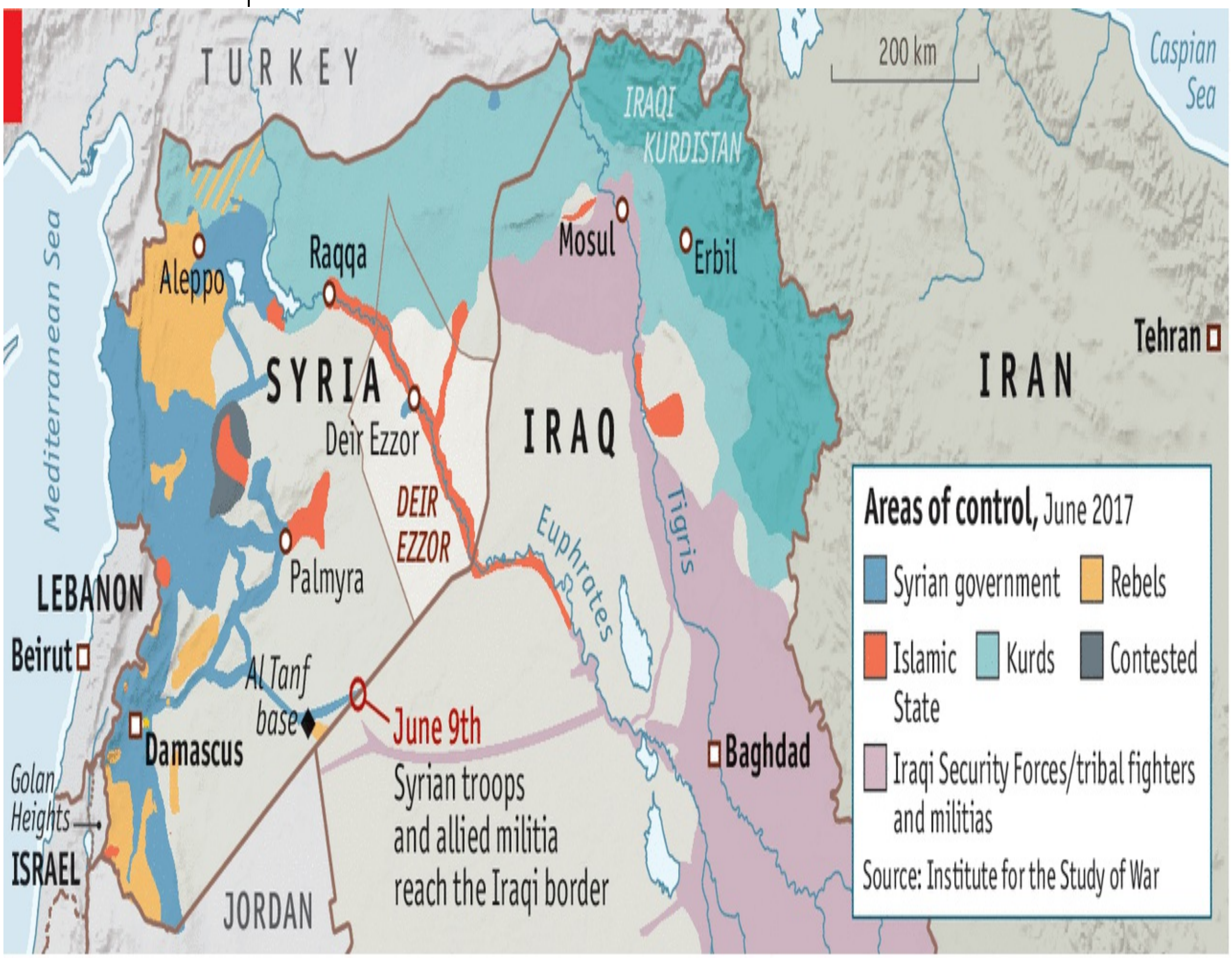
The defence ministry run by MBS has, however, not done at all well in prosecuting the war in Yemen. After kissing his older cousin's hand on his way out of the door, MBS told him, "We are always in need of your direction and guidance." Many Saudis hope he means it.

Iran's long road to Damascus

Syria's multi-sided war escalates yet again

The Iranian envelopment

Jun 22nd 2017 | BEIRUT



Economist.com

ON JUNE 18th the unexpected happened. For the first time since America's involvement in the skies over Kosovo 18 years ago, an American fighter plane shot down a hostile jet. America targeted the Syrian plane after it bombed American-backed forces battling to drive the jihadists of Islamic State (IS) from their capital in the Syrian city of Raqqa.

The downing of the Syrian plane and a string of recent air strikes and skirmishes between ground forces backed by America and Iran, have opened a new chapter in the multi-sided Syrian war. This raises concerns of further escalation in a conflict that has already sucked in neighbours and regional powers. Russia, enraged by the attack on the regime it supports, threatened in retaliation to track American warplanes with its missile systems should their pilots stray west of the Euphrates river. And Iran, which already supports the regime of Bashar al-Assad, Syria's dictator, with ground troops, escalated its involvement on June 18th by firing a volley of ballistic missiles into a city in eastern Syria controlled by IS.

Behind these shows of force is a desperate race between an emboldened Syrian regime (and its Russian and Iranian allies) and American-backed forces to grab the rump of territory controlled by a faltering IS along Syria's border with Iraq. It is a race that America and its allies may lose.

On June 9th the Syrian army and Iranian-backed militiamen reached the border with Iraq for the first time since 2015. Meanwhile, in Iraq, yet more Iranian-backed fighters are pushing south along the border through IS territory to link up with their allies in Syria. If they succeed, Iran will have secured a major objective: control over a land corridor that runs from Tehran to Beirut, via Iraq and Syria (see map).

Gaining a land bridge will allow Iran to increase its already substantial shipments of arms to its Lebanese ally, Hizbullah, a militia and political party. It will also make it easier for the Syrian regime and Iran to co-ordinate with Iraq's Shia militias as the regime's forces push deeper into the oil-rich province of Deir Ezzor. This is one of IS's last strongholds and was a bedrock of the Syrian economy before the war.

Iran's gambit in the east will worry hawks in President Donald Trump's administration, who argue that Iranian influence in Syria and the wider Middle East needs to be resisted. It also may stymie an attempt by American-backed Syrian rebels to push into Deir Ezzor from the south.

So far, America has shown little appetite for countering Iran's desert manoeuvres. American warplanes have bombed Iranian-backed militias twice since May 18th and shot down two Iranian-made drones close to a remote garrison at Al Tanf used by American and British special forces. But, as with the downing of the Syrian air force jet, America says it carried out the strikes in self-defence and that they do not signal a broader strategy to confront Iran, the Syrian regime or Russia.

Yet there is also little Washington can do to push back Iran or the regime without inflaming the conflict and hindering the fight against IS. Iran's presence in Syria is formidable. It has poured in thousands of militiamen from Iraq, Afghanistan and Pakistan, and propped up the regime with billions of dollars in loans. Iranian firms have won fat contracts in telecoms, mining, agriculture, oil and gas.

America's plan to contain Iran thus hinges on enlisting the help of Russia. It hopes to establish a buffer zone in southern Syria along the border with Israel and Jordan that is free of Iranian-backed forces. That may partly be to avert yet another possible cross-border conflict. Israel has repeatedly said it will not tolerate Iranian-backed militias on the Golan Heights, part of which was captured by Israel in 1967. It has reinforced this unofficial red line with air strikes on Syrian and Iranian-backed forces in the area.

As Syria's border regions become ever more congested with combatants, the risk of an unintentional escalation is increasing. Peace is nowhere in sight.

A horse walks into a controversy

Israel’s artists are celebrated abroad; less so at home

Culture wars in the Jewish state

Jun 24th 2017 | JERUSALEM

IT WAS a red-letter day for Hebrew literature. On June 14th David Grossman, one of Israel’s most celebrated authors, won the Man Booker International Prize for “A Horse Walks Into a Bar”. Also on the shortlist of six was another Israeli, Amos Oz. For a small country whose politicians normally gush over any international accolade, the response was uncharacteristically terse. It took Binyamin Netanyahu, the prime minister, nearly 24 hours to post a single sentence of congratulation.

Mr Netanyahu’s reticence is indicative of a cold war between right-wing nationalists and the country’s left-leaning cultural elite, epitomised by Mr Grossman. The two men clashed in 2015 when Mr Grossman was among a group of writers who renounced their candidacy for the Israel Prize for Literature after Mr Netanyahu tried to remove some judges whom he claimed were “anti-Zionist”.

Mr Grossman received the Booker for one of his least political books. But for more than three decades he has been an eloquent critic of Israel's policies in the territories it occupied in 1967. "Yellow Wind", a collection of essays on the condition of Palestinians under Israeli rule published in 1987, is still considered one of the sharpest depictions of the 50-year-old occupation of the West Bank.

Jessica Cohen, who shared in Mr Grossman's prize for translating the book into English from Hebrew, said she would donate half of her award to B'Tselem, an Israeli human-rights group. It was a pointed rebuke to Mr Netanyahu, who had recently said he would support a law that would prevent such groups receiving money from foreign governments.

Some of Mr Netanyahu's cabinet ministers offered more generous praise, even if they remain eager culture warriors. Among them is Naftali Bennett, the education minister, whose ministry removed from the state curriculum a novel featuring a romance between an Israeli and Palestinian. Another is Miri Regev, the culture minister, who has backed the exclusion of a play from a theatre festival because it was about Palestinian prisoners. Ms Regev, a former army censor, has also threatened to withdraw state funding from a cultural festival for staging a play featuring nudity, saying it would harm Israel's Jewish values. Still, at least she tolerates terrible puns. "Grossman is definitely a winning horse," she said of his book's award.

Democracy in reverse gear

A Zambian opposition leader fights treason charges for not stopping his car

No one may slow the presidential motorcade

Jun 24th 2017 | LUSAKA

TRAFFIC offences rarely undermine democracy. In Zambia, however, the government's pursuit of a high-profile traffic offender has done just that. On April 8th a convoy of cars carrying Hakainde Hichilema, the main opposition leader, did not stop on the side of the road to make way for a motorcade carrying Edgar Lungu, the president. Two days later police raided Mr Hichilema's home and whisked him to prison. On June 8th a magistrate sent the case to the High Court, where Mr Hichilema (pictured) and five others face charges of treason for allegedly putting the president's life at risk. Mr Hichilema, a businessman, denies the charge, saying it is motivated by "hatred" and "political competition".

In politics, as on the road, Mr Hichilema has not been giving way to his rival. He continues to dispute the results of a presidential election held last August.

Official tallies gave him 47.6% of the vote and Mr Lungu 50.4%. A court challenge from Mr Hichilema was thrown out on a technicality, but he continues to press his case.

Mr Hichilema's arrest underscores a broader attack on democratic institutions taking place under Mr Lungu. A feisty independent newspaper, the *Post*, was closed last year, ostensibly because it had not paid its taxes. This month 48 opposition MPs were suspended from the legislature after they refused to attend a speech by Mr Lungu. The Catholic Archbishop of Lusaka has said the country is now a "dictatorship" in all but name. Mutale Nalumango, the chairwoman of the opposition United Party for National Development (UPND), says the ruling Patriotic Front (PF) is "working towards a one-party state".

Zambia has seen worse. For 27 years after independence, it endured incompetent single-party socialist rule under President Kenneth Kaunda. But the country opened up to multiparty democracy in 1991, after the cold war ended, and for much of the time since then it has been reasonably democratic. Power has changed hands twice at the ballot box. Until recently political violence was unusual, but several people were killed during last year's election and the police sometimes beat up opposition supporters.

Against this backdrop, Mr Lungu is gearing up for a third term in 2021. The constitution allows only two, but Mr Lungu's supporters insist that his first term does not count because it was not a full one: he came to power in 2015 after the death of a predecessor. The constitution is conveniently ambiguous on that point.

Even if Mr Lungu does run again, he may struggle to win. His government has to make spending cuts to plug a budget deficit of 7% of GDP, the result of low (though improving) prices for copper, the country's main export. It is in talks with the IMF and is already raising fuel and electricity prices in anticipation of a deal.

Zambian democracy has survived setbacks and cheap copper before. But right now the hands on the steering wheel seem rather reckless.

---

east-and-africa/21723827-no-one-may-slow-presidential-motorcade-zambian-opposition-leader-fights/print

No papers, no peregrination

The challenges of getting a (real) passport in Africa

Too many African countries make it hard for their people to travel

Jun 22nd 2017 | NAIROBI

AFRICANS who want to travel have long endured gigantic hassles when trying to obtain visas, not just to rich countries but also to other African ones. Ugandans now face an extra hurdle before they even reach a foreign embassy. On June 12th the government said it was running out of new passports and would ration them. They will be issued only to people suffering medical emergencies, or needing to travel for government business or to study. Everyone else will have to wait, possibly for months.

Uganda says the shortage is because of a surge in demand. It is not the only country where getting identity documents has proved difficult. Until last year Zimbabweans would spend nights sleeping outside the passport office to avoid losing their place in the queue. At one point, no more were issued because the ink ran out. Nigerians, too, faced a passport drought when the company printing them slowed supplies as it haggled with the government over the price.

The shortage is particularly acute for Africans who live abroad. Queues of frustrated people demanding passports form most days outside Nigeria's high commission in London. Processing applications can take months, says Feyi Fawehinmi, a Nigerian living in London. A friend of his waited three months for his children's passports, only for them to arrive with the wrong names.

Perhaps those with the biggest cause to complain are citizens of the Democratic Republic of Congo. Its passports cost $185, making them some of the most expensive in the world. The average income in Congo is only $680, so this is utterly out of reach for most Congolese.

Unsurprisingly, there is a thriving black market in fake passports in Africa. Britain and New Zealand have ended visa-free travel arrangements with South Africa because of the large numbers of "counterfeit or fraudulently obtained" documents coming from that country. And last year America shut down a fake embassy, complete with the Stars and Stripes and a photo of President Barack Obama, that had been operating in Ghana for a decade. It had been selling fake visas to America for $6,000 each.

Most Africans who can afford one can at least get a passport, if they are patient. But for Eritreans, this is not enough. It is one of the few countries which, like the old Soviet Union, insist that citizens must obtain an exit visa to leave. It grants them only grudgingly, but this has not stopped Eritreans from escaping. By one UN estimate, some 400,000 have fled the dictatorial regime over the past decade, almost a tenth of the population. When you have no intention of going back, why bother with the right papers?

First we take Nairobi

In Africa, city elections are where the action is

As people move to the cities, ethnic politics may give way to something new

Jun 22nd 2017 | NAIROBI

AT A street corner in Kangemi, a neighbourhood of tin-roofed shacks and new brick tenements in the west of Nairobi, men huddle into what are called street parliaments. Standing several deep, they debate politics, each man speaking in turn, with a moderator at the centre. “We are done with these thieves,” says Jeremiah Mukaiti, a 53-year-old caretaker. “We need change.” Others pipe up with similar complaints. “The government is doing nothing. They steal money, and their promises come to nothing,” says Cyrus Injiloa, a 36-year-old security guard.

Much of the talk is about the general elections, which are scheduled for August. Voters will pick from candidates running for president right down to those standing as municipal councillors. Uhuru Kenyatta, the president, will probably win a second term; no incumbent Kenyan president has ever lost an election.

Go down a level, however, and politics is far more competitive, especially in Nairobi county, which includes the capital. The incumbent governor is Evans Kidero, a former businessman and a member of the opposition National Super Alliance. This year, Mr Kidero is fighting for his political future. It is a similar story in Mombasa, the second biggest city, where Governor Hassan Joho, a major opposition leader, faces a tight reelection campaign.

This pattern, in which opposition parties control big cities, is mirrored in many African states. Across the continent 85% of incumbent presidents who stand again win re-election. And ruling parties often dominate national assemblies for decades.

Yet competition is thriving in the cities. In Dar es Salaam, Tanzania's commercial capital, the opposition won the mayoralty last year for the first time ever. In Kampala, Uganda's capital, opposition parties dominate the city council, much to the chagrin of Yoweri Museveni, who has been president since 1986. In South Africa, the opposition Democratic Alliance (DA) won Johannesburg, Port Elizabeth and Pretoria last year, and has governed Cape Town since 2006. Of South Africa's big cities, only Durban is in the hands of the ruling African National Congress.

Such competition for cities and states in Africa can sometimes drive reform, says Nicholas Cheeseman of Oxford University. In South Africa the DA faces a huge challenge living up to voters' expectations. If it fails to improve people's lives, it could lose its strongholds. If it governs better than the ANC, it stands a chance of using cities as a springboard to winning more provinces (it already governs the Western Cape) or even to challenging the ANC's majority in parliament in 2019.

Similar strategies have been pursued by opposition parties elsewhere. In Nigeria, for instance, the Lagos state government was run for close to two decades by an opposition party, the All Progressives Congress (APC). The APC's record in Lagos, which raises much of its own revenue and provides better services than many other states, helped it win the presidency in 2015. (That was the first time an incumbent Nigerian president had been peacefully removed at the ballot box.)

If city politics can sway the national sort, that bodes well for the future.

Africa is urbanising faster than any other region: half of Africans will live in cities by 2035, according to the UN, up from around a third now. Yet Mr Cheeseman frets that competition in local politics could equally lead to the rise of "ethno-populism". Enterprising rabble-rousers, he fears, could use a mix of vote-buying and ethnic mobilisation to win control of local resources.

Specs and the city

One place where a new kind of politics is erupting is Nairobi. The governor's race is thrilling this year thanks to the arrival of Mike Sonko (pictured, in patriotic sunglasses) a candidate for the ruling Jubilee party. Mr Sonko's adopted name means "the boss" in Sheng, the Swahili-English creole used in Nairobi slums, and it reflects his colourful style. Mr Sonko was once ordered out of Kenya's parliament for refusing to remove his earrings and sunglasses; he often wears huge gold chains, and drives a gold-plated SUV.

Mr Sonko also has a controversial past. In 2010 he was named in Parliament by Kenya's then interior minister as being suspected of dealing drugs. (Mr Sonko could not be reached for comment despite repeated attempts by *The Economist*.) More than that, though, he is a populist. Part of his appeal among the poor is that he showers his own money on local services such as free ambulances (called the "Sonko Rescue Team"); he has promised to upgrade slums and cut taxes paid by market traders.

If Mr Sonko were to win it would be a blow to the various opposition parties that had hoped to use their grip over cities such as Nairobi and Mombasa to build up their share of the national vote. Yet it would also reflect a slow change in how Kenyan politics works. For the most part Kenyans vote along ethnic lines. To win a national election politicians have to build ethnic coalitions, bringing in enough small groups to win the "tribal mathematics". But in cities such as Nairobi people seem to be moving away from voting along tribal lines. That may favour Mr Sonko, who—with an adopted name—hides his ethnic background and tries to appeal to all of the city's dwellers.

Simon Musyoka, a motorbike taxi driver who lives in Mathare, is from the Kamba tribe, and shares his name with a prominent opposition politician. Nonetheless, he is voting for Mr Sonko. "He is a rich man, but he knows what life is like for slum people," he says.

| Section menu | Main menu |

Europe

- Hungary’s young liberals: Magyars en marche! [Fri, 23 Jun 09:03]
- The new French government: Getting his feet wet [Fri, 23 Jun 09:03]
- Dutch refugee policy: Keep them away [Fri, 23 Jun 09:03]
- Romania votes no-confidence: A good man is hard to find [Fri, 23 Jun 09:03]
- Naples’ baby gangs: Young blood [Fri, 23 Jun 09:03]
- Charlemagne: Put that in your pipe [Fri, 23 Jun 09:03]

Magyars en marche!

A new Hungarian liberal party challenges the autocratic Viktor Orban

Inspired by Emmanuel Macron, Momentum wants to kick out the old generation of politicians

Jun 24th 2017 | BUDAPEST

IN A smoky open-air bar at the back of a youth hostel in Budapest, one of Europe's youngest political parties is hatching plans for a democratic revolution. Its leader, Andras Fekete-Gyor (pictured), a bearded, focused 28-year-old, jabs his right hand for emphasis as he lays out his plans for the party, Momentum. An audience of about 70 people, most of them young, are perched on stools and reclining on sofas, drinking beer and listening intently. For some Hungarian dreamers, this scene represents one of the most promising political developments in years.

Momentum burst onto the scene with a petition drive last winter, when it collected more than 250,000 signatures and forced the government to abandon its extravagant bid to host the 2024 Olympics. The games would simply provide an opportunity for corruption, Momentum argued. The group has since turned itself into a political party, ahead of elections in early 2018. Most of its leaders were born as communism collapsed. Many have studied abroad. They look to Emmanuel Macron, France's young president, for inspiration (although Mr Fekete-Gyor is quick to point out that he is younger). Like Mr Macron's party, La République En Marche!, Momentum seeks to transcend old divisions between left and right. "Whether we are closed or open, right now, that's the big question," Mr Fekete-Gyor says. "We are open."

But Hungary is not France. Since 2010, when he secured a crushing supermajority in parliament, Viktor Orban, Hungary's prime minister, has launched a systematic assault on the country's checks and balances. Government-friendly oligarchs control much of the media. Mr Orban has overhauled the electoral system to benefit Fidesz. In 2014 the party won a two-thirds majority in parliament with less than half the vote. In the best of circumstances, for a new political party to do well in an election within a year or two would be a remarkable achievement. In Hungary it would be miraculous.

The emergence of Momentum may worsen the divisions among Hungary's opposition. More than half a dozen left-wing and liberal parties are competing, and several will probably fail to meet the 5% threshold to enter parliament. To have any hope of defeating Mr Orban, Hungary's liberal parties must work together, says Andras Biro-Nagy of Policy Solutions, a think-tank in Budapest.

But the leaders of Momentum, which polls below 5%, appear to believe they can manage on their own. They regard almost all Hungary's older politicians, on both left and right, as corrupt; they want to kick out the entire political elite.

Much of their ire is directed at the Socialists, Hungary's biggest left-wing party, who are polling below 15%. They remain tainted by years of mismanagement and perceived graft. Before Mr Orban swept to power, the Socialists led the country to the brink of bankruptcy. The then prime minister, Ferenc Gyurcsany, once hailed as a moderniser in the mould of Tony Blair, was recorded delivering an expletive-laden secret speech. To win election, he told party members, the party had "lied morning, noon and night" about the country's finances. The speech leaked, prompting mass protests. Like Mr Blair, Mr Gyurcsany is charismatic and divisive. Unlike Mr Blair, he remains important in domestic politics: the Socialists split, and Mr Gyurcsany formed a new party, the Democratic Coalition. Some of the other liberal parties, including Momentum, despise him almost as much as they do Mr Orban.

Toning down the neo-fascism

As the liberal parties squabble, the largest opposition group remains Jobbik, an ultra-nationalist party. Once openly anti-Semitic and anti-Roma, Jobbik is trying to rebrand itself. Gone is a paramilitary unit, the Hungarian Guard, which marched around Budapest wearing fascist insignia and black vests. Jobbik MPs no longer give speeches in parliament, as they once did, discussing whether the blood libel (the myth that Jews kill Christian children for their blood) was based in fact. Instead, they talk about their commitment to the EU and the problem of low wages.

Marton Gyongyosi, a well-dressed Jobbik MP and former tax adviser, says that the party has grown up. In 2012 Mr Gyongyosi called on the government to draw up lists of Hungarian Jews who pose a national-security threat. Today he acknowledges that the party has, in the past, not been "sophisticated enough in its wording". As Jobbik inches towards the centre, it may struggle to take its more extreme voters along.

Mr Orban, meanwhile, looks more vulnerable than he has for years. After he passed a law that threatens to close Central European University, one of Hungary's best, some 80,000 young Hungarians protested in Budapest and other cities. There is widespread anger at corruption, lack of accountability and Vladimir Putin's increasing influence in Hungary. Russia has given Hungary a €10bn ($11.2bn) loan to expand a nuclear power plant.

Mr Orban dismissed the protests: "It always makes one smile when one sees masses of people demonstrating because of a supposed lack of democracy," he scoffed in a radio interview in April. "This is rather funny." But between January and April, support for his party fell from 37% to 31%. Hungary's liberals cannot afford to waste this opportunity. As Mr Orban escalates his repression of civil society, they may not get another one.

Getting his feet wet

Emmanuel Macron’s government is off to a floppy start

The president’s party wins legislative elections, but four ministers are forced to resign

Jun 22nd 2017 | PARIS

IT SHOULD have been a triumphant moment. Together with its allies, La République en Marche! (LRM), the movement of President Emmanuel Macron, won 350 of the 577 seats in the National Assembly in the election on June 18th. Even on its own, LRM won 308 seats, a clear majority. That is a remarkable outcome for a political outfit launched only last year. Even a couple of months ago few, other than the supremely confident Mr Macron, dared suggest it was possible.

Yet he had little chance to savour the moment or prepare for the legislative session that begins on June 27th. His government faced days of awkward scrutiny as four ministers quit. On June 19th Richard Ferrand, an LRM minister close to Mr Macron who has been caught up in a financial scandal, stepped down. (He will become the party’s leader in parliament.) Over the following days three ministers from MoDem, a centrist ally, also resigned. Investigators are looking into whether they misused European parliamentary funds.

The loss of Sylvie Goulard as defence minister is a blow. She had proved capable in her brief stint. In contrast, the exit of the sometimes hot-headed François Bayrou (pictured left), the justice minister and leader of MoDem, might prove a relief. This month he harangued a radio journalist, provoking the prime minister, Edouard Philippe, to tell him to be more ministerial. Mr Bayrou, who was leading the government's push to clean up politics by setting stricter rules on the use of public money, was under pressure to prove himself above suspicion. He remains a political force: his 42 deputies will support Mr Macron, who owes Mr Bayrou for his early endorsement in the presidential campaign.

Still, the resignations have raised doubts about the new administration's competence. It looked clumsy, for example, when Mr Philippe implied that Mr Bayrou would stay in office, just hours before news broke that he was going. On June 21st Mr Macron reshuffled his cabinet, taking care to preserve the balance between left- and right-leaning ministers. That is essential for a president whose popularity is not particularly high and could slide if he veers in either direction, says Laurent Bouvet, a political scientist at Versailles University.

The centre-right Republicans and their allies will form the main opposition, with 136 deputies, far fewer than they had expected early in the campaign. Worse for them, they are split over how to handle a government containing many of their former colleagues: the prime minister, Mr Philippe, finance minister, Bruno Le Maire, and budget minister, Gérald Darmanin, all hail from the Republicans. Ideological lines may be hard to maintain, too. The Republicans favour much of Mr Macron's programme, which includes labour and pension reform, tax cuts and a reduced role for the state in some areas.

On June 21st Thierry Solère, a Republican, announced that a splinter group of some 40 MPs from various centre-right parties would offer "constructive" support for Mr Macron's reforms. That leaves the Republican rump more isolated. Its only consolation is that the former incumbent, the Socialist Party, is even more downcast. The Socialists and their allies have only 45 deputies, their worst result in modern history. Their departing leader, Jean-Christophe Cambadélis, who lost his own seat, says the "collapse of the Socialist Party is beyond doubt".

The noisiest opposition to Mr Macron's administration may come from the extremes. Marine Le Pen, whose hard-right National Front has eight deputies, won her race in a former coal-mining region in northern France. Jean-Luc Mélenchon, whose far-left Unsubmissive France party won 17 seats, was elected in Marseille. Neither politician had been an MP before; both arrived in parliament this week to much media attention, and both will use their seats as a platform to rouse protests against Mr Macron's reforms.

Mr Mélenchon claimed this week that the historically low turnout in the legislative vote constituted a "civic general strike" against Mr Macron. Few French would agree. Turnout was indeed low at 43%, with the young, the poor and the working-class least likely to take part. But since the early 2000s, when the electoral calendar shifted to holding legislative polls shortly after presidential ones, declining turnout has been the norm. Many voters assumed victory for LRM was a done deal. Despite Mr Macron's troubles this week, this aura of inevitability has not dissipated. The balance of power in parliament gives him the means to push ahead.

Keep the asylum-seekers out

A split over refugees has left the Dutch with no government

Three months after an election, the populists appear not to have lost as badly as everyone thought

Jun 22nd 2017 | THE HAGUE

LIKE most things Dutch, the asylum-seekers' centre in Rijswijk, a suburb of The Hague, is clean, rectilinear and well-organised. The housing units' aluminium exteriors are as shiny and elegant as a VanMoof bicycle. Pupils from Syria and Afghanistan march cheerfully down the pavement, escorted by blonde teachers. The centre has room for up to 500 residents, but the actual number is lower. Since March 2016, when an agreement between the European Union and Turkey closed off the migration route across the Aegean, the stream of asylum-seekers arriving in the Netherlands has slowed to a trickle. Some of the reception centres set up at the height of the migrant crisis have never been used.

With the number of refugees shrinking, one would think asylum might drop off the political agenda. Instead, it is the issue that will not die. In mid-June a clash over migration policy torpedoed coalition negotiations that have dragged on since an election in March. At the time, that election was hailed across Europe as a rejection of anti-immigrant populists such as Geert Wilders. Yet three months later the Netherlands still has no government, and the election's meaning seems less clear.

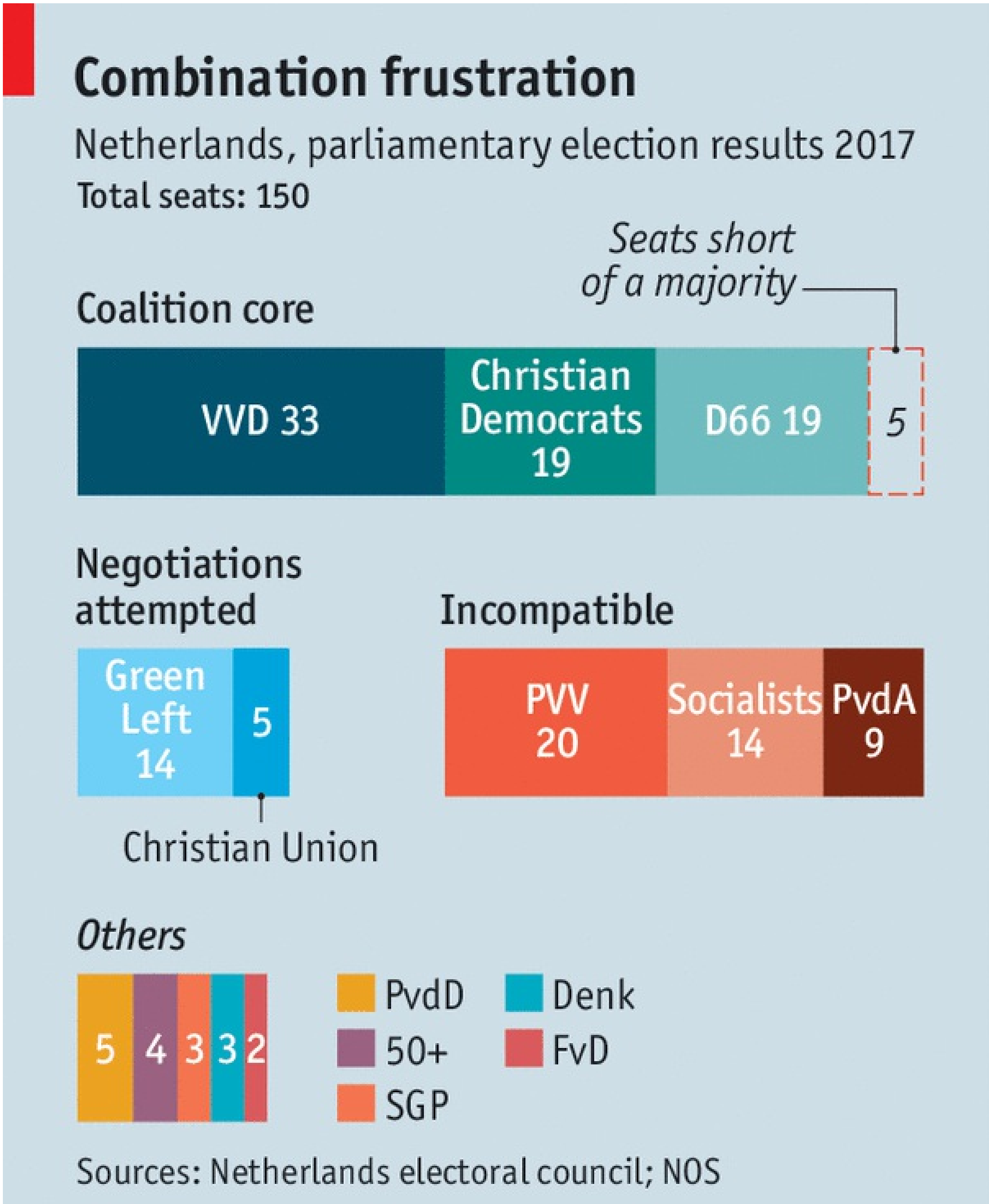
The party that sank the talks, the environmentalist group GreenLeft, was the one most strengthened by the election. Its leader, 31-year-old Jesse Klaver, reinvigorated his party with a campaign that drew thousands of supporters to local "meet-ups". (His curly locks and Justin Trudeau smile did not hurt.) GreenLeft jumped from four seats in the 150-seat Dutch parliament to 14, its best showing ever. On election night Mr Klaver declared that by ensuring that "the populist breakthrough did not happen", the Netherlands had shown the way for Europe.

The centre-right Liberals (VVD), who won the most seats with 33, entered coalition negotiations with GreenLeft and two other outfits, the Christian Democrats and the left-liberal D66 party. But the talks exposed deep divisions, first over climate policy and then over refugees. The Liberals, Christian Democrats and D66 agreed that the Netherlands should try to duplicate the Turkey deal with countries in north Africa to stem the flow of refugees in the central Mediterranean. Ultimately, asylum-seekers would need to apply from abroad rather than coming to the Netherlands and landing in centres like the one in Rijswijk. Any who found their way to the Netherlands could be sent back. Many EU countries are pursuing a similar agenda.

Rights groups think such plans would violate the international Convention on Refugees. The proposal would mean "an end to the individual right to asylum in the Netherlands", says Eduard Nazarski, head of Amnesty International's Dutch branch. Mr Klaver agreed, and in early May he broke off talks with Mark Rutte, the Liberal prime minister, and the other two parties. Negotiations later resumed, but broke up again on June 12th.

The three core parties now have few options for forming a majority (see chart). The Labour Party (PvdA) agrees with their migration policies. But Labour lost three-quarters of its seats in the election, after spending the past five years as the junior partner of the Liberals. The party's leader, Lodewijk

Asscher, insists it will stay in opposition while it rebuilds. Asked on June 20th what might convince him to join a government, Mr Asscher used an old Dutch expression: *als de pleuris uitbreekt* ("if there is an outbreak of pleurisy"). Meanwhile, the far-left Socialists have ruled out governing with the Liberals. And everyone rules out Mr Wilders.



Economist.com

That leaves the leftist Christian Union party. It will enter coalition negotiations this week. But it may be too environmentalist for the Liberals and too culturally conservative for D66.

The politics are complicated, but the gist is simple. Mr Wilders did worse than expected in the election, but his party is still big enough to force mainstream parties to contort themselves in order to form coalitions. More important, the other parties stopped Mr Wilders partly by moving in his direction. Most Dutch parties now agree that the chief aim of migration policy is to keep asylum-seekers out. Mr Klaver may have proclaimed victory over populism on election night, but on the issue of refugees the populists had already won.

A good man is hard to find

Romania's Social Democrats yank their own prime minister

Sorin Grindeanu, who tried to decriminalise some forms of corruption, is out

Jun 22nd 2017

IN ORDINARY politics, it is opposition parties who attempt to bring governments down. But politics in Romania is rarely ordinary. For the past week the country's governing Social Democratic Party (PSD) has been trying to unseat its own prime minister and his cabinet. The prime minister, Sorin Grindeanu, refused to go. On June 21st the PSD succeeded at last, winning a no-confidence vote and kicking Mr Grindeanu out of power, less than six months after it had installed him. One of Mr Grindeanu's few allies, Victor Ponta, a former prime minister, called the vote an "atomic war between the Social Democrats and the Social Democrats".

The PSD claimed it was removing Mr Grindeanu over his failure to pass most of the party's legislative programme, which includes crowd-pleasing measures like tax cuts, salary increases for public servants and a €10bn ($11.2bn) sovereign-wealth fund to promote infrastructure investment. In fact it had more to do with his falling-out with the party's leader, Liviu Dragnea. The PSD came first in the parliamentary election last December with 46% of the vote. But Mr Dragnea was barred from becoming prime minister because of a felony conviction for electoral fraud. The little-known Mr Grindeanu was appointed instead.

Mr Grindeanu quickly moved to address one of his MPs' top priorities: indemnifying them from prosecution. Romania's independent National Anti-Corruption Directorate has been putting hundreds of politicians in jail every year. One of those at risk is Mr Dragnea, who is on trial for abuse of power and faces jail time if convicted. (For his electoral-fraud conviction, he received a suspended sentence.) In January the government passed a decree that would have decriminalised some corruption cases, possibly including Mr Dragnea's. The proposal brought hundreds of thousands of protesters into the streets, and the government backed down.

The PSD should be enjoying its turn in power. Romania's GDP grew at an annual rate of 5.6% in the first quarter, the highest in the European Union. Instead it has got itself into a politically costly mess. Appointing a new prime minister will be risky, too. Mr Grindeanu was Mr Dragnea's second choice; an earlier candidate was rejected by the president, Klaus Iohannis, who hails from the opposition National Liberals and is no fan of the PSD leader. He must decide on whomever Mr Dragnea picks next. On June 20th Mr Iohannis said he would only designate a "person of integrity" for the job. It will be up to Mr Dragnea to find one; in Romanian politics, they are rare.

Young blood

In Naples, the hit-men are children

The Camorra turns to teenagers to enforce its rule of organised crime

Jun 22nd 2017 | NAPLES

LESS than a hundred yards away, Via San Biagio dei Librai in the centre of Naples bustles with activity. Tourists buy souvenirs and munch pizza, oblivious to the meaning of the coded graffiti on the street's peeling walls. But in a side alley, all is solemn hush. Beyond a door, in a courtyard, stands a tall metal cabinet displaying a ceramic bust of a young man, surrounded by fresh white roses. If not for his hipster beard and haircut, it could be the shrine of a long-dead saint.

The building that surrounds the courtyard is the redoubt of one of the many warring clans of Italy's oldest yet least-cohesive mafia, the Camorra. The young man to whom the shrine is dedicated is Emanuele Sibillo, the archetype of a new breed of Neapolitan gangster. He was murdered in 2015 at the age of 19 in a nearby street that forms part of the territory of a rival crew.

Naples has seldom been free of turf wars. But recent months have seen a surge in violence. In 11 days, between May 25th and June 4th, eight people were shot dead in the city and its surrounding province. The police sent reinforcements to the area, even though the army had already been deployed. Much of the recent violence is the work of clans like the one led by Emanuele Sibillo and his brother. Some of these so-called “baby gangs” have members as young as 12. On May 24th the Carabinieri, Italy’s semi-militarised police, arrested an alleged “baby boss” who is only 16. The son of a jailed Camorra chief, the boy is accused of killing two of his subordinates last year. They had reportedly demanded a bigger share of the proceeds from drug-trafficking, which is the Camorra’s lifeblood.

As the head of the Italian state police, Franco Gabrielli, acknowledged, the baby gangs are a perverse result of successful policing. The courts have locked up so many veteran clan bosses in recent years that the task of holding Naples in thrall to the Camorra has fallen to ever-younger, more reckless affiliates. (If they are under 14, they cannot be held criminally liable for their misdeeds.)

Their favourite technique for asserting dominance is the *stesa*, a term that comes from *stendere* (“to stretch out”): the baby gang erupts into a crowded square, riding mopeds and firing at random, usually in the air. People dive for cover or prostrate themselves in fear of their lives.

In a piazza in the Sanità area, a monument has been erected to another young Neapolitan. Genny Cesarano, aged 17, was fatally shot during a *stesa* in the piazza in 2015. After a recent spate of such shooting parties, the police blanketed the district with patrols and roadblocks. But there have been three more since.

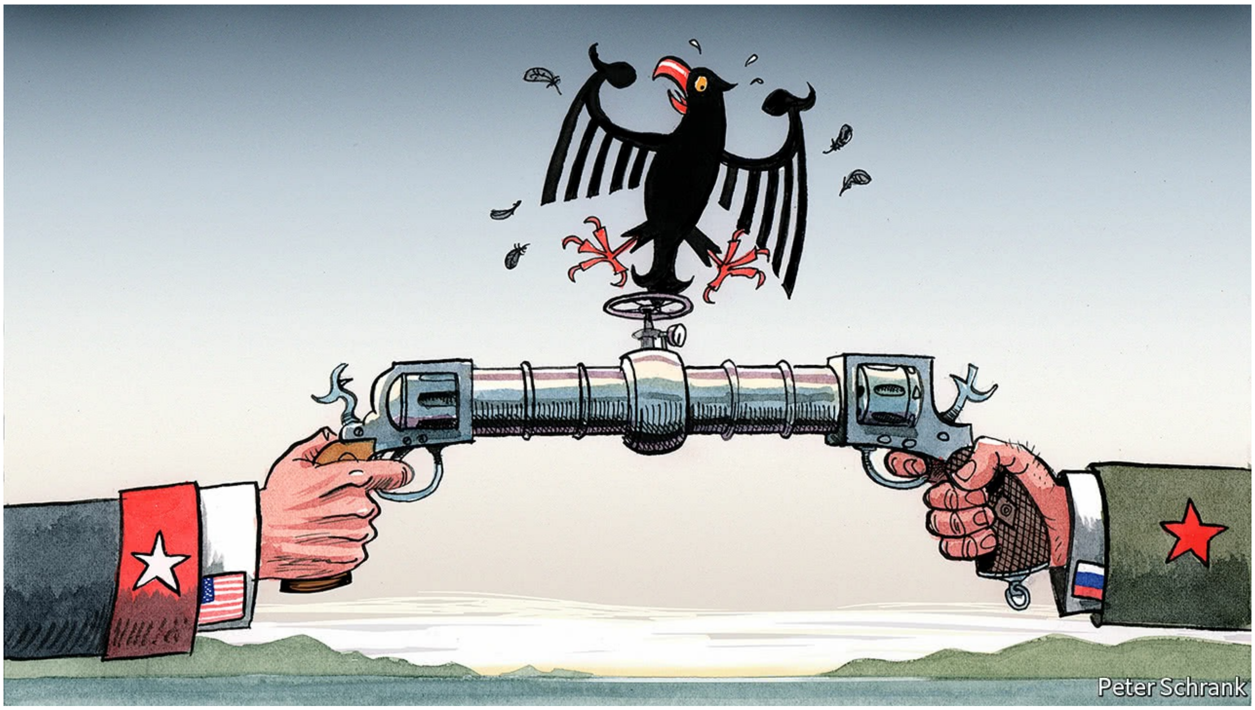
Carmela Manco, a volunteer social worker since the 1980s, recalls with a wistful smile the days when the Camorra would alert her in time to get children off the streets: “They rang us. A voice would say, *‘Attenzione, che piove’* [‘Watch out. It’s going to rain’].” Ms Manco runs L’Oasi, a sports and cultural centre in the San Giovanni a Teduccio district intended for children of *camorristi* and others close to the underworld. “We have kids here who can’t read or write, but sing Stravinsky,” she says. The aim is to keep the children off the streets so they do not drift into theft, drug-peddling or other routes to jail or an early death. The families are not always helpful. At one point the father of one of her charges murdered the father of another.

San Giovanni a Teduccio has so far been free of baby gangs. But Father Gaetano Romano, the parish priest, wonders for how long. The dominant local clan has lately clashed with the Sibillo crew and its allies. “My fear is that there will be repercussions here,” he says. Underpinning the Camorra’s grip on the young is its ability to offer extremely lucrative work in a region where the employment rate among 15- to 24-year-olds is under 12%. A frequent complaint is that the Camorra provides the jobs that the state fails to. But, argues Francesco Grillo, a Neapolitan economist, Italian governments have invested heavily in Naples over the years. The only effect has been to sustain a ruling class all too often complicit with the Camorra.

Charlemagne

Germany's Russian gas pipeline smells funny to America

Angela Merkel says Nord Stream 2 is no one's business but Germany's



Jun 22nd 2017

LIKE vinyl records and popped collars, rows between the United States and Europe over Russian energy are making a comeback. In the early 1980s Ronald Reagan's attempts to thwart a Soviet pipeline that would bring Siberian gas to Europe irritated the West Germans and drove the French to proclaim the end of the transatlantic alliance. The cast of characters has shifted a little today, but many of the arguments are the same. In Nord Stream 2 (NS2), a proposed Russian gas pipeline, Germany sees a respectable project that will cut energy costs and lock in secure supplies. American politicians (and the ex-communist countries of eastern Europe) detect a Kremlin plot to deepen Europe's addiction to cheap Russian gas. They decry German spinelessness.

NS2, which its backers hope will come online at the end of 2019, would supply gas directly from Russia's Baltic coast to the German port of

Greifswald, doubling the capacity of Nord Stream 1, an existing line. Its defenders, including a consortium of five European firms that will cover half its cost of €9.5bn ($10.6bn), say that it will help plug a projected gap between Europe's stable demand for gas and declining production in the Netherlands and North Sea. Germany's government, especially the Social Democratic Party (SPD), the junior coalition partner, shares this view. (Gerhard Schröder, a former SPD chancellor of Germany, chairs NS2's board.) Some Germans quietly hope that NS2 could transform their country into a European energy hub.

Such arguments strike sceptics—countries like Poland and the Baltic states, energy experts at the European Commission, foreign-policy hawks and a handful of German renegades—as myopic. NS2, they say, might lower fees for Germans but raises them for eastern Europeans further down the chain. It undermines the European Union's stated aim to diversify its sources of energy (Russia accounts for 34% of the EU's overall gas market, but far more in some countries). It allows Gazprom, the Kremlin-backed energy giant, to bypass existing pipelines in Ukraine, depriving the Ukrainians of lucrative transit fees. By squeezing existing supply routes, NS2 might also leave Ukraine obliged to negotiate cap-in-hand with its arch-enemy (Kiev has not imported gas directly from Gazprom since 2015). Gazprom has proved willing to wage energy wars before. Why contribute to its arsenal?

To this fiery brew has now been added America's toxic Russia politics. Earlier this month the Senate passed a bipartisan bill that would, among other things, allow the Treasury to slap sanctions on foreign companies that invest in Russian pipelines. (The bill is not yet law: it awaits debate in the House of Representatives, and Donald Trump has yet to opine on its merits.) The move spooked Europe's firms and enraged some of its politicians. "Europe's energy supply is Europe's business, not that of the United States of America," thundered Germany's foreign minister, Sigmar Gabriel, and Austria's chancellor, Christian Kern, in a joint statement. The pair were particularly incensed that the bill included a call to increase American exports of liquefied natural gas, implying that blocking Russian gas was partly an effort to help American energy companies. Angela Merkel, Germany's chancellor, let it be known that she supported her minister.

The timing of the Senate bill is awful. On June 26th the EU's 28 governments will begin debating whether to allow the European Commission to negotiate the terms of NS2 directly with Russia. Mrs Merkel argues that EU institutions have no business intruding in a purely commercial enterprise. But countries like Sweden and Denmark, which must grant environmental permits if the project is to proceed, want the commission to get involved so that they are not left alone to stare down the Kremlin. Foes of NS2, like Poland, think bringing in the commission might be a way to slow the project down. The discussion will be a fascinating test of Germany's ability to sway opinion inside the European club.

Don't look back to Angie

For observers who see Mrs Merkel as Vladimir Putin's main European adversary, her stance is perhaps the biggest puzzle. The chancellor helps broker negotiations between Russia and Ukraine. Against domestic and foreign opposition, she has held the line on the EU's sanctions against Russia over its land grabs. Her strategy looked like a textbook case of European leadership, placing German interests to one side for the greater cause of EU unity and resistance to outside aggressors.

But the chancellor's tacit yet clear support for NS2 suggests that a correction may be in order. Her commitment to Ukraine is not in doubt, and she is infuriated by Mr Putin's lies. But Germany has never accepted the mantle of European or global leadership that so many would like to thrust upon it, especially when it comes to the politics of energy. Outsiders should not be surprised to see it behave like any other European country favouring its own consumers and firms (two of the five companies investing in NS2 are German). American intervention may only strengthen Germany's resolve to protect its commercial interests.

Those hoping to slow NS2 would do better to look to Brussels. The commission will be happy to smother the pipeline in bureaucracy, should the EU's governments give it a chance. Its legal brains say that EU energy law does not apply to offshore pipelines outside the internal market. But the commission dislikes NS2 and distrusts Gazprom, which it thinks abuses market dominance. "If Gazprom was Statoil [Norway's national energy firm], we wouldn't have a problem," says one official.

So NS2 may yet be asked to obey parts of EU law, including third-party access to the pipeline and transparency on pricing. Ukrainian anxieties might be allayed by insisting that Gazprom commit to maintaining supply through existing pipelines after 2019, when the current contract expires. This might ease fears that NS2 will leave parts of Europe in hock to the Russians for decades to come. But before then a thousand things can go wrong.

| Section menu | Main menu |

Britain

Embers still glowing

The ramifications of the Grenfell Tower fire continue to spread

The tragedy contributes to a changed mood in the country, especially towards continuing public-spending cuts

Jun 24th 2017

FLY over the capital and many tower blocks thrust up from ground below. One stands out from the rest. If the blackened hulk of the Grenfell Tower serves as a reminder of the tragedy on June 14th, in which at least 79 lives were lost, there are many more on the ground. Handmade circulars are taped to bus stations, lamp posts and shop windows across Kensington. One lists the job titles and salaries of those with questions to answer. But most concern missing loved ones; smiling photographs alongside pleas for information.

The fallout from Grenfell has led to feelings of anger. Indeed, it has contributed to a febrile atmosphere across Britain. It was preceded by two terrorist attacks within a month, and followed five days later by another near the Finsbury Park mosque (see article). An election called to bring stability has ended up sowing discord and division. Senior ministers have put out contradictory statements about what they want from Brexit. It is little wonder that, one week on, protests over the fire have taken on a deeper significance about the state of the entire country.

It now seems possible that the Grenfell fire could become a big contributor to a broader shift in British attitudes, particularly towards public spending. That is partly because of the building's location. Kensington and Chelsea is among the richest and most unequal areas in the country. Grand town houses and swish coffee shops stand 200 or so metres from the remains of the building. Over the past five decades, towers have sprung up all over London. Yet the worst accidents have been in those used for social housing.

It is not yet clear what started the fire, nor why it was able to spread so fast. But the details could scarcely be worse for the government. For years, a local residents' group complained, their warnings about fire safety were not taken seriously by the company which ran the building. A recent refurbishment of Grenfell Tower wrapped it in a cladding which is banned on tall buildings in Germany and the United States. The *Times* has reported that a fire-resistant version would have added a mere £5,000 ($6,300) to the cost.

Meanwhile, successive housing ministers ignored appeals by experts to update fire-safety regulations. Since 2010 the government has tried to cut red tape in the hope of encouraging private developers to build more housing partly because the capital suffers from a pressing shortage of it. All this has given succour to critics who argue that the government's approach to regulation betrays a lack of concern for those living in social housing.

A quicker response might have pacified some of the anger. Instead, Kensington and Chelsea council floundered. The scale of the tragedy was immediately obvious, says Abraham Chowdhury, who co-ordinated volunteers at the Westway Sports Centre, the main help point. Mr Chowdhury arrived in the early morning, a little after the fire began. Yet until later that day, "there was absolutely no presence from the council at all," he says. Survivors struggled to discover if friends or family had made it out alive. The local authority was slow to find temporary accommodation. The situation began to improve only when a task force made up of neighbouring councils and charities took charge. On June 22nd the chief executive of Kensington and Chelsea council was forced to resign.

Some have asked why there was not a faster response from central government, as there surely would have been in a similar-scale terrorist attack. Kensington and Chelsea is among the smallest boroughs in London. Its day-to-day budget was cut by 38% between 2009-10 and 2016-17. As Colin Brown, head of disaster response at the British Red Cross, a charity, notes, "this was one of the biggest domestic incidents we've seen in a very long time."

Theresa May, the prime minister, has provided few answers. Although she visited the site the day after the fire, she failed to meet local residents; her team cited security risks as an excuse. After criticism of her lack of empathy, she visited those in hospital on June 16th and offered £5m for food, clothes and emergency handouts to victims, of which there was no shortage. But she dodged questions about her government's response. In the Queen's Speech debate on June 21st she apologised for the failure of the state, both local and national, to help people when they needed it most. Jeremy Corbyn, Labour's leader, did more to embrace people's anger, calling for empty properties to be requisitioned to provide houses for those now homeless. David Lammy, a Labour MP, labelled the disaster "corporate manslaughter" and demanded arrests.

The political ramifications of the fire are still developing. Yet worries that the anger could lead to violence appear overblown. Protests organised as part of a "day of rage" on June 21st were calmer and smaller than expected. Calls for the expropriation of property have the support of the majority of the public, according to a YouGov survey, but have even so led nowhere. Instead, the City of London is buying flats for survivors in Kensington.

Much will now depend on a more rigorous analysis of the causes of the fire, which will take time. Early reports that few other buildings have been clad in the flammable material that exacerbated the fire may calm fears. Similarly, although the local council outsourced the running of the building to a separate company, the Kensington and Chelsea Tenant Management Organisation, it was organised on a not-for-profit basis, undermining arguments that avaricious profit-making was to blame.

The idea that public services are under unprecedented strain will be harder to shake. Corners may have been cut in the refurbishment of the building, the enforcement of regulations, or both. A slimline local council struggled to cope with the disaster. The firefighters, doctors and police who worked through the night to save lives were widely praised. Yet, like all public-sector workers, they face the prospect of further pay cuts in real terms thanks to the government's pay cap. In an early sign of a change of atmosphere, Jeremy Hunt, the health secretary, signalled a willingness to consider higher wages. That is unlikely to be the last change that the Grenfell disaster brings about.

Attacked at prayer

The lessons of a terrorist attack at a London mosque

The big fear after the Finsbury Park attack is of a new tit-for-tat cycle of terrorism

Jun 24th 2017

IT COULD have been London Bridge, Westminster, Berlin or Nice. A man in a van, mowing down pedestrians, spewing hate: the ritual is sadly familiar. But this time the victims were Muslims, worshippers who had been at prayer after breaking their Ramadan fast. Just after midnight on June 19th a van mounted the pavement outside the Muslim Welfare House near the Finsbury Park mosque in north London. One man, already receiving first aid after slipping over, was killed. Nine others were injured. Witnesses say the attacker leapt from the vehicle shouting “Kill all Muslims!” and “You deserve it!” before being overpowered by onlookers.

Darren Osborne, a middle-aged man from Cardiff, was arrested at the scene. The police and government are clear in describing the attack as terrorism. Theresa May convened an emergency COBRA meeting. It is not known if the attacker had links to extremist groups or was a “lone wolf”. But his actions have turned attention to the threat of the far right.

Prevent, part of the government’s counter-terrorism strategy, is often criticised for focusing unfairly on Muslims. In fact it deals with all forms of extremism. In 2015 around 15% of all referrals to Channel, a Prevent programme that offers those identified as at risk of radicalisation a mix of education, counselling and support, were related to the far right, against 70% for Islamist extremism. In Leicestershire about a quarter are for far-right extremism and half for the Islamist sort. In south Wales and Yorkshire, it may be 50-50, reckons Sean Arbuthnot, a Prevent co-ordinator.

The political threat from far-right extremists has never been weaker, says Vidhya Ramalingam, founder of Moonshot, an organisation that combats online violent extremism. Support for the far-right British National Party, which won more than 560,000 votes in the general election of 2010, has collapsed. In 2017 it took just 4,642. Its short-lived political success may have contributed to its downfall; activists may have chafed at the party’s attempts to become a legitimate political movement.

Far-right extremists are a disparate bunch. Much activity happens online. They agree on little. Common to all, however, is a hostility towards Muslims, even more than hatred of Jews, says Matthew Feldman of Teesside University. As the Finsbury Park attack shows, the risk of violent extremism is rising. The numbers referred to Channel are growing. Last year the government banned National Action, a group that supported Thomas Mair, the murderer of Jo Cox, a Labour MP. It was the first far-right group to be banned in Britain since the second world war. In the Queen’s Speech the government announced a new commission for countering extremism.

The far right’s ideology differs from that of Islamist extremists, but the process of radicalisation is almost identical, says William Baldet, a Prevent co-ordinator in Leicestershire. Those most at risk are often vulnerable, perhaps because of mental-health or drug problems. A sudden event, such as a bereavement, can lead them to contact far-right groups whose extremist ideology they then espouse.

The response is accordingly similar. Police and other agencies try to identify the underlying causes of an individual's radicalisation before challenging the ideology. But it is hard to spot those at risk on the far right. When it comes to Islamist extremism, there are institutions, such as mosques and schools, to work through, and Muslims are often concentrated in particular areas. One way to find the far-right kind is to look for spikes in hate crime. But for some ethnic minorities, hate crime is now so common that many do not bother to report it, says Mr Baldet.

The big fear is that Finsbury Park, itself possibly a response to earlier attacks, may trigger a cycle of "tit-for-tat terrorism". Far-right extremism and the Islamist sort are two sides of the same coin. Still, some hope can be found in the response of Mohammed Mahmoud, an imam from the Muslim Welfare Centre. He and others protected the driver from an angry crowd, before handing him over to the police.

Thin gruel

A scaled-down Queen's Speech

Meagre fare for the state opening of the new parliament

Jun 22nd 2017

THE Queen's Speech on June 21st ticked almost all the requisite boxes when it came to tradition, even if Queen Elizabeth dispensed with both her crown and the state coach. The Coldstream Guards played the national anthem. Black Rod summoned MPs with his usual three raps on the Commons door to come to the Lords to hear her speak. Dennis Skinner, an ageing Labour MP and republican, interrupted the solemn silence with a loud joke—"Get your skates on, the first race is at half past two," referring to the fact that the queen was interrupting her annual pilgrimage to Royal Ascot to open the parliament. And the march towards the Lords featured an awkwardly taciturn two-step between Theresa May, the prime minister, and Jeremy Corbyn, her Labour opponent.

Yet the event was all rather lacklustre. The queen, wearing a blue hat that looked remarkably like the European Union flag, hardly bothered to show any interest in what she was reading. The speech was one of the shortest on record: if you left the room to make a cup of tea you might have missed it all. And this despite the decision by Mrs May that this should be a "long parliament" and that there will not be another such speech for two years.

The speech lacked substance as well as style, reflecting Mrs May's shrunken ambitions since she lost her parliamentary majority on June 8th. There will be no fewer than eight Brexit bills: a "Great Repeal Bill", which will incorporate existing EU legislation into British law so that it can be retained or rejected in the future, and seven other bills dealing with issues ranging from immigration to the establishment of new regulatory agencies.

But the rest of the legislative agenda will be thin gruel. The government included some unobjectionable measures, such as taking stronger action against domestic abuse and cracking down on fraudulent "whiplash" claims. It ventured a bit of more controversial stuff, but it left out much of the guts of the Conservative manifesto. The government will now "consult" on how to pay for social care. There was no mention of bringing back grammar schools, scrapping the winter fuel allowance, removing the triple lock on pensions, scrapping free school lunches, removing the ban on foxhunting, or entertaining Donald Trump, the American president, to a state visit.

This peculiar speech was shaped by two brutal realities. The first is that Brexit will take up almost all this parliament's energies. Passing even the most vaguely worded legislation through both houses will be a nightmare. Giving precise meaning to that legislation will open up deep divisions over Brexit across the political spectrum, but particularly on the right.

The second is that Mrs May does not have a majority in either house. The government will be able to get its legislative agenda through the Commons only with the support of the ten Democratic Unionist MPs from Northern Ireland. Indeed, Mrs May was trying almost up to the moment when the queen arrived to forge a loose "confidence and supply" arrangement with the DUP under which the party would agree to offer support on vital bills. But, being stuffed with veteran negotiators, the DUP was resisting such a deal in an effort to extract the maximum it could in additional public spending for Northern Ireland. All the while it was complaining that Number 10 is full of political neophytes who cannot even find Northern Ireland on the map.

The subsequent debate was only a little more interesting than the speech itself. Mr Corbyn displayed more pep than he ever did before the election, although he will never be a great parliamentary performer. Indeed, the Labour Party in general had a lot more pep, suggesting just how difficult it will be for Mrs May to command this parliament in the coming months. Mrs May herself was in apologetic mood, to the extent of giving way to as many as 16 interruptions (to Mr Corbyn's six). For her part the queen didn't bother to hang around for the undignified part of politics: no sooner had she finished giving her address than she got into a waiting helicopter and headed for Royal Ascot and the 2.30.

Britain and the European Union

Let the Brussels games begin

Almost a year after the referendum vote for Brexit, the negotiations at last begin

Jun 22nd 2017 | BRUSSELS

ONE referendum, one election and 12 wobbly months later, Britain's negotiations to leave the European Union at last began on June 19th. David Davis, the Brexit secretary, came to Brussels to meet Michel Barnier, the EU's chief negotiator. The two men beamed for the cameras and swapped gifts: a walking stick for Mr Davis, an account of a hubristic Himalayan expedition for Mr Barnier. There was no attempt to disguise the symbolism.

The talks themselves were cordial enough. The two sides set up working groups and agreed to meet monthly. They probed each other's positions on the three main issues of the first phase of negotiations: the rights of EU citizens living in Britain (and vice versa); Britain's outstanding financial obligations to the EU; and the border between Northern Ireland and the Irish Republic. When the EU's 27 other governments agree that "sufficient progress" has been made on these, which they hope may be this autumn, they will authorise Mr Barnier to start talks on a post-Brexit trade deal. The EU has published its aims for citizens' rights and the Brexit bill; a British proposal for citizens will follow next week.

If there was little news from the first meeting, two clues emerged. First, speculation that Britain might seek a "softer" Brexit, after an inconclusive election in which the Tories lost their majority, was squashed—for now. Mr Davis confirmed that Britain would leave both the EU's single market and its customs union. Philip Hammond, who as chancellor worries about the economic cost of Brexit, has said the same thing (although in his Mansion House speech he was fuzzier on the customs union). Britain, it seems, is still heading for hard Brexit.

The second shift was tonal. Asked why he had accepted the EU's two-phase sequencing, which he had said would trigger the "row of the summer", Mr Davis said this was consistent with the approach taken by Theresa May when she triggered Article 50 in March. Then the prime minister's conciliatory tone was welcomed by EU officials, unlike her tub-thumping during the election campaign. Mr Davis is signalling that he will not look for scraps for the sake of it.

Yet a huge uncertainty hovers over the entire process: the future of Mrs May. London is abuzz with rumours that the wounded prime minister may not see out the year. An open debate is emerging inside the cabinet, with Mr Hammond restating his view that those who backed Brexit were not voting to make themselves poorer. He wants a long transition period after Britain leaves the EU in 2019, to provide firms with continuity, and less emphasis on cutting net migration. No big change in Brexit policy is likely while Mrs May remains in office. But how long she will last is anyone's guess.

When the gloves come off

British business prepares for a bare-knuckle fight with the government

Business feels it has been ignored for much of the past year. Now it is fighting back

Jun 24th 2017

IT HAS been a dispiriting year for many British businesspeople. Most voted to remain in the EU in last year's referendum. They accepted defeat, but then looked on in horror as Theresa May, the new prime minister, veered towards an extreme form of hard Brexit, promising to leave the single market and customs union and to impose harsh migration restrictions.

This has been accompanied by a ceaseless flow of vitriol from politicians on all sides, triggered in part by the controversial bankruptcy of BHS, a retailer, last year. During the election campaign Labour and the Conservatives, usually the pro-business party, seemed to vie to outdo each other in their anti-business rhetoric.

Now the fightback has begun. Sensing the opportunity presented by a humbled Mrs May and a weakened post-election Tory government, business has come out more forcefully against a hard Brexit. “We have become emboldened,” says Terry Scuoler, head of the EEF, a manufacturers’ organisation. “It’s time to change the tone,” suggests Carolyn Fairbairn, head of the Confederation of British Industry (CBI), the main employers’ organisation.

In almost unprecedented language, Britain’s business lobbies are arguing that their concerns, and those of the wider economy, should be put at the heart of the Brexit negotiations. In 1980, the then head of the CBI promised a “bare-knuckle fight” against the government of Margaret Thatcher over monetarism and interest rates. Mrs May now faces another bare-knuckle fight with business over Brexit.

The pugilism began on June 18th, when the five main business organisations signed a joint letter arguing for their vision of Brexit, one that looks very different from the government’s. The CBI, the Institute of Directors, the EEF, the Federation of Small Businesses and the British Chambers of Commerce all want to retain tariff-free goods trade, maintain “minimal customs formalities” at the borders as well as regulatory equivalence, have a “flexible system for the movement of labour and skills” between Britain and Europe (with no target numbers), preserve participation in pan-European agencies, and more. They also want a robust transitional deal that will “maintain the economic benefits of the single market and the customs union”.

Fleshing out this agenda on June 20th, with chilling warnings over how bad it would be if these demands are not met, was the car industry, which supports over 800,000 jobs. At the annual jamboree of the Society of Motor Manufacturers and Traders, Mike Hawes, the chief executive, said that a future trade deal with the EU should incorporate as many of the advantages Britain currently enjoys as possible, which means being “open” and flexible on the customs union in particular.

Reporting another year of record car production and exports, Mr Hawes said “it’s time to be brutally honest—our sector needs a comprehensive and bespoke trade agreement.” And, arguing that the Brexit negotiations cannot be completed within two years, he added that a transitional arrangement, maintaining both single-market and customs-union membership, was essential. The alternative, the proverbial cliff-edge, “would damage our industry permanently”.

Ian Howells, senior vice-president of Honda, was on hand to explain how important the customs union and frictionless borders are to Britain’s highly integrated, multinational car industry. The Honda plant at Swindon, operating a just-in-time production system, takes in 350 lorries a day delivering about 2m parts for assembly, almost all of them from the EU. As the plant can hold only about a day’s worth of parts, hold-ups in the supply chain would be very disruptive. And Mr Howells warns that, although a company like Honda has deep enough pockets eventually to adapt to whatever trading environment Brexit produces, that is not true of the myriad of small firms that make up the industry’s British supply chain.

Politically, the business case for a softer Brexit probably has more allies now than before the election. Mr Scuoler says the business secretary, Greg Clark, was “aware of the joint letter and fully behind it. The dynamic in government has changed, which should point to some flexibility around the free movement of labour.” Business is also encouraged by recent interventions by the chancellor, Philip Hammond. The Labour Party too is talking of a “jobs-first Brexit”, and the Liberal Democrats want the softest of Brexits anyway.

To keep the momentum up, business is seeking a more formal role in the Brexit negotiations. Business organisations propose a standing committee, where business representatives can feed into the negotiations and review what is on the table, with separate working groups looking at issues such as the free movement of labour. Such a structure has worked well in Canada and Australia, says Ms Fairbairn.

Perhaps a first sign of success in the business fightback was this week’s Queen’s Speech, which at least acknowledged the value of enterprise. The Institute of Directors welcomed its “change of tone”. But there is a long way to go before business gets more positive about Brexit.

Rich or rotten?

Kensington and Chelsea: a wealthy but deeply divided borough

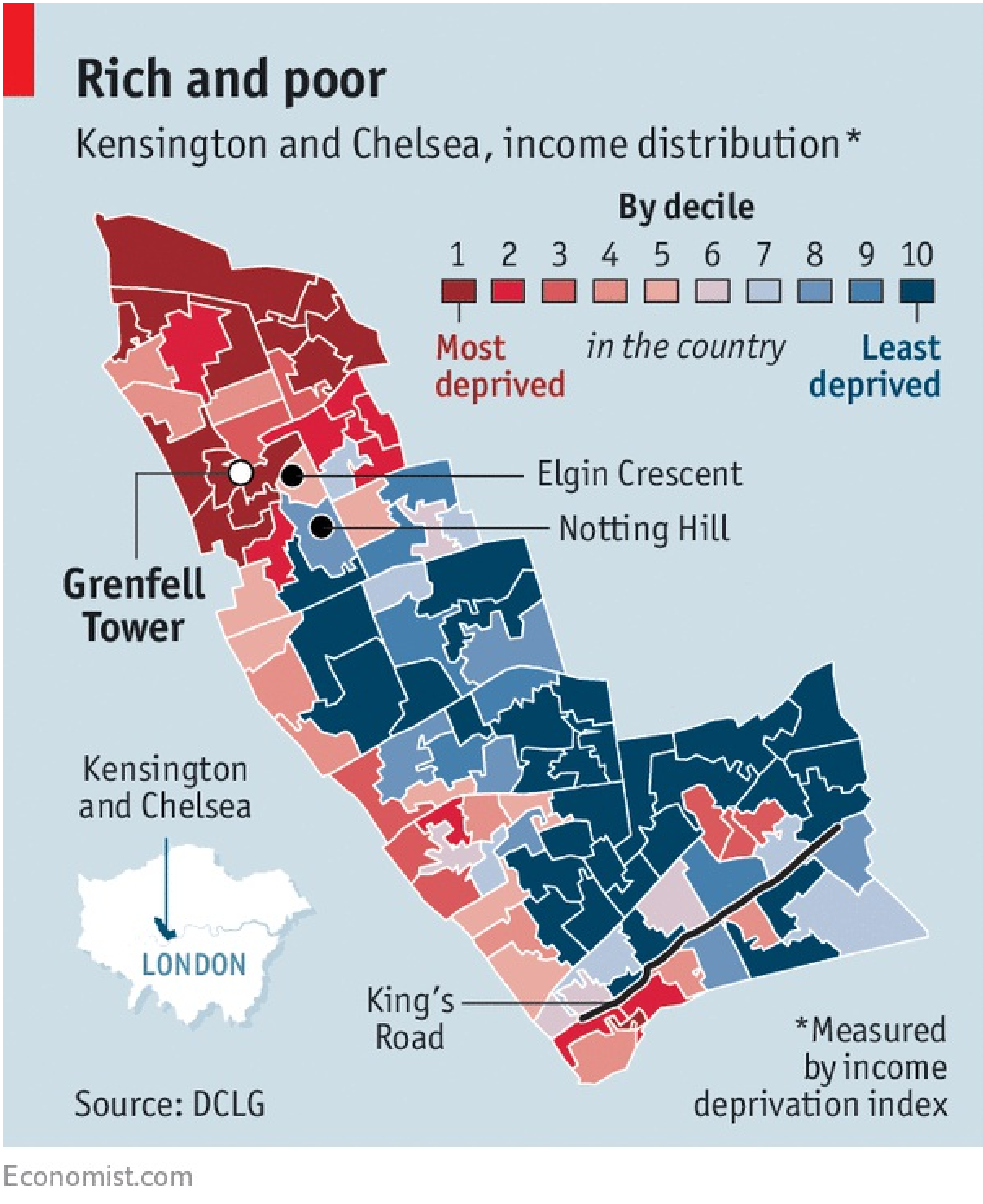
The Grenfell Tower fire has become a stark reminder of the glaring gap between rich and poor even in the wealthiest parts of London

Jun 24th 2017

WALK after dark past some of the immaculately maintained white stucco houses in the Royal Borough of Kensington and Chelsea and automatic security lights all click on at the same time: a sign that many of their owners are absent. A lot of these residences, which have an average price of £2m ($2.7m) and can reach ten times that, have foreign owners or belong to Britons with other homes. The glitz of one of London’s wealthiest boroughs features in “Made in Chelsea”, a TV series about the leisured lives of the brash, expensively heeled denizens of “K and C”.

But the borough, which stretches from rich enclaves in the south near the King’s Road to more mixed housing in the north near Grenfell Tower, the site of a horrific late-night fire on June 14th that killed at least 79 people, has revived memories of a much older yarn. “A Tale of Two Cities”, Charles

Dickens's 19th-century novel, charted the fates of the rich and poor in London and Paris before the French Revolution. These days, Emma Dent Coad, the recently elected Labour MP for Kensington, rails against "extreme gentrification" and highlights the divisions of wealth and opportunity in a way that Dickens himself might have recognised. "The poor are getting poorer," she says. "Their income is dropping…there is no trickledown here." And indeed, the area around Grenfell Tower is home to some of the poorest people in the country (see map).



Income differentials in the borough are certainly startling. The average (mean) salary is £123,000 ($156,000), among the highest in Britain. But the median (the point which half the population is above and half below) is just £32,700 ($41,400). The gap between the two, one of the widest in the country, reflects the gulf between earnings at the very top and the very bottom. Since the Grenfell Tower blaze, worries over inequality in the borough have become more widespread than in the usual leftist campaign speeches. Ms Dent Coad reports that many previous Tory voters have told her that they too are concerned about widening social rifts.

Unlike the *banlieues* (suburbs) of Paris, London's social housing has traditionally been woven into the fabric of the city. The blackened skeleton of Grenfell Tower now looks like an ugly scar in a landscape where cramped social housing sits but a few streets away from some of the grandest terraces in London. The northern part of the borough is a hotch-potch of neat streets and tower blocks, where recently arrived migrants are housed alongside low-earning Britons. The first death announced at Grenfell was of Mohammed Alhajali, a Syrian refugee.

A summer of discontent

Talk to those at the scene of the disaster and a recurrent theme is that this has been a summer of shocks. It began with the election on June 8th, which saw Ms Dent Coad overturn a large Tory majority. Previously "K and C" had ranked as an unbreachable Tory citadel and a byword for urbane Conservatism, represented by such prominent MPs as the late Alan Clark, a political diarist, and Michael Portillo, a former defence secretary. Yet Labour's national surge combined with tactical voting by opponents of Brexit. The overall result was that Victoria Borwick, the sitting Tory MP and firm backer of Brexit, lost by 20 votes to Ms Dent Coad, after three recounts.

The fire and its death toll have made that drama seem a minor disruption. Jan Crowden, a volunteer worker, says the incident "told us what we've known for a long time: that the inequalities here are glaring and that many people simply did not want to know". She cites Elgin Crescent, with its expensive delicatessens, and the paltry offerings in supermarkets close to the Grenfell Tower, as signs that "people live very close, but in different worlds. Their kids don't go to the same schools and their parents would never meet if it weren't for what is happening now."

Not everyone thinks the caricature of heartless rich alongside forgotten poor is a fair one. Local people have rallied to help those affected by the fire, offering sleeping space, emergency food and welfare arrangements, as well as therapy and legal support (essential because the Conservative-run local council was heavily criticised for its response to the fire: its chief executive later resigned).

Joanne Cash, a barrister and former prospective Tory candidate who lives near Grenfell Tower, says the mood is of "real anger" about inept handling of the fire's aftermath. But she insists the community is more closely woven than critics claim. "Yes, this is a place with rich and poor people, largely because house prices have risen so fast in the past two decades. But it isn't really full of absentee oligarchs. People use the local leisure centre together; the Notting Hill carnival is rooted here. There has always been variety and diversity of people and that has been its strength."

A cultural battle is now under way over the significance of the tragedy and the responses to it. A "day of rage" march by far- left protesters on June 21st linked calls for justice for the Grenfell victims with demands to overthrow the Tory government. But the local "Love Golborne" community website riposted that "Grenfell residents are totally opposed…(and) do not want their grief hijacked."

Whatever else happens to the story as blame is apportioned, the tale of two cities in contemporary London retains painful resonances with the one Dickens wove into a tapestry of social discontent in London and Paris. One of his villains, the wealthy Marquis St Evrémonde, has his carriage driven recklessly, killing the child of a French peasant. He throws a coin to the child's father to compensate him, but it is thrown back, unleashing a quest for vengeance and justice that spans the English Channel and links together previously separate characters. In the febrile mood of an apprehensive city after Grenfell, the echoes are hard to ignore.

Bagehot

Philip Hammond, the designated adult among the children

Amid all those jostling to be the next Tory leader, Philip Hammond stands out

Jun 22nd 2017

BRITISH politics is dominated by the sound of two ticking clocks. The predictable one reaches zero on March 29th 2019, when Britain leaves the European Union. The unpredictable one reaches zero whenever the burghers of the Conservative Party offer Theresa May a revolver and a glass of whisky. It had looked as if that moment might be put off for some time. But the prime minister’s lamentable handling of the Grenfell Tower fire now suggests it could come any day. The Conservative Party is just one more mess-up away from a leadership contest.

Philip Hammond is emerging as the most impressive candidate to replace Mrs May: a serious man for serious times. He understands that Britain faces two threats which could immiserate the country for years to come. One is a badly handled Brexit that could disrupt British trade; the other is a Labour victory that could plunge Britain back into the 1970s. He recognises the need for as much time as possible to adjust to Brexit—he wants to "get there" via a "slope not a cliff-edge". He also recognises that the Conservatives must fight Labour and Jeremy Corbyn on the economy. Try to out-emote them and you will lose. Persuade voters that you can't spend money that you don't have and the logic of Corbynism collapses.

Mr Hammond is not a perfect candidate. Born a year before Mrs May and a Conservative since his teenage years, he has many of the flaws that have brought the prime minister to her current sorry pass. He is emotionally buttoned up. He belongs to deep Tory England. He has a thumping majority of 18,000 in his Runnymede and Weybridge constituency. He was uncomfortable with David Cameron's policy of supporting gay marriage. If Mrs May is the "Maybot", Mr Hammond is "spreadsheet Phil". Both are equally uncomfortable in a country of quivering lips and ubiquitous tattoos.

Yet if he is cast from the same mould as Mrs May, he is a superior version. He is cleverer. In interviews he answers questions, rather than trotting out trite formulae, and presents admirably nuanced arguments. He can be amusing in private, which is seldom said of Mrs May. He has a broader range of experience than anybody who has reached the top of British politics in recent years—he has been defence and foreign secretary as well as chancellor. Above all, he understands business. He spent his first 20 years after Oxford as a businessman, not a bag-carrier to some politician, running companies in property and medical devices, and he has been assiduous in consulting business over Brexit. His tweet on keeping his job as chancellor captured his priorities: "Pleased to be reappointed so we can now get on and negotiate a Brexit deal that supports British jobs, business and prosperity."

Mr Hammond is a grown-up in a political playpen that is stuffed with children. The chief claimant to the throne, Boris Johnson, is the most childish of all. Bumptious and bungling, he wants to grab the shiniest prize for himself for no other reason than that it is shiny. Other claimants also have problems with maturity. David Davis, the Brexit secretary, is a vainglorious contrarian who has spent much of his career on the backbenches and who habitually underestimates the damage a bad Brexit might cause. Amber Rudd is a neophyte. Ruth Davidson, the woman who single-handedly revived

Scottish Toryism, doesn't have a Westminster seat. On the other side, Mr Corbyn is an extreme case of arrested development. He is a man-child leading an army of disgruntled youths, a professional protester who has reached his late 60s without ever having to make adult decisions about allocating limited resources, let alone creating them in the first place.

Mr Hammond understands that wealth must be generated before it can be redistributed, or indeed requisitioned. He knows that prosperity is a fragile creation which can be destroyed by foolish policies. The sobriquet "spreadsheet Phil" ignores a shrewd political sense. Worried that patience was running out, he started unwinding austerity even before the election, putting off the target for balancing the budget until the mid-2020s and arguing for more freedom to raise taxes.

Even if Mrs May survives as prime minister, Mr Hammond's newfound power is a blessing. Previously, she had sidelined him for the sin of seeing the economy as more important than her immigration targets. During the election her co-chiefs of staff, Nicholas Timothy and Fiona Hill, briefed that he would not survive a post-election reshuffle. With the co-chiefs sacked and Mrs May wounded, he is now more powerful than ever. He rightly criticises Mrs May for dodging the economic debate during the election. Making the case for pro-market policies may be harder at a time of stagnant wages, but that is all the more reason to do it. He is now busily reshaping the Brexit debate. While avoiding riling the right with talk of a "soft Brexit", he argues for a long transition in which Britain might stay in the customs union, "to avoid unnecessary disruption and dangerous cliff-edges".

A welcome Treasury comeback

Mr Hammond's rise is also producing a positive change in the distribution of power. In Mrs May's brief time as prime minister it shifted from the Treasury to the Home Office. Business was almost frozen out of decision-making. This year's Conservative manifesto competed with Labour's in its anti-business rhetoric. Now the Treasury is revving up again and business is rediscovering its voice. Plans for rigid immigration targets are being shelved along with plans for putting workers on boards and micromanaging executive pay.

Mr Hammond is not one of those politicians who ignites fires in people's hearts. But he has the ability to keep the carriage of state trundling along, or at least from falling into a ditch. Given the quality of people in British politics and the gravity of the threats that confront the country, that is about as much as you can reasonably hope for.

Economist.com/blogs/bagehot

International

- **Fire safety: Death in the city** [Fri, 23 Jun 09:03]

| Next section | Main menu | Previous section |

Death in the city

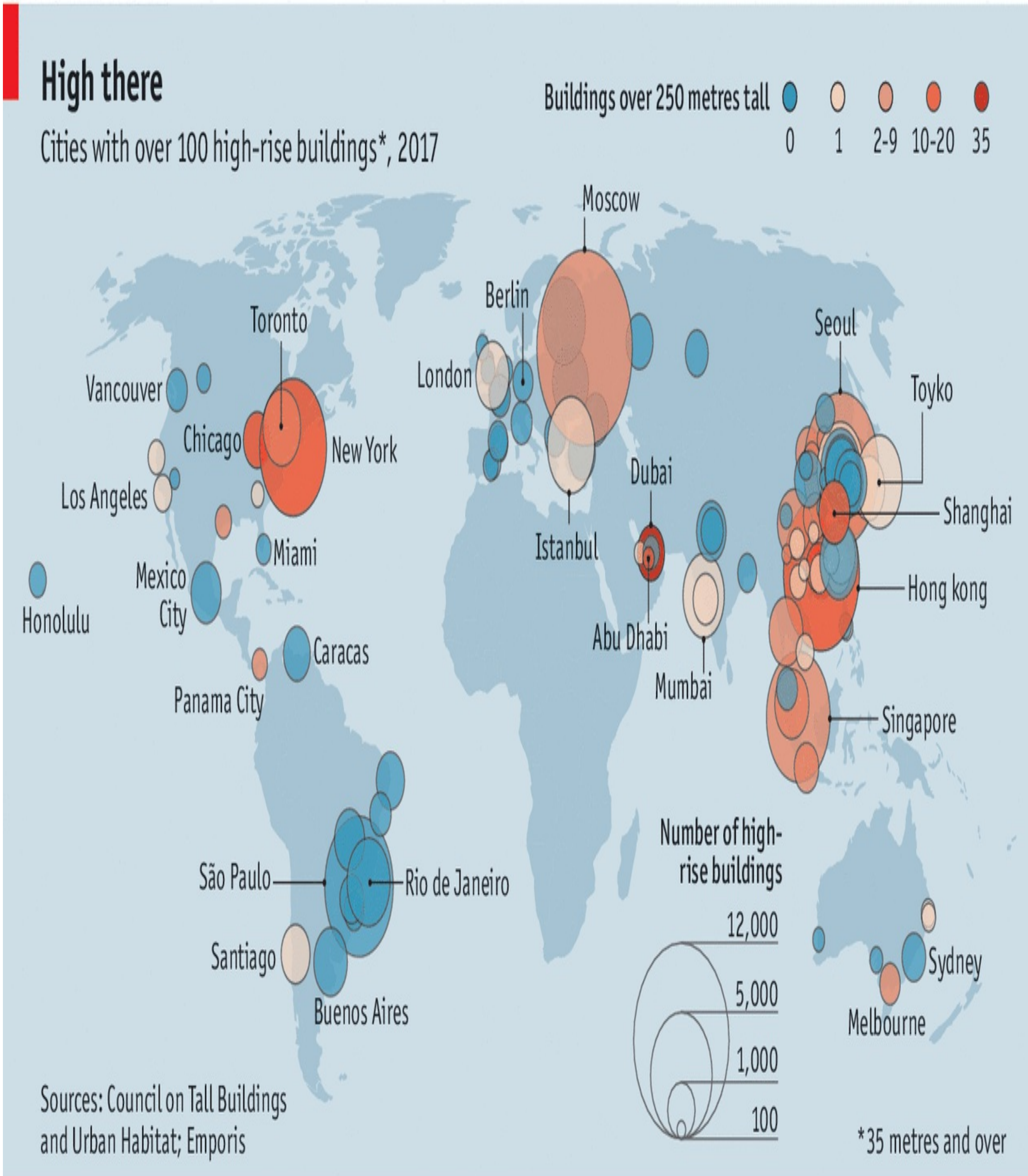
Tall buildings are becoming more common. They need not be dangerous

With proper enforcement, fire regulations can keep tower-dwellers safe

Jun 24th 2017

A LITTLE after midnight on June 14th, London's fire brigade was called to a fire at Grenfell Tower, a 24-storey apartment block built in the 1970s. Before long, 250 firefighters were on the scene. But the blaze was too fierce; hours later it had spread to three sides and gutted much of the interior. The upper floors continued to burn into the afternoon. A week later, as *The Economist* went to press, the number confirmed dead, or missing and presumed dead, stood at 79.

Such a fast-spreading and lethal fire should have been impossible. Because escaping from tall buildings is inherently difficult, strict fire safety is supposed to be designed in. Even as investigators sought to work out what had failed so catastrophically, many wondered if other tower residents were at risk, in Britain and elsewhere. Sadiq Khan, London's mayor, said the capital's entire stock of 1960s- and 1970s-vintage tower blocks might have to be demolished. Commentators on news programmes wondered whether the fire marked “the end of high-rise living”.



Economist.com

That is unlikely, even in Britain, where less than 2% of the population lives in purpose-built blocks of at least six floors, and where poor planning and neglect have given high-rise living a bad reputation. In East Asia, eastern Europe and the Americas, it is common (see map). And it will only become more common elsewhere, as urbanisation and growing wealth mean apartment and office blocks spring up. The UN thinks that by 2050 two-thirds of people will be urbanites. Many will live and work in towers, which make the best use of scarce, expensive land.

Better than sorry

With proper precautions, says Daniel Nilsson of the University of Lund, in Sweden, tall buildings can be at least as safe as any other sort. In an average year Singapore, which has 5.6m inhabitants, most living in high-rises, has a handful of deaths; Norway, with a similar population, mostly living in low-rise buildings, has dozens.

Engineers and architects seek to make tall buildings safe in two ways. The first is suppression—stopping fires from taking hold, or limiting their spread if they do. The second is evacuation—ensuring that occupants can get out quickly and safely.

The most basic suppression tactic, used in almost all tall buildings, is compartmentation. The idea is to use thick walls and fire-resistant liners to divide a building into enclosed zones, so that even if a fire does start, it spreads slowly. In residential buildings each flat is a single compartment, and building regulations state how long the compartmentation should hold before a fire spreads to adjacent flats or adjacent floors (usually an hour). In office buildings, compartmentation is usually by floor.

Most of the time, compartmentation works. Of the hundreds of fires in London flats every year, few spread. Fires in American high-rise apartment buildings spread beyond the room they start in only 4% of the time, compared with 10% in other flats.

But when compartmentation fails, the result can be catastrophic. It can happen in several ways. Pipes for heating and water, ducting for power and the like must penetrate fire compartments, and those holes must be fire-proofed. Sloppy renovation can allow fire to pass. Older, much-altered buildings are at particular risk.

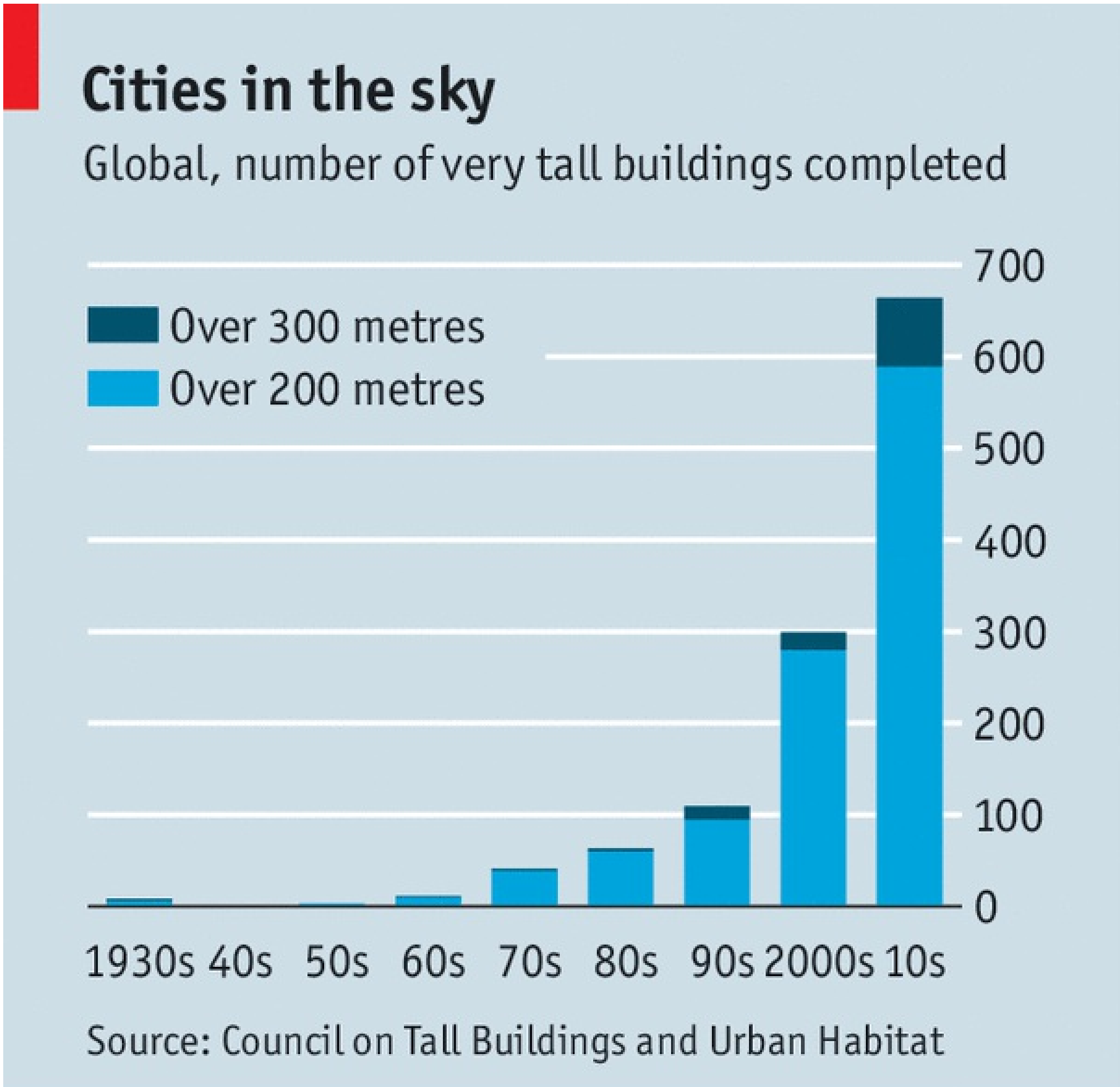
It is too early to be sure what caused the failure at Grenfell. But the chief suspect is external cladding made from blocks of flammable plastic encased in sheets of aluminium that was added in 2014. Fire-safety experts think it helped the fire to spread rapidly across the façade, entering via the windows and bypassing the compartmentation. Similar cladding has been implicated in devastating fires elsewhere. Some, like a pair in Dubai in 2015, and another in Melbourne in 2014, were casualty-free. But one in Shanghai in 2010 killed 58 people.

According to Edwin Galea, who runs the Fire Safety Engineering Group at the University of Greenwich, Britain's fire-safety rules have, at least in the past, relied unusually heavily on compartmentation. Sprinkler systems are another common method of fire suppression. Many countries mandate their use, citing mounds of evidence that they can help extinguish fires while they are still small, or slow their progression until help can arrive. Regulations in most parts of Britain are laxer.

Faith in compartmentation is why many of Grenfell's residents were advised to stay in their homes for some time after the fire started. This strategy, called "defend in place", relies on the compartments holding, in which case staying put may well be safer than fleeing through smoke and heat. It also helps keep emergency stairs clear, meaning firefighters can reach a contained blaze more quickly. For this reason, says Dr Galea, many older British tower blocks were not constructed with building-wide fire alarms, or intercom systems that enable firefighters to broadcast instructions to residents.

In most other countries, such systems are common. Other places also put greater weight on the second aspect of fire-safety engineering: escape, usually by insisting that tall buildings have at least two staircases, placed far apart. (Grenfell, like many British tower blocks, had only one). That logic is obvious. But, as with compartmentation, the strategy can occasionally fail, with horrific results. Staircases are designed to be fireproof compartments in their own right, and to keep smoke out. But research published in 2013 by academics at the University of Edinburgh analysing data from 50 building fires around the world found that significant amounts of smoke very often made it into stairwells while people were still escaping by them. In 1980 a fire at the MGM Grand hotel in Las Vegas killed 85 people. Most died in the smoke-filled stairwell.

Evacuating large numbers of people from a tall building is unavoidably difficult. And the problem is getting worse, for the world is not only building more of them—it is building them higher, as well (see chart). As floors are added, it takes longer to evacuate everyone by the stairs. In the tallest buildings, it can take an hour or more, comparable to the amount of time the building can resist the spread of fire. A further complication is that the populations of many rich countries are becoming older, fatter and less fit. Disabled people often cannot use stairs at all.



Economist.com

So engineers are studying other ways to evacuate buildings. One idea is to abandon decades of safety dogma and encourage residents of tall towers to evacuate by the lifts. Studies suggest that could speed things up by as much as two-thirds. Engineers know how to build fire-resistant lifts. They must install smoke-proof shafts so that the piston action of the lift does not draw in smoke. They must provide backup power and lips at every floor, to stop water from sprinklers running in. A few tall buildings, including the 828-metre Burj Khalifa in Dubai, the world's tallest, already have such lifts.

Psychology is as important as technology. Studies Dr Nilsson has conducted using virtual reality suggest that, even when they know they are in no real danger, people are willing to wait only a few minutes for a fire-escape lift to arrive. One advantage of such lifts is that they can be programmed to give priority to the floors nearest the fire. But that can leave people on other floors feeling stranded. Displaying information such as an estimated time to the lift's arrival can help quell panic.

Refuge floors are another idea. These are essentially super-compartments—uninhabited floors designed to resist the spread of fire for much longer than normal. They are often open to the outside so that smoke cannot build up. Disabled or injured occupants, or those farthest from the fire, whose evacuation is less urgent, can shelter on them until congestion on the stairs eases or help comes. Many countries, including Hong Kong, India, Singapore and South Korea, already specify their inclusion in buildings over a certain height.

"Sky bridges" linking two or more tall towers are another option. These enable evacuees from above the bridge to cross into a safe building. The sky bridge linking the twin Petronas Towers in Kuala Lumpur forms part of their fire-escape plan. Such bridges can be retro-fitted to existing buildings, says Dr Nilsson; the Gothia Towers in Gothenburg are an example. Other places are considering more exotic ideas. India insists that the tallest towers have helipads on their roofs, though Dr Nilsson is unconvinced. "Helicopters are small and slow," he says. "And it can be very difficult to land them in the face of all the hot air rising from a burning building."

Giving engineers more options is valuable, says Dr Galea. But none can solve all problems. Sprinklers help, but the 2014 Melbourne fire started on a balcony and only spread inside once it was established, by which time the sprinklers could not stop it. Defend in place is usually a good strategy, but when it fails, the consequences can be deadly. More escape routes are good, provided they do not put panicked occupants in extra danger. The best approach, he says, is "defence in depth": including several safety features, each compensating for another's vulnerabilities.

But even the best fire-safety methods and regulations will be useless if, because of corner-cutting or lack of vigilance, they are not translated into reality. After the Shanghai fire in 2010 Han Zheng, Shanghai's mayor at the time, blamed poor oversight of the city's construction firms, implying that building work had been done improperly. Another fire in Beijing, at a building owned by China Central Television, is thought to have spread partly because a sprinkler system failed. Grenfell residents had complained often about poor maintenance, power surges from faulty wiring, and vehicles parked in areas meant to be kept clear for emergencies.

The saddest words

Other countries, including Germany and America, had banned the flammable cladding used on Grenfell; Britain's building regulations say it should only be used on low-rise buildings. Preventing a fire is better than having to put it out. If the regulations had been properly enforced, Grenfell might not now be a charred shell.

Business

- **Saudi Aramco's IPO: A king-to-be's ransom** [Fri, 23 Jun 09:03]
- **Amazon buys Whole Foods: Whole hog** [Fri, 23 Jun 09:03]
- **Uber: Gear change** [Fri, 23 Jun 09:03]
- **India's meat business: Meatpacking district** [Fri, 23 Jun 09:03]
- **Retailing in Pyongyang: Minisocialist** [Fri, 23 Jun 09:03]
- **General Motors: Shrink to fit** [Fri, 23 Jun 09:03]
- **Artificial intelligence: Deep minds for hire** [Fri, 23 Jun 09:03]
- **Cisco: Flicking the switch** [Fri, 23 Jun 09:03]
- **Schumpeter: Alive and kicking** [Fri, 23 Jun 09:03]

A king-to-be's ransom

The prospects for the world's biggest IPO

Saudi Aramco cannot be seen in isolation from the kingdom it funds

Jun 24th 2017

THE proposed sale of 5% of Saudi Aramco is not just likely to be the biggest initial public offering (IPO) of all time. "It's like Gibraltar selling the rock," as one expert on Saudi Arabia's oil policy puts it. The world's biggest oil company keeps the House of Saud in power, bankrolled 60% of the national budget last year, and is a paragon of efficiency in an economy otherwise mired in bureaucracy.

The elevation on June 21st of Muhammad bin Salman, the 31-year-old architect of the IPO, to crown prince is likely to add more momentum to a sale planned for the second half of 2018. The news will further sideline domestic critics of the IPO, some of whom wonder whether it would be better to borrow the money than sell the family silver. But the success of the IPO is not guaranteed. The tendency of MBS, as the prince is known, to micromanage the listing runs counter to the spirit of openness and liberalisation that he says he wants for Saudi Arabia. That could backfire on the IPO itself. The more he interferes, the less keen investors will be to buy shares.

Aramco's role underpinning the Saudi economy is an even bigger challenge in valuing this IPO than the firm's immense size. On the one hand, advisers say, its low costs and lean workforce make it comparable to blue-chip oil supermajors such as ExxonMobil and Royal Dutch Shell. On the other, the risks of political interference mean that it is likely to suffer from the stigma associated with being a national oil company (NOC). Many NOCs, such as PetroChina and Brazil's Petrobras, have come to market amid the sort of fanfare that Aramco is generating. In a decade, they have destroyed more than $500bn-worth of value compared with their private peers (see chart).

As an oil company, the selling-points for Aramco are strong (provided the oil price is high enough). It has a concession for 12 times more oil and gas than ExxonMobil and 27 times more than Shell. Its production levels are several times higher. It has fewer employees, higher debt-adjusted cashflow per barrel, and decent margins in its refining and petrochemicals businesses as well as upstream. By the time it lists, its advisers hope it will have a board structure similar to that of the supermajors, and will be comparable on a number of parameters, including dividend projections, that will enable investors to value it accordingly. "The day this company goes public, it will look like one of the top blue-chip oil companies," one says.

The trouble is, MBS has already stated what he thinks the valuation should be, and at $2trn, it is punchy enough to make even a Silicon Valley boss look bashful. To achieve it, a 5% sliver would be worth $100bn—four times the biggest IPO to date, that of China's Alibaba, an e-commerce firm, in 2014.

According to an analysis by Sanford C. Bernstein, a research firm, at $2trn its value per barrel of oil equivalent coming out of the ground would be about 60% higher than that of its blue-chip peers. A valuation at or below $1.5trn would be closer to the mark, but risks disappointing the new crown prince. "He may have to make a choice between selling cheap and pulling the plug on the process. Either case would be a loss of face," says Steffen Hertog of the London School of Economics, a writer on the state and oil in Saudi Arabia.

To get closer to his target, the kingdom recently slashed tax rates on Aramco, from 85% to 50%. That brings them nearer to international norms for oil firms and will appeal to investors: lower taxes mean the company can pay out higher dividends.

The country also has a plan to wean its people off some of the world's cheapest energy by 2020, which would bolster Aramco's profits. According to Jim Krane, of Rice University's Baker Institute for Public Policy, about a third of Aramco's output is sold for domestic purposes, with power generation, for instance, enjoying discounted prices of under $6 a barrel—a "massive opportunity cost".

But investors would be wise not to view issues like taxes and subsidies in isolation. Some analysts express worry that dividends are unstable, and that the kingdom would have to unwind the tax cuts on Aramco if the state needed the money. The introduction of more realistic pricing could also have political and social ramifications, since Saudis are some of the world's biggest consumers of cheap energy.

Another worry for investors would be if MBS continues to use Aramco as a tool of global oil policy on behalf of OPEC, the producers' cartel. The kingdom may believe that OPEC serves as a stabilising force in global oil markets, which benefits Aramco. But its latest attempts to play puppet-master with the oil market have been counter-productive. On June 21st global oil prices fell to their lowest level since August, despite an agreement by OPEC and non-OPEC producers to cut output until next March. As a result, Aramco is not only losing income, it is losing market share to rivals not bound by the cuts.

Last, as his global stature grows, the prince may be tempted to mix up geopolitics and commerce. Anecdotal evidence of this emerged during President Donald Trump's visit to Riyadh in May. Even as Aramco was supposedly disentangling itself from the myriad noncore activities it carries out on behalf of the state, the firm was on extra-curricular duty. At breakneck pace, it built the Global Centre for Combating Extremist Ideology in Riyadh, where Mr Trump and MBS's 81-year-old father, King Salman bin Abdel Aziz Al Saud, performed a weird inauguration ceremony involving a glowing globe. The reason for Aramco's involvement: no other body in the kingdom could do it half as quickly.

Venue, vidi, vici

Such strategic considerations may also be influencing the decision on whether to list the non-Saudi portion of the IPO in New York or London (a small slice will be listed on Tadawul, the local bourse). Aramco's lawyers are more comfortable with a London Stock Exchange (LSE) listing, on the ground that it would spare the company the real risk of class-action lawsuits related, for instance, to the terror attacks of September 11th 2001, of litigation from tree-hugging attorneys-general, and of other claims on its assets that it might face on the New York Stock Exchange (NYSE).

But MBS is believed to be leaning more towards New York. This may be because of liquidity: listed companies on the NYSE have a combined market capitalisation of about $20trn, versus $4trn on the LSE. The NYSE also has more prestige; the big peers Aramco wants to be judged against are listed there. Yet he is also understood to have been under pressure from the White House for a New York listing, and is keen to cement ties with Mr Trump. If that were to sway the final consideration, investors might not thank him for it.

Many will shrug. The chance to buy shares in one of the world's most resilient oil firms will be hard to resist. Moreover, sovereign-wealth funds may well be keen to become “anchor tenants” of the IPO, to deepen their own countries’ relationships with Aramco and the new crown prince.

But MBS’s leapfrog towards the throne will not silence the questions that still swirl. What will happen to the money raised? Will the listing plug a budget gap of 8% of GDP? Will it fund domestic industries such as mining, defence and tourism? Or will it become a “magic money tree”, promising all things to all people? The original goal of the IPO was to bring more transparency and stronger market forces to Saudi Arabia—creating a sort of Thatcherite oasis in the Arabian desert. If that is truly what MBS wants, he should learn to leave well alone.

Food fight

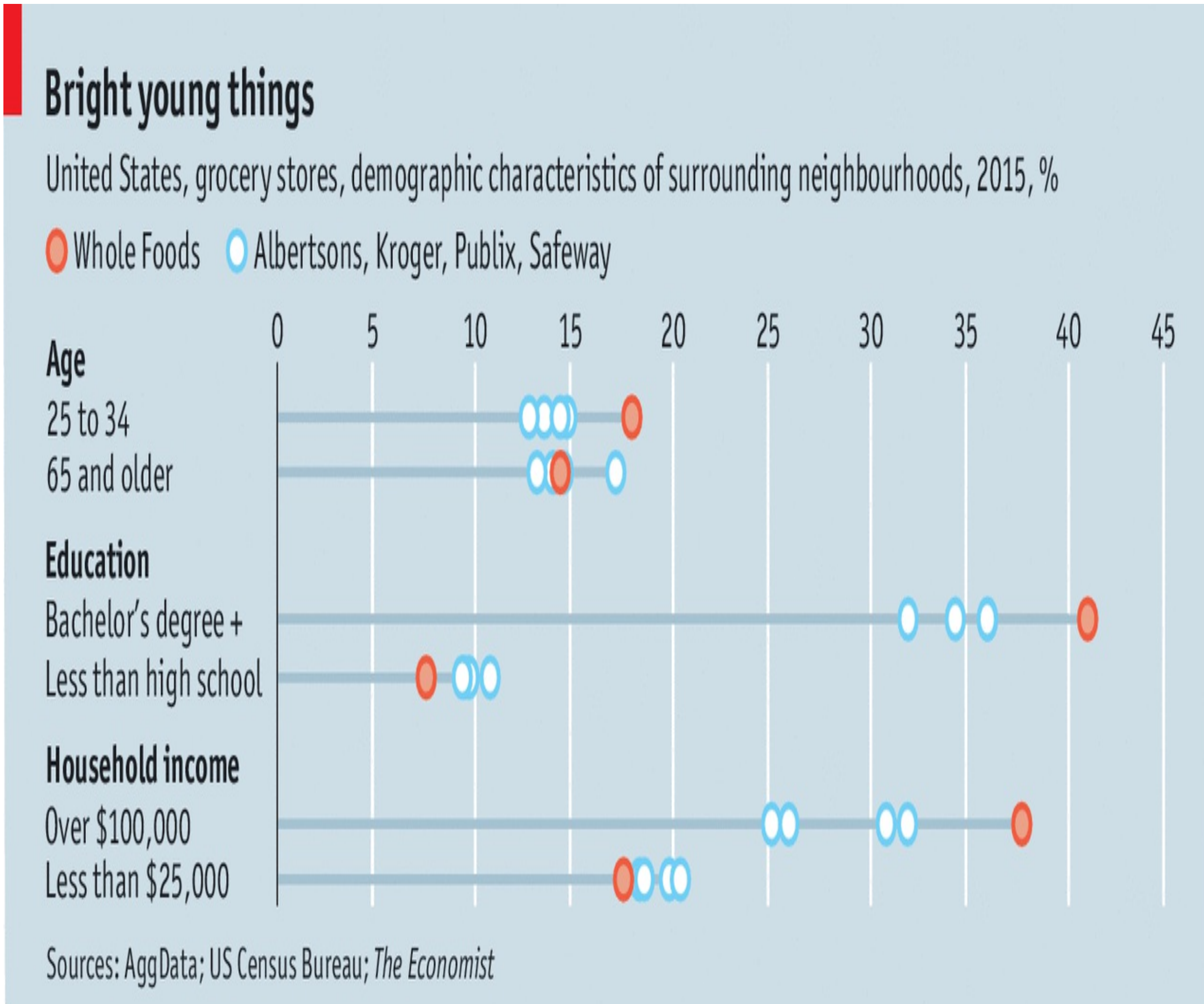
Amazon's big, fresh deal with Whole Foods

Buying the upscale grocer is a new front in the battle with the beast of Bentonville

Jun 24th 2017 | NEW YORK

JEFF BEZOS does not like sitting still. In his annual letter to Amazon's shareholders this year, he warned of "stasis. Followed by irrelevance. Followed by excruciating, painful decline. Followed by death." Competitors are toiling to avoid the same fate but it is hard to keep up. On June 16th Amazon said it would pay $13.7bn for Whole Foods, an upscale grocer known for its organic produce. Lest be accused of sloth, four days later Amazon announced a new service to let shoppers try clothes at home, for no fee, then return those they don't like.

The news that Amazon would make clothes shopping even easier is a blow to America's apparel chains, many of which are already in the middle of that excruciating decline. Yet it was the Whole Foods deal, more than ten times bigger than any acquisition Amazon has made so far, that caused the bigger stir.



Economist.com

The deal's precise impact is hard to gauge. Buying Whole Foods hardly gives Amazon a stranglehold on food and drink: the combined companies will account for just 1.4% of America's grocery market, according to GlobalData, a research firm. The people who shop at the chain are not the mass market. They are unusually wealthy and well-educated (see chart). Mr Bezos has made no big announcements about changes at Whole Foods—drone-delivered spelt grain is unlikely to become a reality soon. Instead he simply praised its work and said "we want that to continue."

Nevertheless, the news prompted the shares of a large group of rival grocery firms, including Walmart and Kroger, to sink quickly. As with so much about Amazon, the Whole Foods deal is important not for what it represents now but how it might transform Amazon and up-end rivals—most notably, Walmart—in future.

Up to now, grocery has been a tough nut for Amazon to crack. A growing share of office supplies and clothes are bought online, yet last year e-commerce accounted for just 2% of American spending on food and drinks. Amazon Fresh, a ten-year-old grocery-delivery service, is still in only 20-odd cities. Prime Now, a two-hour delivery service introduced in 2014, is in 31.

That is because grocery's margins are low and its goods devilishly hard to deliver. Peaches bruise. Meat rots. Many consumers like to buy food in person: unlike choosing a battery or book, selecting a ripe tomato requires inspecting it or trusting someone who has.

Amazon has tried to solve these problems—using machine learning, for example, to distinguish ripe strawberries from mouldy ones. But the Whole Foods deal is the start of something new. To date Amazon has run only a handful of stores; Whole Foods will give it more than 450. Amazon knows a lot about customer behaviour online; now it will be able to marry that to data about habits in physical stores. Paul Beswick of Oliver Wyman, a consultancy, notes that Whole Foods will provide a well-established supply chain, a boon to Amazon Fresh, as well as a roster of store-brand goods, which might now be sold online.

It is all a huge headache for Walmart. The beast of Bentonville remains the world's largest store and America's biggest grocer, with revenues of $486bn compared with Amazon's $136bn. It too is trying to avoid stasis. It paid $3bn last year to acquire Jet.com, a challenger to Amazon, and has invested in technology to help customers order groceries online and have them ready to pick up from its stores. Walmart is experimenting with other services: some staff deliver groceries on their way home.

"Walmart is testing, reading and reacting," notes Oliver Chen of Cowen, a financial-services firm. "That's a new Walmart." On the same day that Amazon said it would buy Whole Foods, Walmart announced the purchase of a menswear brand called Bonobos for $310m, which began online and now has three dozen stores. The deal, among other things, gives Walmart new staff to help the company transform itself further.

Yet Amazon is playing a different, more complex game. It is enmeshing itself in its customers' lives: each new service, from streaming video to its Alexa virtual assistant, makes it more integral to a person's day. That gives it new data and revenue that help it improve services and offer additional ones. Shoppers buy groceries often. If Amazon can become part of Americans' ritual of buying milk and eggs, the firm will understand its customers even better. Shoppers will have fewer reasons to go elsewhere.

And Amazon is likely to integrate Whole Foods in ways that are not yet obvious. Finding ways to get more value out of its investments has been key to Amazon's growth. The company's warehouses, built for its own goods, are now used by independent sellers. The same is true of its cloud-computing power, which supports not just Amazon's own business but legions of other firms. Amazon may use its infrastructure for Prime Now to deliver Whole Foods' groceries. In future it may develop new services for Whole Foods that are in turn deployed in new ways, suggests Ben Thompson, a tech blogger. It could, for example, supply restaurants.

For Walmart, and many other rivals, the best scenario would be if regulators were to slow Amazon's expansion. The company accounts for about half of new spending online in America. It has reached into many parts of the economy, from retail to cloud computing and from entertainment to advertising. Yet intervention is improbable. The Whole Foods deal gives Amazon less than one-fiftieth of the grocery market. Walmart, were it to make Whole Foods a higher offer, by contrast, would be very likely to attract regulators' wrath. In such circumstances, Walmart could be forgiven a severe attack of sour grapes.

Gear change

Travis Kalanick steps down as chief executive of Uber

A new era begins at the ride-hailing giant

Jun 22nd 2017

“WE HAVE a lot of attention as it is. I don’t even know how we could get more,” Travis Kalanick, the boss of Uber, said last year. The ride-hailing giant found a way. Mr Kalanick failed to manage the fallout from a series of high-profile blunders and scandals. On June 20th he resigned as chief executive officer of the firm he co-founded in 2009.

Uber is facing several crises, including senior executive departures, a lawsuit over alleged intellectual-property theft, claims about sexual harassment and a federal probe into its use of potentially illegal software to track regulators. Mr Kalanick had previously said he would take a leave of absence, in part to deal with a personal tragedy—the death of his mother in a boating accident. That was not enough for investors in Uber, who asked him to make his leave permanent.

Uber will not change overnight. Mr Kalanick trained it to be unrelentingly competitive, aggressive and ready to break rules. That culture helped make it the most prominent private American technology firm, with a valuation of nearly $70bn. But the impact of Mr Kalanick's self-styled "always be hustlin' " approach has been stark. Uber's controversies have dented its brand, hurt its ability to recruit the best engineers and cost it customers in America, who are defecting to its rival, Lyft.

The identity of Mr Kalanick's replacement will be crucial. Uber's board will seek an experienced boss, perhaps a woman. He or she will need experience running a multinational. Whether the board should hire someone with a background in transport (perhaps from an airline or logistics firm) or a candidate from the technology industry is unclear. Some have suggested that Sheryl Sandberg, who serves as number two at Facebook, would be a good choice, but she may not be willing to jump.

Investors in Uber have accepted that Mr Kalanick will stay on the company's board (along with his co-founder and another early executive, he controls the majority of super-voting shares) so he is likely to have a strong influence on the firm. He will need to exercise restraint. Twitter, an internet company that is struggling to attract more users, found it hard to settle on a clear strategy in part because several co-founders who once ran it continued to serve on the board and second-guessed the boss.

Mr Kalanick's departure should be enough to placate some alienated customers. Regulators may treat Uber more kindly, too. Abroad, its scandals have barely registered. In the first quarter of this year it notched up record revenues, of $3.4bn. Its losses, of around $700m, are still high but diminishing. The next chief executive will need to decide whether to chase growth and endure continued steep losses, or cut back on international expansion in order to make more money. After watching Mr Kalanick push the pedal to the metal, Uber's investors may hope that a more conservative era—in terms of finances as well as culture—is about to begin.

Meatpacking district

India’s huge buffalo-meat industry is in limbo

The country’s slaughterhouses are the envy of the rich world

Jun 24th 2017 | UTTAR PRADESH

IN A corner of the state of Uttar Pradesh (UP) stands a gleaming building dedicated to animal slaughter on an industrial scale. Neatly mown lawns lead the way to a corral for hundreds of the curly-horned Murrah buffalo typical of the region. Nearby is a lorry-sized, stainless-steel machine in which the animals are killed. A Muslim cleric stands ready to oversee the incantation that ensures each carcass will be halal. Upstairs a microbiology lab monitors the progress of each beast through stages of chilling, deboning and deglanding. Each pile of disaggregated buffalo is then frozen solid and put into a loading chamber.

Such facilities are common in UP, although they do not advertise their whereabouts for fear of antagonising “cow vigilantes”, Hindu militants who harass and extort in the name of protecting cows, which a majority of Indians hold to be sacred. India earns around $4bn a year from exporting beef, and last year was the world's biggest exporter of the product. But nearly all of it comes from buffalo, not cow.

A few dozen integrated meat companies have harnessed the potential of water buffalo over the past 15 years, developing the means to send herds of beasts from tiny farms through mechanised slaughterhouses and on to foreign markets. Firms such as Hind Agro, Allana and M.K. Overseas, plus dozens more, most of them crowded into the west of UP, have helped raise the value of India's beef exports 14-fold within a decade—their worth is now equivalent to nearly a third of the country's monthly trade deficit.

But the environment ministry has put the business on the chopping block. In May it ordered that cattle, including water buffalo, may no longer be sold in open markets for the express purpose of slaughter. The ruling was issued with immediate effect, on the ground of preventing cruelty to a class of animals that defines oxen and even camels, as well as water buffalo and cows, as "cattle".

The ruling has prompted an outcry. Many note that the ban appears unconstitutional. India's individual states, some of which allow cow slaughter, are objecting. It also seems biased against the country's Muslims, who are heavily involved in the meat and tannery trades both as workers and owners. The Supreme Court heard a case against the ruling on June 15th.

The timing of the ban is particularly irksome for the industry, because it ought to be enjoying a golden period. Brazil, the second-largest exporter, has been hobbled by a meat-contamination scandal affecting JBS, the world's biggest meatpacker. Shiploads of Brazilian meat have been waiting in the Pacific, as Asian buyers have had second thoughts.

India's industry is well-placed to take advantage. High standards, regulatory and sanitary, have been enforced, partly because of local sensitivities about animal slaughter. Teams of foreign buyers considering the Indian market have brought extra scrutiny. Their inspectors are relentless: three teams of Malaysians spot-checked 32 plants in one fortnight in April, for example. Unlike the giant feedlot operations of the American Midwest, say, which tend to stink of manure and death from miles away, the high-tech UP abattoir sits near neighbours on other industrial estates, kept spotless and odour-free by an enormous workforce.

Unless the government's ruling is overturned, however, such advantages are hypothetical. Farmers and traders have become even warier of transporting their animals within the UP plant's 200km-radius catchment area. That is a reprieve for the buffalo, at least.

Minisocialist

A trendy Asian lifestyle chain opens in North Korea

Miniso hopes to appeal to the monied young consumers of Pyongyang

Jun 22nd 2017 | SEOUL

WHEN Miniso said in January that its stores would "bring the happiness of stress-free shopping to the Koreans", you would be forgiven for thinking they were referring to emporium-loving Seoulites. In fact, the home-goods store, co-founded by a Chinese entrepreneur and a Japanese designer, was announcing that it would be taking its capitalist trinkets into (ostensibly socialist) North Korea. In a joint-venture deal with one of the country's state-owned enterprises, it agreed to establish the first foreign-branded chain store in Pyongyang, the destitute country's showcase capital.

The first Miniso store opened there in April, eight months after its first shop in South Korea began operating, and just before it launched in America. Its arrival is remarkable in a place where displays of branding are rare (the exception is a handful of billboards advertising a local car firm, Pyeonghwa Motors).

Miniso's coup in the secretive kingdom is part of a global advance. Since it opened its first store in Guangzhou in China in 2013, it has signed deals to expand into more than 50 countries, from Mexico to Mongolia; it has more than 1,800 outlets in total. Revenue amounted to 10bn yuan ($1.5bn) in 2016, almost double that of the previous year.

Ye Guofu, the Chinese entrepreneur who co-founded Miniso with Junya Miyake, who runs its design team in Tokyo, sends out some 200 buyers around the world in search of ideas. New household goods hit its shelves every week, from nail polishes to bath mats and frying pans. Its few pricey products cost no more than about $40. Its young fans see it as a cross between three popular Japanese retailers: Daiso, a ¥100 chain, where everything costs less than 90 cents; Uniqlo, a clothing company with minimalist design; and Muji, a lifestyle chain with a massive product range. Others gripe that it is misleadingly plugging its Japaneseness (it says it was founded in Tokyo, though it has only four shops there and over 1,000 in China) to appeal to Asian consumers keen on *kawaii*, or Japan's brand of cuteness.

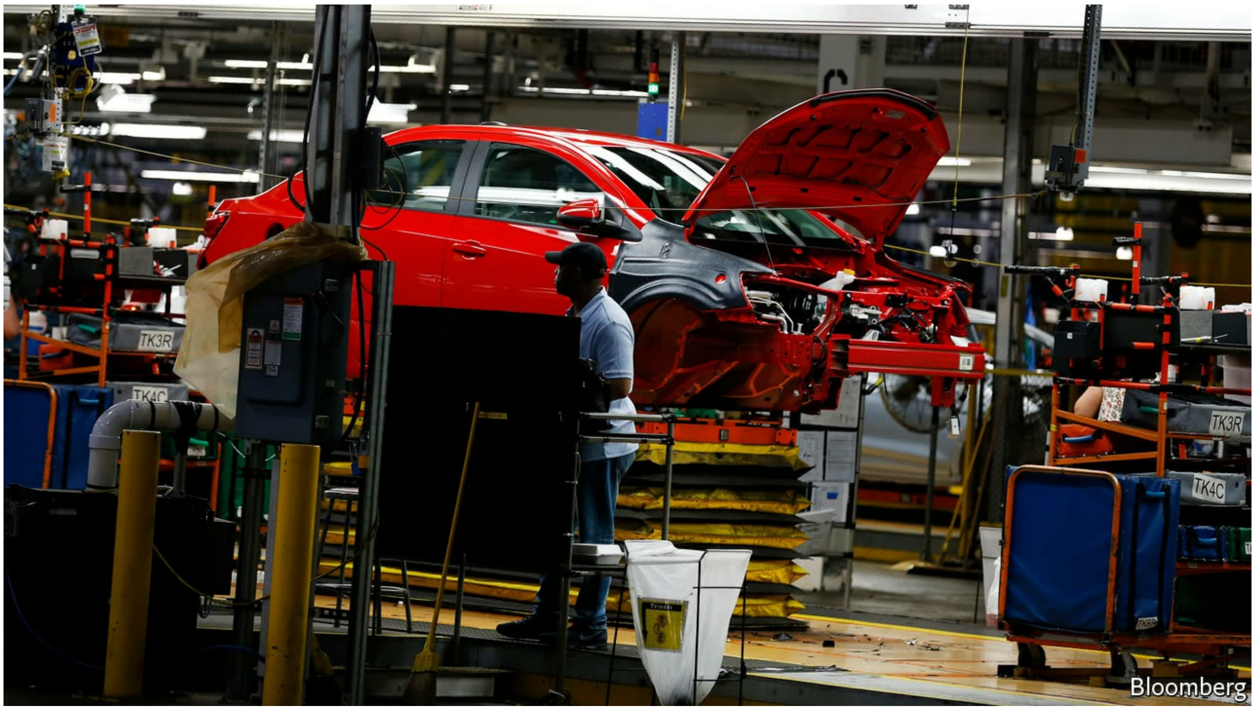
Anecdotal evidence from Pyongyang suggests that the city's coterie of privileged North Koreans is already enthusiastic. On a recent visit a foreign resident saw mainly toys, cosmetics and home-decor baubles being bought for between $2 and $10. Price tags at Miniso are in North Korean won but customers must pay in dollars, euros or Chinese yuan—an embarrassment to the regime, which knows its won are worthless. The store is in a lotus-flower-shaped building on Ryomyong Street, a cluster of high-rise apartments and shops (pictured) opened in April to fanfare by Kim Jong Un, the North's leader, who took power on the death of his father in 2011.

The young Mr Kim has promised his oppressed people more leisure and consumption: shopping centres, renovated funfairs and a water park have in recent years been unveiled in the capital. That helps to explain the entry of Miniso, which says it wants not only to "enrich people's choices in North Korea, but also improve people's living standard". Lim Eul-chul of Kyungnam University in South Korea expects Miniso will soon be stocked with locally produced goods too. Yet this is not a market for the faint-hearted. Egypt's Orascom Telecom entered into a joint venture with the state in 2008 to set up North Korea’s first 3G cellular network. It has yet to repatriate any profits, and in 2015 it said that the North Korean state had established a second carrier to compete with its own network.

Shrink to fit

General Motors is getting smaller but more profitable

Yet uncertainty about how it will fare in future still weighs on its share price



Jun 24th 2017 | DETROIT

THE headquarters of General Motors (GM) tower over the other skyscrapers in Detroit's city centre, a reminder that the carmaker still rules the American market. Yet GM's domestic might increasingly contrasts with its position elsewhere in the world. Although most other carmakers see becoming ever bigger everywhere as the answer to the industry's multiple challenges, GM is in retreat.

It, too, long vied with the world's largest carmakers for the global crown. Along with Volkswagen, Toyota and Renault-Nissan, it made around 10m cars last year. Investors have been unimpressed. Although GM had record profits in 2015 and 2016 and has performed solidly this year, its share price has barely budged since its IPO of 2010, after the financial crisis had forced it into bankruptcy.

Such is the frustration that Greenlight Capital, a hedge fund with a 3.6% stake in GM, proposed splitting its shares into two classes—one keeping the current dividend and the other benefiting from stock buybacks and dividend increases. The plan was roundly defeated at the firm's annual shareholders meeting on June 6th, in a victory for Mary Barra, the CEO since 2014.

GM reckons that handing back membership of the "10m club" is a better solution. The downsizing began in 2015 when it left two emerging markets, Russia and Indonesia, and shrank operations in Thailand. The boldest step came in March, with the news that it would pull out of Europe by selling Opel to France's PSA Group. In May GM also said it would stop selling vehicles in India and leave South Africa.

Pegging GM back to making 8.5m cars a year signals that profits are its priority. Jefferies, an investment bank, reckons that revenues in 2017 will fall by a tenth but that profits before interest and taxes will rise by 2-3%. Dan Ammann, GM's president, says that his firm can no longer strive to be "all things to all people in all places". It should concentrate on areas where it is strong, could become strong or where there are generous profits to be made, he says. Both North America and China fulfil his requirements. GM may be losing money in Latin America at the moment, but it has a big market share there on which to build.

Picking markets carefully should give GM a better chance of nurturing existing businesses while preparing for a future of autonomous vehicles and ride-sharing. This upheaval is still in its very early stages: of the 3trn vehicle-miles driven in America last year, just 5bn, or 0.15% of the total, were undertaken in ride-hailing services such as Uber and Lyft. But investors are thinking far ahead, to a time when technology giants such as Apple and Google change the nature of personal transport. They fear that GM will get left behind.

The firm's difficulty lies in convincing them that it is spending enough to stay in this race but not too much on businesses that, at present, bring no returns. (A similar conundrum led to the ousting of Ford's chief executive, Mark Fields, last month.) GM has sensibly stressed its future technological capabilities and downplayed the cost of developing them. Spending $500m on a stake in Lyft, as it recently did, and the same amount to buy Cruise

Automation, a self-driving startup, in addition to another $600m on other autonomous-vehicle costs, is a relatively small sum to set against an annual capital expenditure and research-and-development budget of $16bn.

Yet still its shares languish. Old-fashioned problems are not helping. Carmaking is cyclical: the American market is at a peak and China's roaring growth may slow. GM is expected to make a big announcement soon about its plans to reap rewards from the future of mobility. But if it comes just as the cycle appears to be turning downwards, the news may not give the firm's shares the tune-up they deserve.

Artificial intelligence

A hybrid startup offers AI services to business

Not only Google and Facebook should have access to AI, it argues

Jun 22nd 2017

BOSSES are more likely to groan than feel giddy about advances in artificial intelligence (AI). They need a strategy, but few companies can hope to own a unit like Google's DeepMind, whose algorithms not only beat the world's best Go players but made a 40% improvement in the energy efficiency of its parent's data centres. A Canadian startup, Element AI, wants to let all businesses tap into the world's best AI minds.

The brain behind the new firm is Yoshua Bengio, a pioneer in "deep learning", a branch of AI. As firms such as Google and Facebook lured dozens of AI academics, some in the field expressed fears about a brain drain from academia. In 2015, for example, Uber, a ride-hailing startup, poached 40 researchers from Carnegie Mellon University. Mr Bengio meanwhile stayed at the University of Montreal (though in January he became an adviser to Microsoft).

Element AI will let researchers stay in their university posts while working on corporate projects. It plans, in effect, to build an AI platform on which a network of member firms (in which it may take stakes) can serve other companies. These member firms will tap Element AI's brain trust and license its technical platform. This month the startup raised $102m of capital from backers including Intel and Nvidia, two chip giants.

Its system addresses a shortcoming of many AI applications. Individual firms are awash with data but may not have enough to train AI models. Element AI's network will be able to share algorithmic learning from all the data they crunch, enabling better performance than they would achieve using only one client's data. For example, an oil major might want to use image-recognition to identify corrosion on its pipes. Element AI could develop a system to spot it and predict the likelihood of a leak, to rank which pipes get fixed first. If the client lacks images to train the algorithm, Element AI's work in an adjacent area—say, corrosion on railway tracks—could be used.

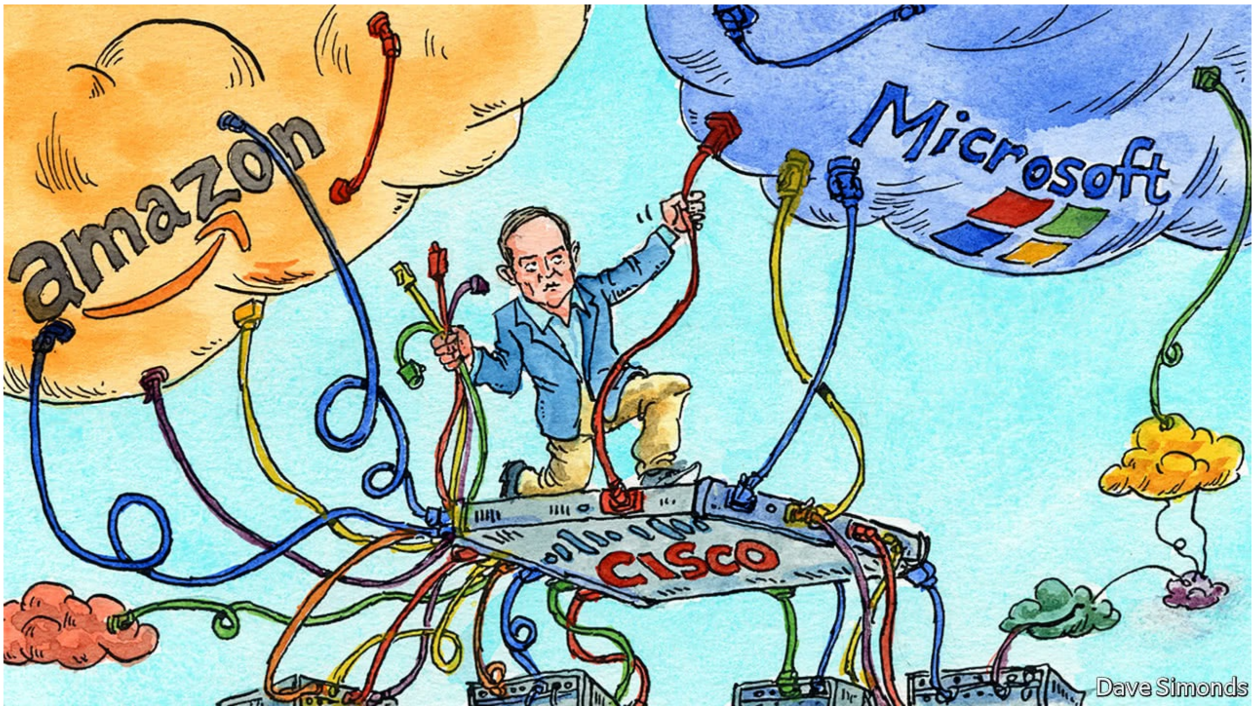
Jean-François Gagné, Element AI's boss, says that the company aims to "democratise" AI by making state-of-the-art technology available to companies well beyond the main technology giants. "We are a neutral player you can trust," he argues. But it is notoriously hard to move techniques from the research lab into real-life applications.

If AI does become the bedrock of corporate technology, there should be room for several models. Big consultancies are already believers and have begun acquiring data-analytics firms themselves. Element AI's approach is promising. But the McKinsey of AI may yet turn out to be McKinsey itself.

Flicking the switch

Cisco adapts to the rise of cloud computing

The tech firm’s goals seem achievable

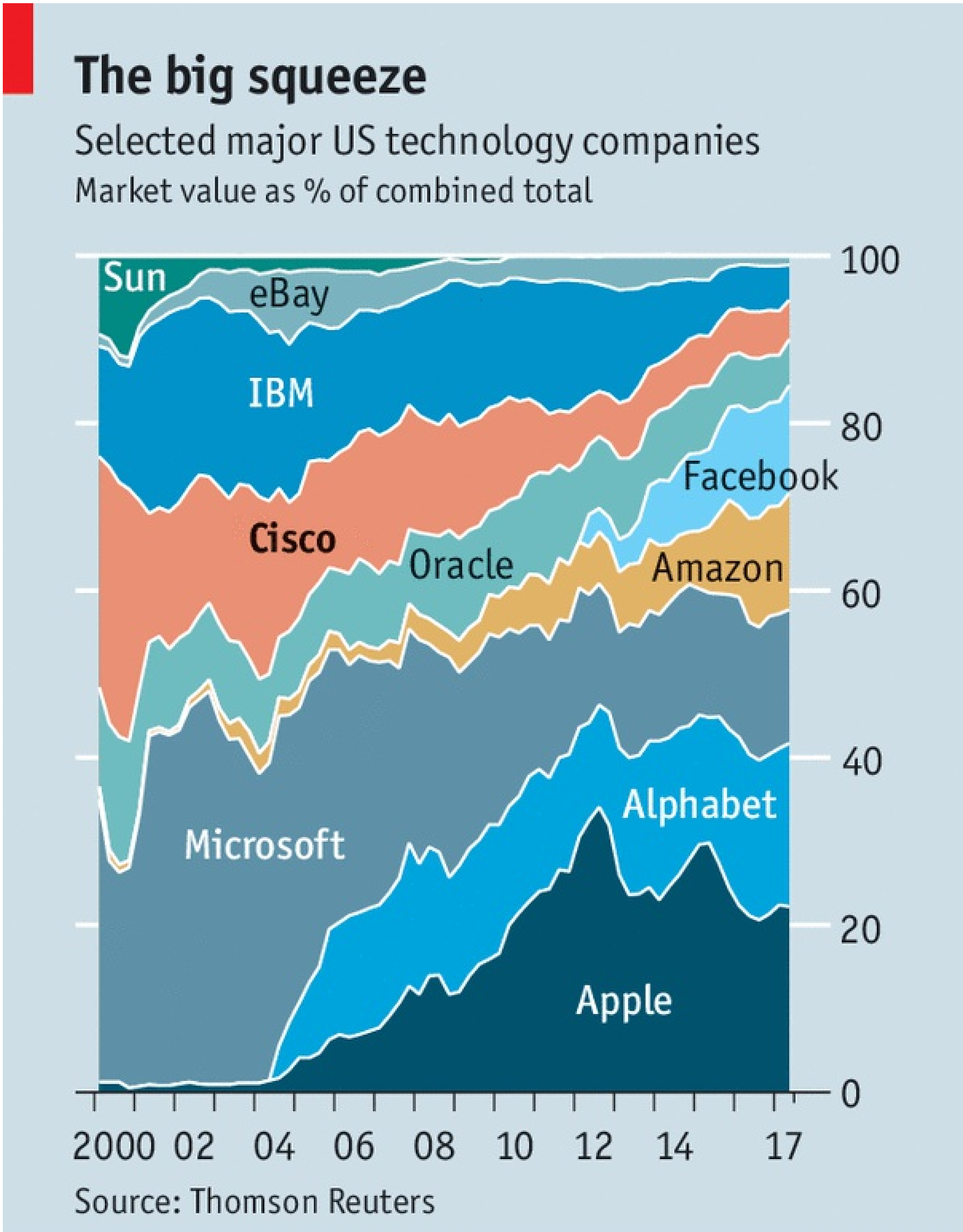


Jun 22nd 2017

WHEN John Chambers ran Cisco, the world’s biggest maker of networking gear, his hyperactivity nearly matched that of the high-speed switches and routers that made the firm’s fortune. He pushed Cisco into dozens of new businesses, from set-top boxes to virtual health care. He travelled the world preaching the virtues of connectivity. In interviews it was hard to get a word in edgeways. Conversations invariably ended on a restless question: “What should we do differently?”

Chuck Robbins, who succeeded Mr Chambers in July 2015, has two decades of experience selling Cisco gear and seems more comfortable talking about its core business than about diversifications. He avoids the limelight and comes across as almost shy. But he, too, is aware of the need to keep moving. “Networking is getting complex. We need intuitive networks that are secure and can learn and adapt.”

Different times require different bosses. Mr Chambers led Cisco to the top during the dotcom boom; in the early 2000s it became the world's most valuable firm (see chart). Mr Robbins's task is to keep it relevant as more and more computing moves into the cloud, which entails the provision of all kinds of services over the internet. On June 20th the firm announced a collection of new products which show how it is adapting: Cisco will focus on software and services, particularly the sort that automate the management of data networks.



Economist.com

Cisco is best known for its switches and routers (the former are the central building blocks of networks, the latter connect them with each other). Although it embraced the internet's open standards, Cisco came to dominate data networking for telecoms firms and other enterprises. Its boxes work well with each other and they can be centrally managed. Most firms' network engineers know how to use Cisco's boxes. Although its market share has declined in recent years, the firm still sells more than half of all new switches and routers, which together generate more than half of its annual revenue of about $50bn.

Owning the mightiest platform in networking, says Pierre Ferragu of Sanford C. Bernstein, a research firm, provides a defence against competitors, such as China's Huawei and Arista Networks, based in California. It also makes Cisco less vulnerable to a problem bedevilling some makers of computing and storage gear, such as Dell, EMC or HPE: "commoditisation", meaning they are losing pricing power.

But Cisco's franchise is facing two threats. First, the more computing is done in the cloud, the less firms have to buy their own gear, including networking equipment. Instead of paying for an "end-to-end network" from Cisco, big cloud operators such as Amazon and Microsoft prefer gear that precisely fits their requirements. This is why Cisco's cloud sales have disappointed, while more specialised vendors such as Arista have made inroads. The second threat is that software is increasingly important to how networks are run: that makes it easier for rivals to sidestep or overtake Cisco's products.

Under Mr Robbins, Cisco has responded in several ways. It is offering tailor-made products to the big cloud providers. It has beefed up its software and services business and, to ensure more stable revenues, is making more of its products available as a subscription. Earlier this year the firm bought AppDynamics, which makes software to monitor the performance of corporate applications, and Viptela, whose programs manage networks, for $3.7bn and $610m respectively. Subscriptions and other recurring income now make up a tenth of Cisco's revenues from products.

Cisco's bet is that computing will never be fully centralised in vast data centres (ie clouds), but will live on many systems, big and small, says Rohit Mehra of IDC, a research firm. Cisco thinks that trends such as an explosion in the number of connected devices, also known as the "internet of things", will almost certainly add to complexity, not reduce it.

The products introduced this week are designed for this kind of environment. They include software which lets engineers control hundreds of thousands of devices, programs to define who or what is allowed to access a network and services to detect malware in encrypted traffic. For the first time, Cisco will sell new switches that come with subscriptions which unlock these sorts of extra capabilities. Developers will get more tools to write applications for Cisco's platform.

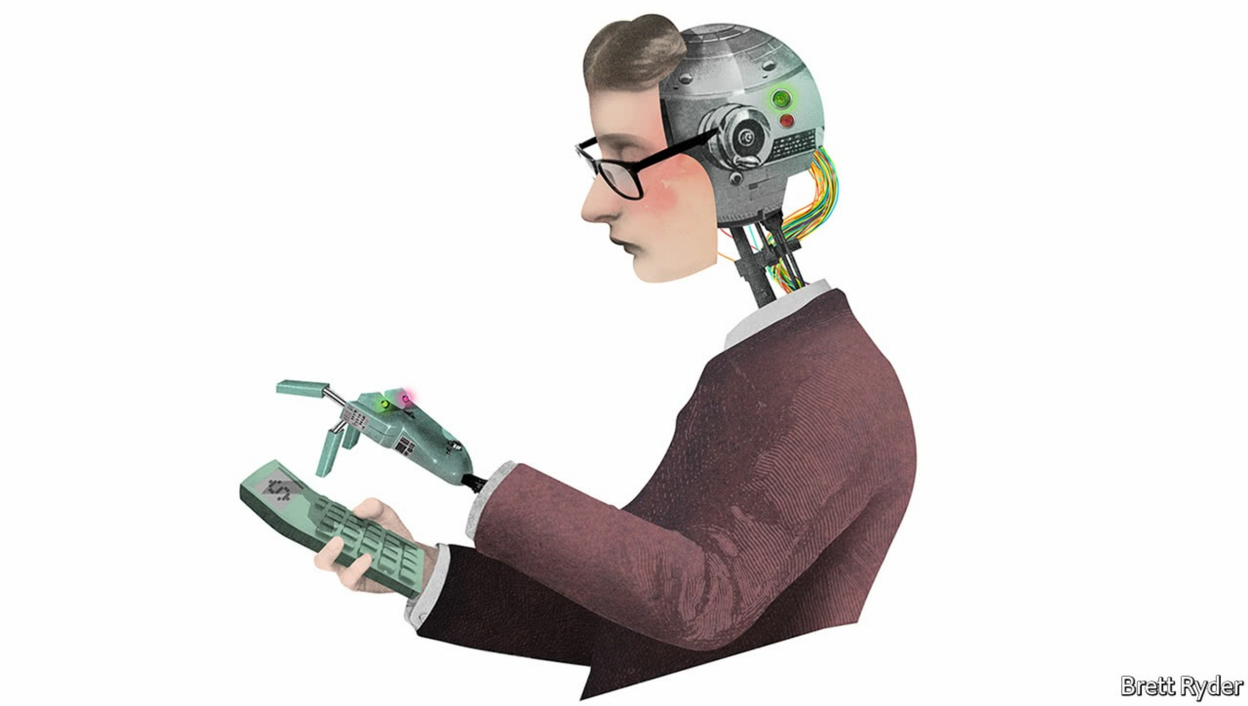
Being the firm that makes ever more complex networks safe and "intuitive", to quote Mr Robbins's new catchphrase, seems a sensible goal. It is already one of the biggest vendors of cyber-security products. It has enough money to pursue its ambitions: more than $70bn in cash.

But computing could yet become much more centralised, leaving less space for Cisco to knit things together. Big cloud providers will also try to get into the business of managing and automating networks. And Cisco has a mixed record of implementing its strategy. However well it does, Cisco is unlikely to achieve a goal set by Mr Chambers back in 2013: to become the world's "number-one player" in corporate-information technology. The more realistic Mr Robbins is unlikely to articulate such an ambition—he would probably be happy if Cisco remained among the top five.

Schumpeter

Fidelity’s lessons for the asset-management business

The rise of passive investing need not sweep away the incumbents



Brett Ryder

Jun 22nd 2017

SCHUMPETER got a surprise on a recent visit to Boston to meet people at Fidelity, a family-controlled firm that is the world’s fourth-largest asset manager and its industry’s best-known brand. The company is not dying, or even in decline; the opposite, in fact. That is a shock because the conventional money-management business is thought to face annihilation from technological advance, along with other anachronisms such as shops, taxis, travel agents, car firms, watches, hotels and broadcast television.

The big trends must be obvious to Fidelity’s stockpickers. They are being threatened by computer programs that run money in ways widely described as “passive”. There are funds that track indices inexpensively and others, known as “smart beta” or “factor” investments, that replicate elements of what humans do at a fraction of the cost. Customers have removed about $2.5trn from active funds since 2000 and placed a similar amount into passive ones. About two-fifths of the global industry's equity assets are managed passively, up from close to zero in 2000, according to Inigo Fraser-Jenkins of Sanford C. Bernstein, a research firm.

This has been a huge jolt for the asset-management industry, because fees on passive funds are up to 80% lower. The industry's most valuable company is BlackRock, a titan in exchange-traded funds (ETFs)—vehicles used mainly for passive investment—whose intellectual capital consists chiefly of software. Conventional managers are merging in order to lower costs. Three combinations have occurred in the past six months: Amundi and Pioneer (French and Italian, respectively); Aberdeen and Standard Life (both British); and Janus and Henderson (American and British). The deals have prompted unkind jokes about pairs of drunks propping each other up.

Yet a glance at Fidelity's figures over the past decade tells a more complex story. The firm's assets under management have risen by 52%, revenues by 42% and operating profits by 62%. Last year operating profits reached a record high, of $3.5bn; they grew faster than BlackRock's in the same period. Fidelity has done slightly better than its peer group. For the 20 biggest listed asset managers that have their roots in active funds, operating profits rose by 54% over the past decade.

Fidelity may be synonymous with active management, but it has adapted quickly to change. It was founded in 1946 by Edward C. Johnson and is under a third generation of family control. Abigail Johnson, the founder's granddaughter, has run it since 2014. Mr Johnson believed that following human intuition is the best way to navigate markets. The firm's Magellan mutual fund was once the world's largest; it was run in 1963-71 by Ms Johnson's father, Ned, and then in 1977-90 by Peter Lynch, a stockpicker who said that his main tools were "yellow legal pads, two-and-a-half-inch pencils, and the clunky Sharp Compet calculator".

But that approach is now little more than a company legend. Fidelity has shifted from selling the magic of its star managers to being a merchant helping people and firms interact with the capital markets. Fidelity sells other firms' funds, both the passive and active kind; these now make up 63% of the client funds that it administers. It has introduced its own ETFs and also sells its products directly to individuals and to firms, as well as indirectly through brokers.

Attracting many more customers has helped to counteract lower margins. Fidelity has a quarter of the market for corporate 401(k) plans, a popular kind of employer-sponsored pension. It deals with a fifth of all investors in America in some way. Paradoxically, even as individual investors desire cheap passive funds, a growing number of them want their affairs to be consolidated and supervised by advisers in “managed accounts”. A rough outline of how the industry is likely to look in future is emerging. There will be a group of mega-managers offering a range of products—active and passive, stand-alone and in bundles—at massive scale and low cost. Even BlackRock, the emperor of passive investing, is getting into the business of active funds.

The passive attack will nevertheless continue. Only about 15-20% of American shares are owned by passive funds, and the proportion is lower still for bonds. That portends a further price squeeze. For every $100 that Fidelity administers for clients, its sales (the sum total of the various kinds of fees it charges clients) have dropped from 39 cents to 28 cents since 2006. Tight control of costs has offset some of that fall, so that operating profits have fallen only slightly, from eight to six cents. Ms Johnson, who is shy but thoughtful, is a realist who expects the industry’s margins to drop further still. If the top 20 asset managers’ margins fell to BlackRock’s level, their profits would drop by around half.

Technology poses other threats. If the gig economy takes off, fewer people will save through employers using 401(k) plans. “Robo-advisers” could reduce financial advice to a mere commodity. And as digital products become pervasive, global scale could become an advantage. This is a conundrum for Fidelity, which spun off its international arm in 1980 (the family still owns a big stake in it). Ms Johnson may have to reunite the two firms.

Asset managers are dead, long live asset managers!

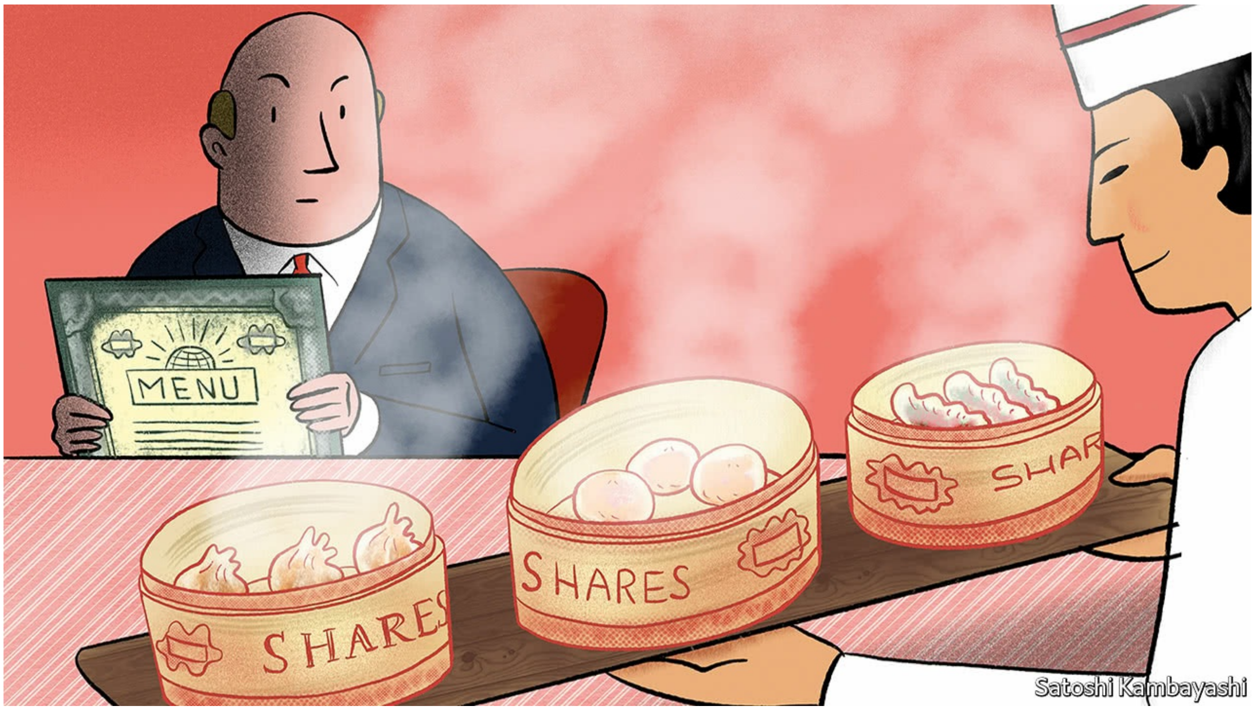
Assuming these hurdles are surmounted, a world beckons in which the mega-managers compete with other platform companies to run consumers’ financial affairs. Some may be banks: JPMorgan Chase, for example, boasts of being able to offer car loans in addition to Indian equity funds. Alphabet, Google, Facebook and Apple have been slow off the mark, but may enter the financial business. Amid technological change it is easy to assume that incumbent firms in most industries will be swept away. But Fidelity illustrates an important point: such groups can be more resilient than you might expect. History, culture and brand, combined with openness to technology and the will to adapt, are a powerful mix.

Finance and economics

Financial assets, made in China

China enters the big leagues of global markets

Inclusion in major stock and bond indices will force investors to put cash in China



Jun 22nd 2017 | SHANGHAI

FROM shoes to shirts and phones to fridges, made-in-China goods have blanketed the globe over the past three decades, entering every country and just about every home. But one kind of Chinese good few abroad dare touch: its financial assets. Outsiders own less than 2% of its shares and bonds, far below the levels of foreign ownership seen in other markets. Capital barriers and financial risks have put investors off. This, however, is changing. The globalisation of China's capital markets is slowly gathering steam, as symbolised by the inclusion of Chinese stocks and bonds in global indices.

MSCI, a company that designs stockmarket indices, announced on June 20th that it will bring Chinese equities into two of its benchmarks: one that covers emerging markets; and another that follows stocks around the world. To begin, it will include a small number of shares, just 222 of the more than

3,000 listed in China. But its decision matters to asset managers who track their performance against MSCI's indices or who invest in exchange-traded funds linked to them. They will in effect be forced to allocate capital to China's stockmarkets, many for the first time. Because MSCI is giving Chinese stocks a limited weighting (0.73% of its emerging-markets index), the resulting cash inflows could add up to only about $10bn next year, equivalent to less than one hour of trading in China's frenetic markets. Yet the weighting is likely to increase in the coming years.

It was a contentious decision, despite China's size. The country accounts for 15% of global GDP. Its stockmarket, housed in exchanges in Shanghai and Shenzhen, is the world's second-biggest (see chart). But for each of the past three years MSCI had debated whether to add Chinese shares to its indices, only to back off each time because of restrictions on foreign investors.

Economist.com

Gaining access to China's markets was—and is—hampered by formidable obstacles. Because of China's tightly managed capital account, foreigners can only buy shares through a few quota-controlled channels. MSCI concluded that enough had been done to allay such concerns, largely thanks to a scheme that lets foreigners buy mainland stocks in Hong Kong.

Foreign institutions already hold Chinese shares but until now have mainly focused on firms listed in Hong Kong (see article) and America. These overseas Chinese stocks form 28% of the MSCI emerging-markets index. But onshore Chinese stocks are collectively much more valuable. They also encompass a far wider range of companies. The pensions and university endowments that follow MSCI will now own shares in makers of traditional Chinese medicine and distillers of *baijiu*, a fiery grain liquor—albeit only in tiny amounts invested passively through index trackers.

Chinese fund managers hope that the MSCI seal of approval might also entice active investors. “If you like Chinese food, you should go to China and have the real food. It is so much more diverse and authentic,” says Wang Qi, chief executive of MegaTrust Investment, a Shanghai-based fund manager. But many foreigners still shun the local fare. The stockmarket remains rife with insider trading and price manipulation. Memories of a debacle in 2015, when authorities intervened heavily after a bubble burst, also remain fresh. Chinese regulators are betting that greater participation by international institutions will help bring order.

China’s bond market could prove just as significant in integrating its financial system with the rest of the world. In May the central bank announced that foreign investors would be able to buy onshore bonds via the Hong Kong bond market. This programme, which is expected to start in July, will pave the way for bond indices to include Chinese debt. Again, the gap is glaring: China’s bond market is the world’s third-biggest but is excluded from the main global bond indices. Analysts with Goldman Sachs forecast that inclusion could spark inflows of up to $250bn by 2020. Over the past half year both Bloomberg and Citigroup have started to add China to their emerging-market bond indices.

For China-focused financiers, all this serves as belated recognition. “I’m not saying institutions should have 15% exposure to China. But they should certainly have somewhere north of zero,” says Peter Alexander of Z-Ben Advisors, a Shanghai-based consultancy. Looked at narrowly, the index inclusions might seem technicalities. They are simply judgments about the accessibility of Chinese shares and bonds, not their value or prospects. And with minimal weights assigned to China, the inclusions are symbolic. But symbols can be powerful, as these certainly are. Some of the leading gatekeepers of global markets think China is at last open for business.

Down market?

Hong Kong's stock exchange proposes a controversial reform

A new board, aimed at tech upstarts and Chinese firms, would have laxer standards

Jun 22nd 2017

BOSSES at Hong Kong Exchanges and Clearing (HKEX) ought to be feeling smug. In five of the past eight years it has been the world's leading exchange for initial public offerings (IPOs). Chinese companies have swarmed to list on its comparatively mature, open and transparent capital market, generating over 90% of the funds raised there in the past five years. Yet, launching a long-awaited consultation on reforms on June 16th, HKEX warned of "stagnation" if it does not change. It has one eye on its regional rivals. Last year Singapore knocked it into fourth place in a prominent ranking of financial centres. As Shenzhen and Shanghai, where trading volumes dwarf Hong Kong's, open up, they could eat Hong Kong's lunch.

Besides tinkering with the rules on Hong Kong's main board and its second one, the Growth Enterprise Market, the proposed changes include, most contentiously, a third board. This would be designed to attract fizzy "new economy" technology firms. Stalwart property and finance stocks at present make up over 40% of the market.

Winning more Chinese listings is another goal. Alibaba, a Chinese e-commerce giant, left a deep scar when it chose the New York Stock Exchange for its blockbuster listing in 2014. It jilted Hong Kong because of its ban on dual-class shares, which grant some shareholders outsize voting rights. Soon after, HKEX tried to persuade Hong Kong's Securities and Futures Commission (SFC) to allow such companies to list in Hong Kong. But corporate-governance activists and big fund managers such as BlackRock lined up against it; so did the SFC. Proponents say entrepreneurs can make good use of dual structures (think Google). Opponents argue that other shareholders lose out as a result.

Since Alibaba, a slew of Chinese tech firms have slipped through Hong Kong's grasp. And Singapore's exchange has launched its own consultation on dual-class shares. Cannily, HKEX is pushing for "non-standard governance features" only on the new third board. The SFC appears to be softening its stance on dual-class structures; bankers salivate over new moneymaking opportunities.

Yet HKEX may not get approval. Governance hawks still oppose dual-class shares. "We think it's wrong to develop the market by lowering standards," says Jamie Allen of the Asian Corporate Governance Association (ACGA), an independent advocacy group. Singapore's consultation, he notes, has also prompted strong adverse reactions.

Proposed safeguards, such as stricter disclosure rules, do not convince sceptics. And the fact that the new board's main targets would be companies from China, where business can have a whiff of the Wild West, compounds the risk to its reputation. Some also question the commercial benefits for HKEX: Graeme Lane, a broker, points out that last year daily turnover on its boards fell by 37%, despite the addition of over 100 companies.

---

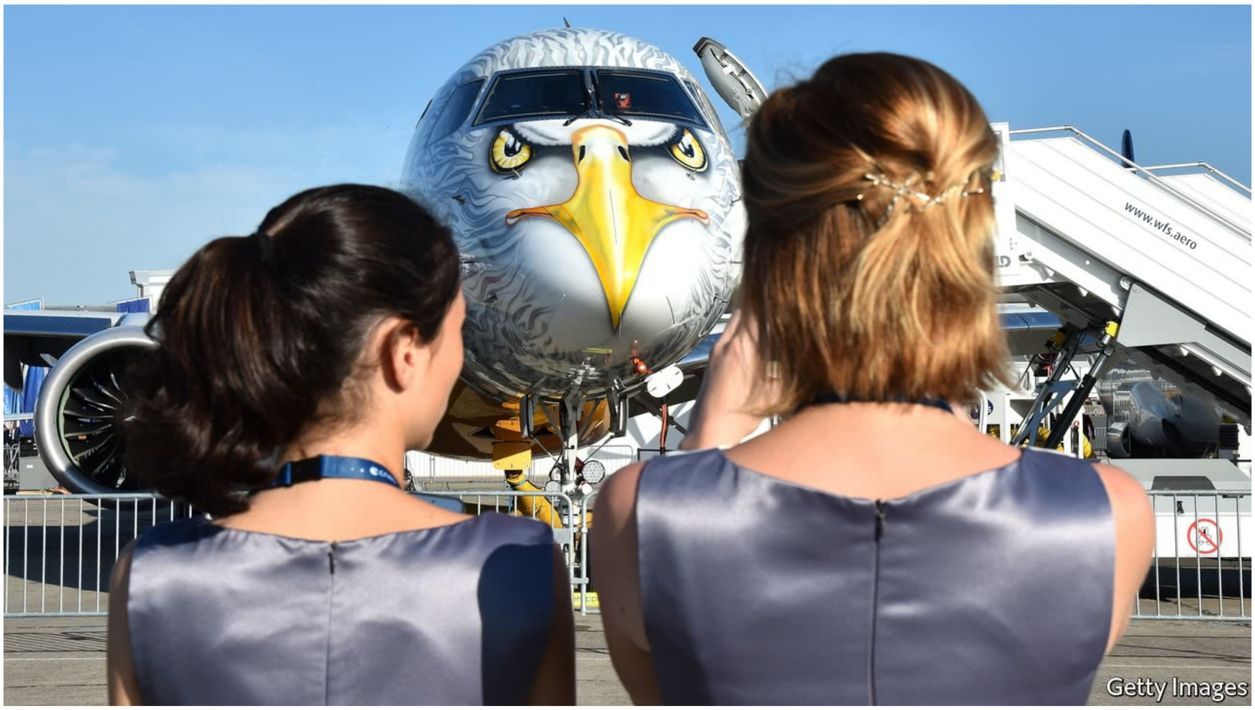
and-economics/21723854-new-board-aimed-tech-upstarts-and-chinese-firms-would-have-laxer/print

| Section menu | Main menu |

Maximum altitude

Investors in aircraft should get set for turbulence

Airliners could be the world’s next big asset bubble



Jun 22nd 2017 | LE BOURGET

AIR shows are where the aerospace business shows off. At this year’s Paris show, the world’s largest, which opened at Le Bourget airport on June 19th, the military types are most ostentatious. Aeronautical party tricks include helicopters that ascend into the sky tail-first and stealth fighters that fly backwards.

But no one is keener to strut their stuff than Airbus and Boeing, the world’s two biggest makers of airliners. At the 2015 show the pair sold 752 planes worth around $107bn. But the party atmosphere at that event—with copious food and wine laid on for customers and journalists alike—has given way this year to a more sober mood, weaker sales and a bring-your-own-lunch policy. This should give pause to investors in one of the world’s fastest-growing asset classes: aircraft.

Airbus and Boeing still booked plenty of orders. But for the first time, most came from lessors, which lease them to operators, rather than from the airlines that use them. This has fuelled fears that the surge in investment going into aircraft finance is pushing orders for new jets, and prices for old ones, to unsustainable levels. “We’re in a bubble that will burst,” says Adam Pilarski of Avitas, a consultancy. “It is only a question of timing and severity.”

In the past airlines bought planes with expensive unsecured bank loans or state handouts. But since the 1970s, the ownership of aircraft has gradually been hived off to financial firms. This has benefits for both airlines and investors, explains Alec Burger, chief executive of GECAS, the world’s biggest lessor. Leasing rather than buying gives carriers the flexibility to expand or shrink fleets quickly. It can cut tax bills. And as lessors are often bigger than airlines, they can strike better deals with planemakers and borrow more cheaply.

Investors also find aircraft attractive assets. International agreements make it easy to repossess one when an airline defaults on a payment. The market for planes is more liquid than that for ships or trains. And unlike houses, planes are mobile.

The doubts centre on whether there really is enough demand for the lessors’ latest orders. Peak leasing may soon be reached, according to new research from Toulouse Business School. Using data from 73 carriers over 15 years, it calculates that airline profits are maximised when 53% of fleets are leased—not far off the current figure of around half for narrowbodied jets.

Cheap debt and stronger balance-sheets have made it more attractive for carriers to buy planes directly, says Neil Sorahan, the finance director of Ryanair, Europe’s biggest airline. In February it issued €750m ($803m) in unsecured bonds at an annual rate of just 1.2% to buy more jets.

Airlines are not alone in using cheap money to go on a shopping spree; so are lessors and banks. As the rate of return on other investments is so low, aircraft have become even more attractive investments, explains Michel Dembinski of MUFG, a bank, particularly for short-term “hot” money. Many doubt this is being invested wisely. New leasing outfits with no experience of preparing for a downturn are expanding particularly recklessly. The number of Chinese lessors alone has grown from almost none to over 50 in a decade.

Mr Pilarski detects signs that the bubble may be about to burst. Air-passenger numbers are rising faster than the long-term average, but there is already severe overcapacity in Europe, the Middle East and Asia, and too many new planes are coming on stream. Many lessors struggle to find new operators for aircraft returned to them when leases expire. Interest-rate rises may also threaten asset prices. “Lessors made a lot of money on the way up,” says Saj Ahmad, an aviation expert. “They will also lose a lot if things come down.”

A full-blown crash in airliner values—like the one since 2013 for ships which left banks nursing $400bn in bad loans—is far from certain. With demand for air travel expected to double every 15 years, as the growing middle classes of Asia take to the sky, the long-term future of aircraft as an asset is still seen as solid. And given rapid changes in travel patterns, the flexibility leasing offers will continue to be in demand. Even so, aircraft investors should prepare for a bumpy ride.

Buttonwood

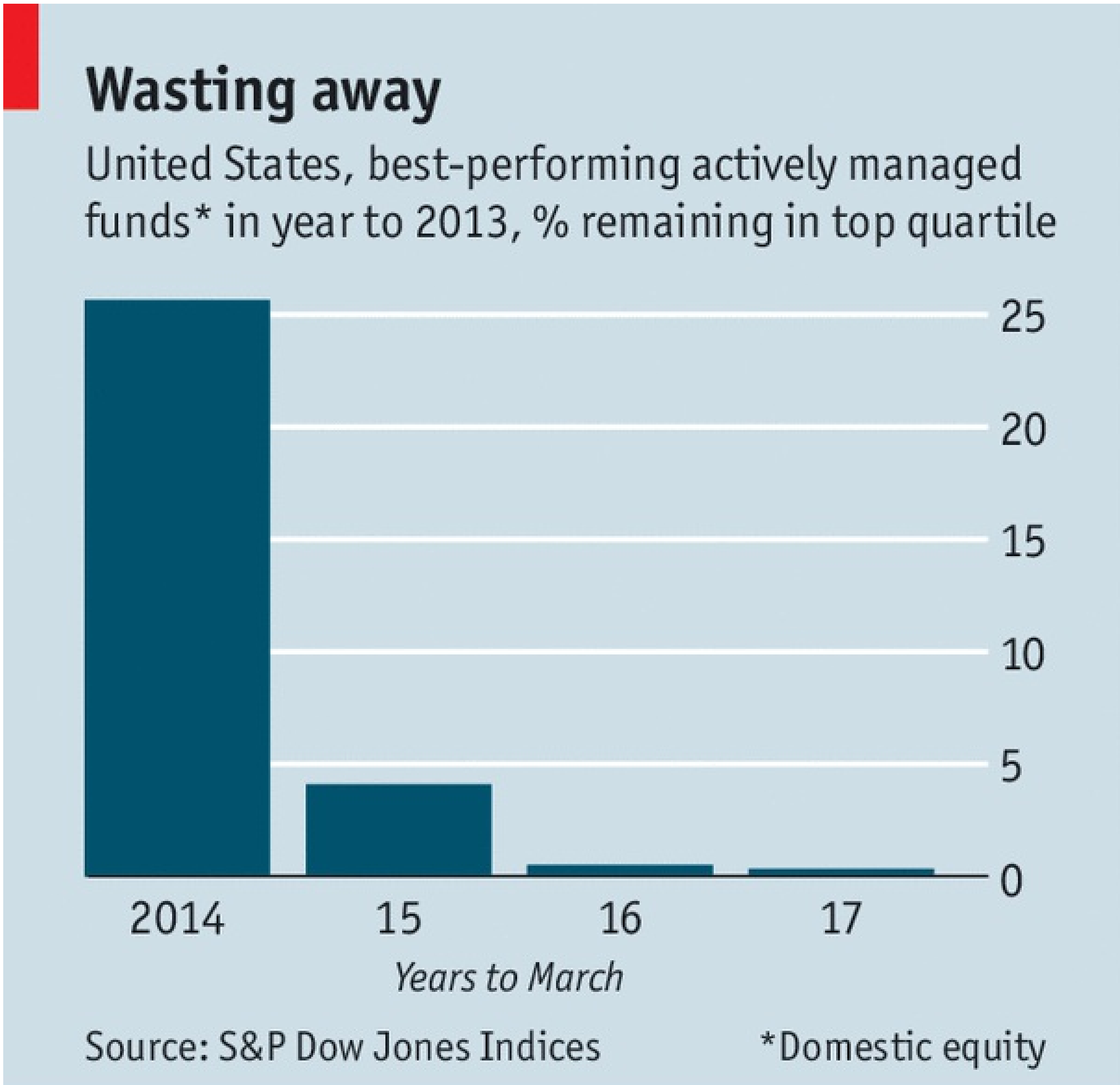
Fund managers rarely outperform the market for long

Sheer luck is as good as past returns in predicting future performance

Jun 24th 2017

THE big investment shift of recent years is from active to passive. Clients have been buying index funds, which passively track a benchmark like the S&P 500 index, and shunning fund managers who actively try to pick the best shares.

One reason for the shift is that passive managers charge lower fees than active funds. Many clients would be happy to pay more if that translated into better performance. However, it is very difficult for investors to select fund managers who can reliably beat their peers. Performance does not persist, as the latest data from S&P Dow Jones Indices show clearly.



Economist.com

Suppose you had picked one of the best-performing 25% of American equity mutual funds in the 12 months to March 2013. In the subsequent 12 months, to March 2014, only 25.6% of those funds stayed in the top quartile (see chart). That result is no better than chance. In the subsequent 12-month periods, this elite bunch is winnowed down to 4.1%, 0.5% and 0.3%—all figures that are worse than chance would predict. Similar results apply if you had picked one of the best-performing 50% of all funds; those in the upper half of the charts failed to stay there.

Perhaps this is an unfair comparison; fund managers cannot be expected to outperform every year. But clients do hope they can deliver superior returns over the long run. So S&P Dow Jones Indices ran the numbers in a different way. Suppose you had picked a fund with a top-quartile performance in the five years to March 2012. What proportion of those funds would be in the top quartile over the subsequent five years (to March 2017)?

The answer is just 22.4%: again, less than chance would suggest. Indeed, 27.6% of the star funds in the five years to March 2012 were in the worst-performing quartile in the five years to March 2017. Investors had a higher chance of picking a dud than a winner.

The industry's answer to this problem is to launch a lot of funds. Some of them are bound to be near the top of the charts and can be trumpeted in adverts; the losers can then be killed off. Almost 30% of the worst-performing (bottom quartile) equity funds over the five years to March 2012 had been merged or liquidated by March 2017.

It should not be a surprise that the average fund fails to beat the index. The "iron law of costs" is that, in aggregate, professional fund managers own most of the stockmarket. Thus their performance is highly likely to resemble that of an index that tracks the overall market. But the index does not incur costs or fees; fund managers do. Thus the average fund manager must underperform the market, after costs.

Why doesn't fund management conform to the rules of professional sports, where athletes such as Cristiano Ronaldo or Roger Federer consistently outperform their rivals? One reason could be that successful managers attract more clients, and the size of their fund grows. So they have to expand the number of stocks they buy, diluting their best ideas. As the fund grows larger, it looks more like the overall market, and runs into the iron law of costs.

A second possibility is that active managers tend to have a "style", favouring particular types of shares. One style is the value approach, whereby investors seek shares that look cheap compared with a company's profits, assets or dividend payments. But styles can go in and out of fashion as relative valuations change; value stocks can outperform for a while and then slump. So managers who follow that style will beat their peers for a period and then drop to the back of the pack.

The final possibility is that outperformance (or underperformance) is simply the result of luck. Picking shares is enormously difficult, given all the potential factors involved. In the American stockmarket thousands of funds pore over the same information. It is very hard for an individual investor to get an edge.

Active fund management may have more of a role to play in other places: emerging markets, for example, where information about the prospects of individual companies is not so widely available; or bond funds, where S&P did find some evidence of persistent performance in areas such as mortgage-backed securities, municipal debt and investment-grade debt. In such areas, specialist knowledge may prove an advantage.

But when it comes to American equities, it is a different story. The average fund manager runs a portfolio for only around four-and-a-half years. So if you pick a fund based on its record, the chances are that a new person is in charge. The old saying that "past performance is no guide to the future" is not a piece of compliance jargon. It is the truth.

Economist.com/blogs/buttonwood

Capital charges

Barclays and four former executives are charged with fraud

The starkest sign yet that the financial crisis will not go away

Jun 22nd 2017

IN 2008, as banks cracked on both sides of the Atlantic, Britain's government prepared to shore up tottering lenders. It eventually poured £45bn ($71bn) into the Royal Bank of Scotland (RBS) and £20.3bn into Lloyds, which ministers coaxed into buying the stricken HBOS. Barclays, however, needed no such help: the bank raised enough equity from private investors, notably in Qatar, to meet higher capital targets set by regulators as the crisis deepened, and thus escape a taxpayer rescue.

However, for five years Britain's Serious Fraud Office (SFO) has been investigating Barclays' dealings with the Qataris. On June 20th those inquiries yielded criminal charges. These include (remarkably, some will say) the first such charges to be levelled at the head of a big international bank as a result of the crisis. John Varley is a pillar of London's financial establishment. Save for one short break he spent 28 years at Barclays, more than six in the top job, before standing down at the end of 2010. His wife's father was a director. Barclays took over J. and J.W. Pease, founded by his in-laws' forebears, in 1902.

The SFO has charged the bank, Mr Varley and Roger Jenkins, who headed Barclays' investment-banking and investment-management business in the Middle East, with two counts of conspiracy to commit "fraud by false representation" and one of "unlawful financial assistance". The charges are related to Barclays' arrangements with the Qatari investors and a loan of $3bn made by the bank to the Gulf state in November 2008. Two other former executives, Tom Kalaris and Richard Boath, face one of the fraud charges. The bank is "considering its position". Messrs Boath and Jenkins have said they will contest the charges. Messrs Kalaris and Varley have made no comment.

That June Barclays raised £4.5bn from investors including the Qatar Investment Authority (QIA), owned by the Gulf state, and Challenger, which represented Qatar's then prime minister. In October the bank raised up to £7.3bn more (of which £3bn comprised warrants convertible to shares over the next five years). Qatar Holding, an arm of the QIA which still owns just under 6% of Barclays, and Challenger pitched in. (Sheikh Mansour bin Zayed Al Nahyan, a member of Abu Dhabi's royal family, and institutional investors also took part.) No investors have been accused of doing wrong.

In June and October 2008 Barclays also made agreements to pay £322m over five years to Qatar Holding for advisory services in the Middle East. The bank has said that the first was disclosed at the time, but that the second, and the fees, were not. The loan followed in November. The Financial Conduct Authority (FCA), a British regulator, and American authorities have looked into the service agreements. The FCA fined Barclays £50m in 2013; the bank appealed. The FCA then put its inquiry on hold until the SFO's investigation was complete.

The defendants are due in a magistrates' court on July 3rd. However the case ends, it is merely the most spectacular sign yet that the crisis, a decade on, will not go away. Debate still rages over how to supervise banks; America's Republicans are eager to ease post-crisis rules. Big European banks are still raising capital; this month a failing Spanish lender was rescued by a bigger rival; one Italian bank is in line for a state bail-out and two others are in desperate straits. And regulators are still pursuing the excesses of the go-go years. Barclays is battling America's Department of Justice, which claims that it mis-sold residential mortgage-backed securities (RMBSs). RBS—still publicly owned—has braced itself for RMBS fines. Financial crises cast long shadows, and lingering ones.

Northern pilot

Finland tests a new form of welfare

An experiment on the effect of offering the unemployed an unconditional basic income

Jun 24th 2017 | HELSINKI

JUHA JARVINEN, an unemployed young father in a village near Jurva, in western Finland, brims with ideas for earning a living. He has just agreed to paint the roofs of two neighbours' houses. His old business, making decorative window frames, went bust a few years ago. Having paid off debts, he recently registered another, to produce videos for clients.

Mr Jarvinen says that for six years he hoped to start a new business but it was impossible. The family got by on his wife's wages as a nurse, plus unemployment and child benefits. He had a few job offers from local businesses, which are mainly in forestry, furniture and metalwork. But anything less than a permanent, well-paid post made no sense, since it would jeopardise his welfare payments. To re-enroll for benefits later would be painfully slow.

Mr Jarvinen's luck turned in January, when he was picked at random from Finland's unemployed (10% of the workforce) to take part in a two-year pilot study to see how getting a basic income, rather than jobless benefits, might affect incentives in the labour market. He gets €560 ($624) a month unconditionally, so he can add to his earnings without losing any of it.

If Mr Jarvinen is making progress, it is too soon to draw overall conclusions. Kela, Finland's national welfare body, which runs the pilot, will not contact participants directly before 2019, lest that influences outcomes. Instead it monitors remotely, using national registers of family incomes, taxes paid and more. (Anonymised data will be made available to researchers.)

Some lessons are emerging. Olli Kangas, who helped to design the study and now runs it for Kela, says the process is far harder to implement than expected: "a nightmare". He decries politicians who blow hot and cold, yet insist the study must be wrapped up before an election in 2019. He calls them "small boys with toy cars, who become bored and move on". Finnish politics is intricate: the Centre party, Greens and a far-left party back the study. So does a libertarian wing of the conservatives, hoping to pare the welfare state. Sceptics include traditional conservatives, many Social Democrats and big unions.

Such unions, with (mostly male) members in permanent jobs in heavy industry, manage unemployment funds and do not want to lose control, so they dislike the idea of a basic income, says Mr Kangas. In contrast the idea appeals to those who represent part-time service staff, such as (mostly female) cleaners or retail workers. He says surveys show the wider public wavering: 70% like the idea of the grant in theory, but that drops to 35% when respondents are told that income taxes—already high—would have to rise to pay for it.

The study's design faced constraints. The constitution ordains equality for all, so getting permission to afford some welfare recipients special treatment was difficult. That limitation, and a budget of only €20m (plus diverted welfare funds that would have otherwise gone to the recipients), restricted the sample size to just 2,000 people. Mr Kangas frets that might prove too small to be statistically robust. And it limits the questions the study can investigate.

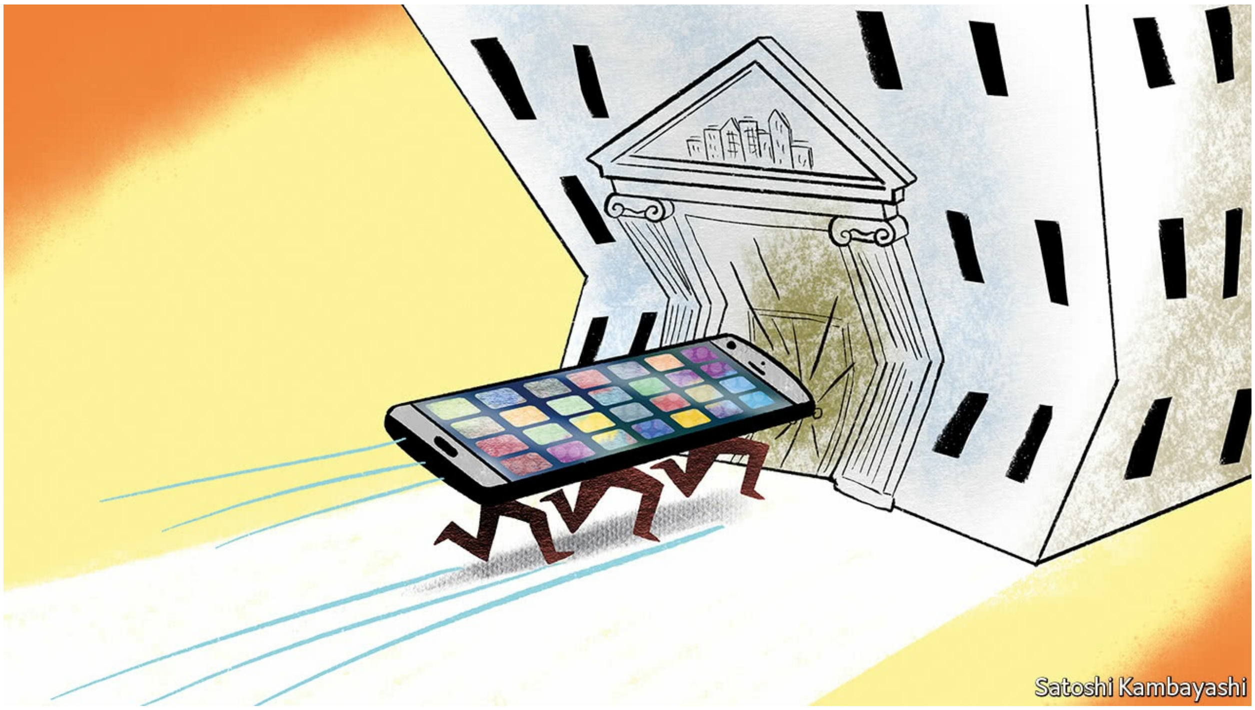
He would like to try similar grants on those with low-income jobs, to see if such recipients choose to work less, for example. It would also have been instructive—if expensive and politically difficult—to give grants to residents of entire towns to see how local economies are affected. The timescale is another limitation. Kate McFarland, of the Basic Income Earth Network, which has promoted the idea of basic incomes since the 1980s, says a two-year study is too short to learn how the psychology of beneficiaries changes.

Whatever its flaws, the pilot is a good example of the Finnish penchant for social experiments. Participants will be followed for ten years to identify long-term effects. International interest in the pilot programme has been intense. This month television crews from South Korea and Sweden have been queuing up to see Mr Kangas; he regularly lectures abroad and advises others on similar studies. Just getting started counts as a success, he says. “This is trial and error, and the door is now open for better experiments.”

Licence to bill

Klarna, a Swedish fintech unicorn, gets a full banking licence

Fintech firms are beginning to compete head-on with banks



Jun 22nd 2017

BANKS moan incessantly about over- regulation. Yet their banking licences come with perks: in most places only licensed institutions can accept deposits and offer current accounts; within the EU, “passporting” means a bank licensed in one country may operate across the single market. So some European financial-technology (“fintech”) upstarts have started to seek banking licences. On June 19th, Klarna, a Swedish payments firm valued at $2.25bn, became the latest—and the largest so far—to get one.

European fintech firms have various reasons for seeking approval as a bank. Bunq, a Dutch firm and one of the first to get a licence, started out in payments, like Klarna, but expanded to deposit accounts. Some, like N26 in Germany or Atom Bank in Britain, sought to be full-service, online retail banks from the outset. Others, such as ClearBank, a new British clearing and settlement bank, want to offer services to other firms.

Of those focused on the retail market, Klarna is better placed than most to profit from its new privileges. Many upstarts struggle to overcome the advantages banks enjoy because of incumbency, notably large customer bases. But Klarna already has 60m customers across Europe who use it to pay for online purchases from 70,000 merchants: last year, it processed €13bn ($14.7bn) in transactions. The firm plans to use this customer base to launch a wider range of retail-banking offerings, like bank cards and payroll-linked accounts.

But not all aspire to banking licences, which take time and effort: 20 months in Klarna's case. Murray Raisbeck of KPMG, an auditing firm, reckons that smaller and more specialised firms will wait for simpler licensing regimes, or choose to work with existing banks. From next year, new EU rules will force banks to open up the accounts of willing customers to third parties, including unlicensed fintech firms. Squeezed by new competition, incumbent banks may yet come to pine for the days when their main complaint was about regulation.

Bully-beef bulls

Investors snap up Argentina's 100-year bonds

Six defaults in the past 100 years do not deter a bet on 2117

Jun 22nd 2017

ONE hundred years ago, Argentina was not the country it is today. Thanks to a *belle époque* of lavish foreign investment, rapid inward migration and bountiful agricultural exports, its GDP per person in 1917 was comparable to that of Germany and France. Although the first world war brutally interrupted international trade and investment, the country profited from filling the bellies of soldiers on the front with tinned corned beef.

No one knows how Argentina may change over the next 100 years. But many investors seem willing to bet on one forecast: that its government will in 2117 repay $2.75bn-worth of dollar-denominated, 100-year bonds, sold to enthusiastic investors on June 19th.

Since Argentina has defaulted six times in the past 100 years, that belief seems brave. But instead of looking backwards, investors are looking from side to side, at the miserable yields on offer elsewhere. Argentina's "century" bonds yield almost 8%. That is comparable to what investors can now earn on an equally long-dated bond issued in 2015 by Petrobras, Brazil's state-owned oil company. And it is several percentage points more than the yield on Mexican bonds due in 2110 or Russian paper due in 30 years' time.

Moreover, many investors will hope to make a profit long before this belief in Argentina's 22nd-century creditworthiness is tested. If their case merely becomes more plausible (or if yields elsewhere prove disappointing), Argentina's bond prices are likely to rise, allowing their holders to sell at a profit. And the longer the life of a bond, the more the price will move (in either direction).

For Mauricio Macri, Argentina's president, the successful bond sale is a timely endorsement of his reform efforts. His team had hoped that MSCI, which compiles stockmarket indices, would decide this week to readmit Argentina into its widely-followed emerging-market index, rescuing it from the lower tier of "frontier markets". But on Argentina, unlike China, MSCI decided instead to wait. Investors, it said, are not yet convinced Mr Macri's reforms are "irreversible". It is unusual for equity investors to be more circumspect than bond buyers. But they have a point. At times over the past 100 years, Argentina has shown that it can reform itself, reverse itself, and reverse those reversals.

Free exchange

The Federal Reserve risks truncating a recovery with room to run

Pessimism about productivity growth may prove self-fulfilling

Jun 24th 2017

WHEN it comes to inflation, the Federal Reserve sometimes resembles a child freshly emerged from an age-inappropriate horror film. To its members, runaway price increases seem to lurk in every oddly shaped shadow. On June 14th America's central bank raised its benchmark interest rate for the third time in six months, even as inflation lingered below its 2% target, as it has for most of the past five years. Some critics reckon the Fed's 2% inflation target is too constraining. Indeed, in recent comments on a letter from prominent economists calling for a higher target, Janet Yellen, the chairman, signalled openness to the idea. But the Fed's problem is less its target than an unforgiving pessimism about American productivity. If its bleak view is wrong, the Fed itself is partly to blame for slow growth.

Economists generally treat productivity growth as a "real" factor, outside central-bank control. Thus, it is thought to depend on things such as technological progress, workers' skill levels and the flexibility of the economy. But productivity growth is cyclical: it varies depending on whether an economy is booming or busting. Central banks might therefore have more influence over it than they are prepared to admit.

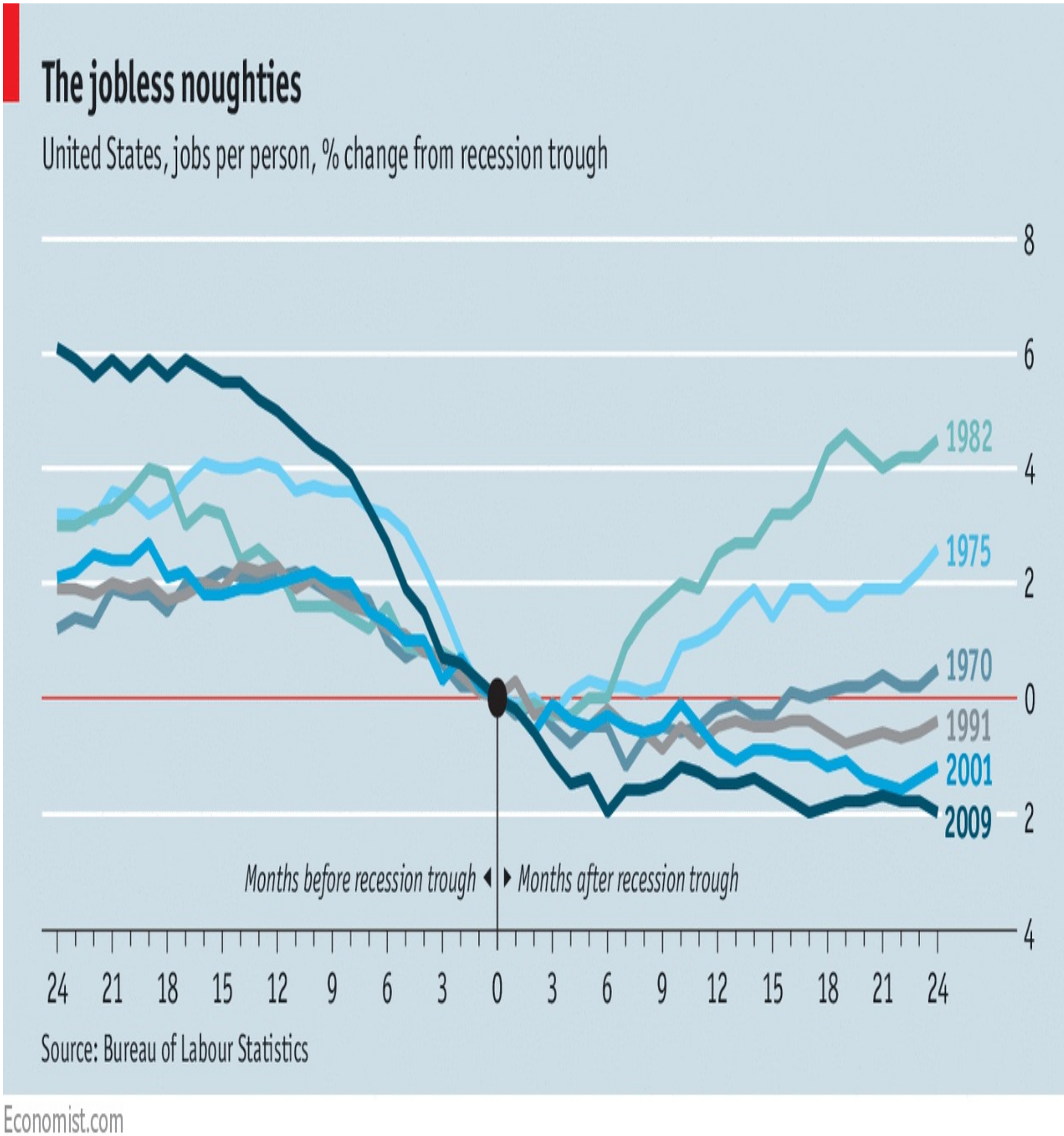
Economies have a growth speed limit, determined by changes in population and productivity. When unemployment is high, the economy can grow faster than this speed limit without an acceleration in inflation, since firms can expand by hiring unemployed workers. As the number of jobless workers shrinks, this option disappears. Eventually, firms hoping to grow must raise wages to poach the workers they need from other companies. As wage costs rise, prices must go up to cover the bill, fuelling a cycle of accelerating inflation. "The risk would be that the economy would crash to a very, very low unemployment rate," said William Dudley, president of the New York Fed, on June 19th, describing a scenario most Americans may find less than horrifying.

Yet before that point firms have other ways to manage increased demand. They might give their current workers more hours, or push them to work harder. Some have the option to outsource work to foreign contractors or invest in robots. Even rising wages need not translate into higher inflation. Firms may choose lower profits over higher prices and reduced market share. They might also pair wage increases with investment in training and equipment in order to raise workers' productivity. In an economy in which the central bank permits inflation to jump around, it should be clear when these other opportunities are exhausted: when inflation begins to rise sharply. So long as inflation remains low and stable, it is possible that productivity-boosting steps are still being left on the table.

Could this be happening now? Some evidence suggests so. Until the mid-1980s productivity grew faster when a boom gathered pace; it slowed in recessions. Since then, the opposite has been true; productivity growth leaps in recessions and wheezes during booms. Structural changes in the economy may help account for this change. Increased labour-market flexibility might make it easier for firms to sack workers in bad times, boosting average productivity; they can rehire low-skilled workers later. But other factors probably matter at least as much, according to work published last year by John Fernald, of the San Francisco Fed, and Christina Wang, of the Boston Fed. In particular, technology may be contributing to economic fluctuations in a new way.

Routine procedures

Around the time productivity began to leap during recessions, America also began suffering a rash of jobless recoveries (see chart). In a paper published in 2015, Nir Jaimovich, of the University of Zurich, and Henry Siu, of the University of British Columbia, argue that this is because firms began responding to recessions by eliminating routine jobs (like repetitive factory or call-centre work) through reorganisation, outsourcing and automation. Firms used recessions to implement labour-saving structural changes that raised productivity and made it easier to accommodate rising demand in the early stages of a recovery without hiring new workers.



The shift to a low-inflation world can help to explain this phenomenon. Firms tend not to cut their workers' nominal wages (the numbers on the pay cheque), and when inflation is low they cannot achieve such large savings by keeping pay constant in the face of rising prices. They therefore have little choice but to make lay-offs—and to take additional steps to make the remaining, expensive workers more productive.

What is more, technological progress itself is contractionary if the central bank does not recognise it is occurring, according to a seminal paper, published in 2006, by Susanto Basu, of Boston College, Mr Fernald and Miles Kimball, of the University of Colorado. New technologies generally reduce labour demand and inflation in the short run. That would not be so if central banks observed that this was happening and responded with more accommodative policy. They rarely do.

The rare exception makes the point. In March 1997 the American economy seemed to be running at close to full tilt. Inflation was just a shade over 2%. The unemployment rate stood at 5.2%. In the eyes of the Fed, then run by Alan Greenspan, it was very nearly time to pull away the punchbowl. Yet, though the Fed voted for a 0.25% interest-rate increase at that meeting, its plan for a series of rate rises was subsequently ditched when it changed its collective mind. Unemployment eventually fell below 4%; since the early 1980s no other period has matched the late 1990s for growth in labour productivity and real pay.

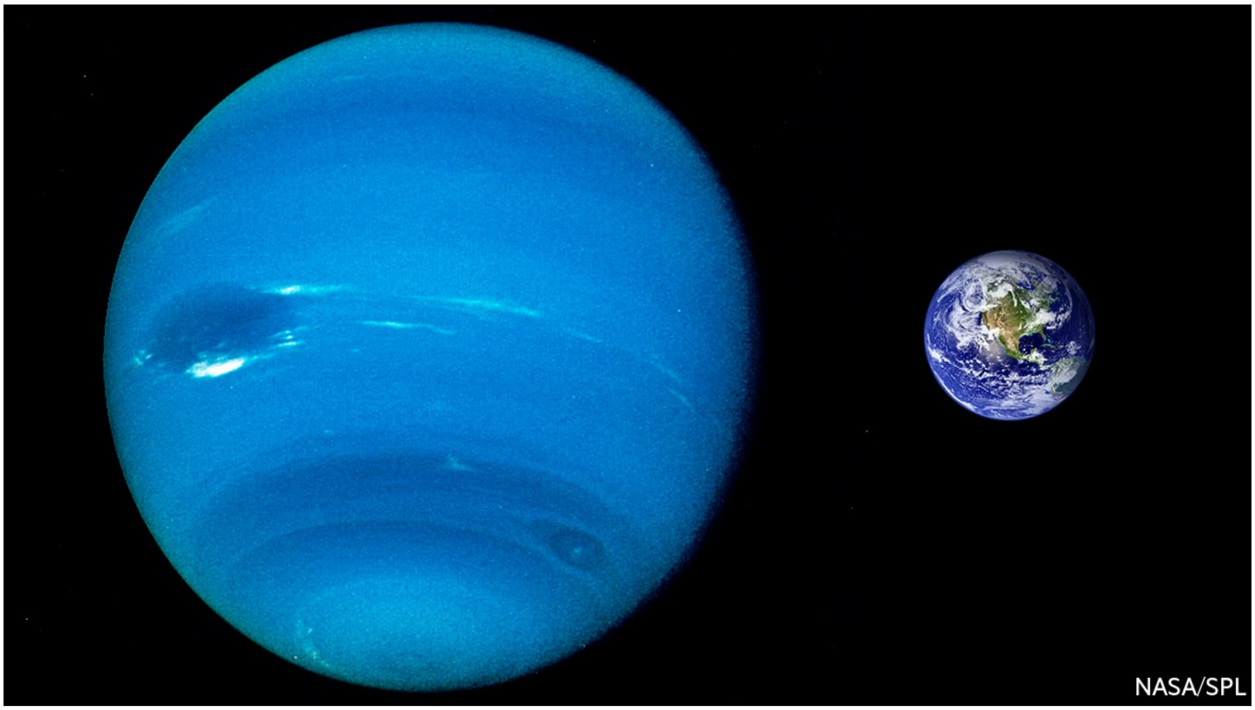
The only way to know if America can manage a repeat performance is to test the economy's limits. The transition from a 2% target to a higher one would offer a chance for such an experiment. As it is, a central bank hell-bent on keeping inflation low and stable risks cutting short a boom with room to run.

Science and technology

Exoplanets

Planets come in different species

Why they do so is now emerging



Jun 22nd 2017

THE starting-point of science is collecting: animals, plants, minerals, elements, even stars. Then, once a collection is large enough, patterns begin to emerge. Animals and plants fall into phylogenetic trees, minerals into crystal groups, elements into the periodic table, stars into the Hertzsprung-Russell diagram. Those patterns both require and suggest explanation. Thus, the theory of evolution, the science of crystallography, an understanding of the chemical bond and a description of how stars shine over their lifetimes have all emerged from the classification of collections. Now, it appears, something similar is happening to planets.

A quarter of a century ago only nine planets were known—those of the Solar System, a number subsequently reduced to eight by the demotion of Pluto. These nearby worlds have, however, now been joined by thousands more that orbit stars other than the sun. Many of those have been discovered or confirmed to exist by *Kepler*, an American space telescope launched in 2009 with the specific aim of finding small, potentially Earth-like bodies, as opposed to the plethora of big, heavy, Jupiter-like gas giants that formed the bulk of previous discoveries.

On June 19th Andrew Howard of the California Institute of Technology and his colleagues announced the latest batch of *Kepler*'s discoveries, 219 of them, including ten that are about the size of Earth and have similar surface temperatures, and might thus be capable of supporting life. They also announced the result of an analysis of all of *Kepler*'s haul, the thrust of which is that small planets seem to come in two distinct types. Which type a planet is depends on its exact size. But there is a marked discontinuity between the smaller and the larger type, which seems to reflect the way that mass and chemical composition interact in the swirling clouds of gas and dust that form planetary nurseries.

Mind the gap

One of *Kepler*'s early findings was that there is an abundance of objects intermediate in size between Earth, the fifth-largest planet in the Solar System, and Neptune, the fourth-largest (shown, to scale, above). Because Neptune's diameter is four times Earth's, however, that is a big gap to fill.

At the top end of the range are so-called mini-Neptunes. These are mostly gas, but are presumed to have cores made of rock and ice. At the bottom end are rocky objects with little or no atmosphere. These are the largest of the terrestrial planets, similar in composition to the inner planets of the Solar System, and are sometimes known as super-Earths. But if and how the two sorts overlap has never been clear. Part of the reason for this lack of clarity has been a lack of accurate measurements of exoplanetary diameters.

Kepler, which works by measuring the dip in a star's light caused by a planet passing in front of it, cannot determine the size of that planet directly. Rather, it measures the relative sizes of planet and star. A star's size is deduced from its spectrum. Hot stars, which shine white, are big and bright. Cool ones, which shine red, are small and dim. There are exceptions—old stars such as red giants and white dwarfs—but these are easily recognised.

That this relationship between luminosity (and therefore size) and temperature is fundamental to stellar nature was recognised just over a century ago by Ejnar Hertzsprung and Henry Russell. Their diagram, which plots it as a graph, is a good example of data collection producing patterns for theoreticians to work on. It means, for instance, that a precise spectrum will accurately indicate a star's size and thus, if that star is orbited by a *Kepler*-detected planet, the planet's diameter.

Until recently, most of the stars around which *Kepler* has made such discoveries had not had their spectra closely analysed. This has now changed thanks to the telescopes, among the largest in the world, of the Keck observatory in Hawaii. Using these, Dr Howard and his colleagues have measured the spectra, and thus the sizes, of 1,300 of these stars.

Adding the Keck and *Kepler* data together shows the distinction between mini-Neptunes and super-Earths quite clearly. The maximum diameter of rocky planets is 1.75 times that of Earth. The smallest mini-Neptunes are twice the diameter of Earth. The gap between the two (a 50% difference in volume) suggests bodies of intermediate size are unstable.

Turn down the volume

Dr Howard and his colleagues suspect the gap is caused by the way planetary atmospheres form. Their calculations suggest that the jump between a rocky planet with little or no atmosphere and a mini-Neptune with a large one requires the addition of only about 1% of the planet's mass, in the form of hydrogen and helium. Since these are the two lightest elements, they provide lots of volume for little weight. And, since they are the most abundant elements, they are readily available.

Being light, however, means they are easily lost. This is crucial. Dr Howard and his team reckon the lack of objects in the gap between the biggest rocky planets and the smallest mini-Neptunes is a consequence of the bodies that would otherwise fill it having insufficient gravity to hold onto their atmospheres. Instead, radiation from their parent stars strips those atmospheres away.

The large number of mini-Neptunes around (almost every planetary system found by *Kepler* has at least one) does raise the question of why there are none in the Solar System. That will require more study, with better instruments. And the progress of just such an instrument, called PLATO, was announced by the European Space Agency on June 20th.

Lift-off is planned for 2026. PLATO will look for planets around hundreds of thousands of stars. Its main objective is to seek ones that might be supporting life. Like *Kepler*, though, it will add enormously to astronomers' planet collection, and thus to the developing science of planetology.

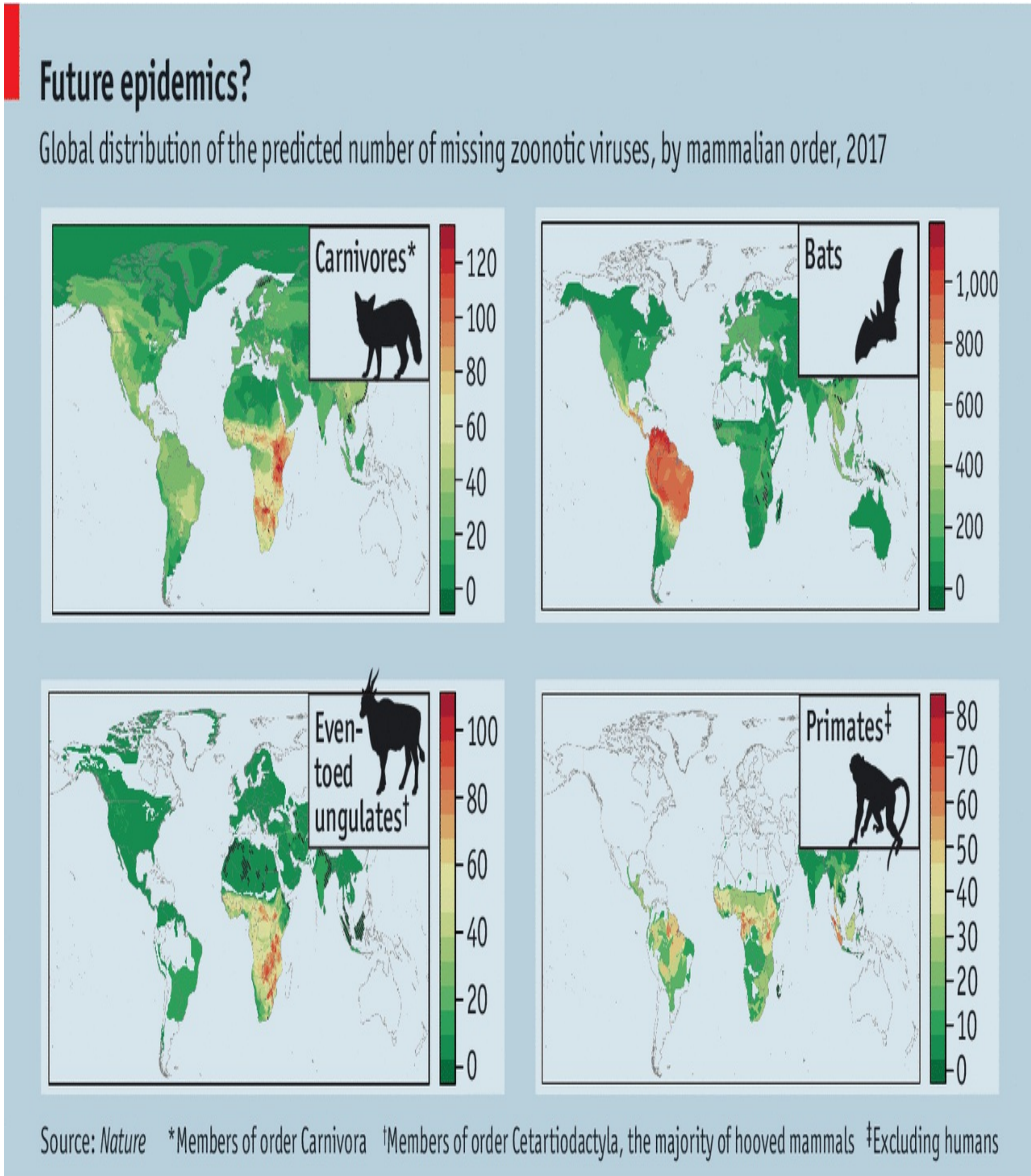
Zoonotic disease

Whence new plagues?

A prediction of the places from which new illnesses are likely to emerge

Jun 24th 2017

MOST new human viral infections come from other animals. Ebola fever, SARS and AIDS all started in this way. Animals are also the sources of influenza epidemics. Keeping an eye on birds and beasts, the viruses they carry, and which of those viruses are found in people is thus a prudent thing to do. And that is the self-appointed task of the EcoHealth Alliance, a charitable research organisation based in New York. This week some of the alliance's scientists, led by Kevin Olival, published the results of their latest research in *Nature*. Among other things, they attempt to estimate what people do not know about these "zoonotic" viruses, as well as what they do.



Economist.com

Dr Olival's study is restricted to mammals. It does not, therefore, pertain to things like the sources of avian flu. But within that limit it is as comprehensive as the data allow. It looks at all 586 species of virus known to have been found in at least one mammal. Those mammals amount to 754 species (humans included) from 15 orders—groups such as primates, bats, carnivores and even-toed ungulates (deer, cattle, sheep, antelopes, camels and so on). Of the viruses studied, 263 (ie, 45%) had been detected in humans and 188 of those were zoonotic in the sense that they had also been found at least once in another mammal species. This does not prove a virus passed from animal to human. It could have travelled the other way. But it is a starting-point for research.

The objectives Dr Olival and his colleagues set themselves were to build a model that predicted how many zoonotic viruses a particular animal species might be expected to carry, and then to compare that with the number already known to be carried by it. They did this by asking how closely related a species was to *Homo sapiens* (on the assumption that viruses will find the jump between related species easier), and how likely, given a species' range, habitat and behaviour, it would be for it to interact with people. They also estimated, and attempted to correct for, how much effort had been put into looking for viruses in a given species. Sampling bias, for example, almost certainly explains why so many known viruses infect humans.

All this work yielded an estimate of the number of unknown zoonotic virus species out there in the world's mammals. It also enabled the team to draw up "heat maps" showing places where the actual and predicted number of zoonotic viruses least resemble one another, and which therefore have the highest risk of springing a nasty surprise on the world.

The biggest threat comes from bats, which carry many more zoonotic viruses per species than other mammalian orders do. The places most at risk of an unknown zoonotic bat virus emerging are the Amazonian and Orinoco rainforests and the Caribbean coast of South America. Ungulates pose more of a threat to the east and centre of Africa, and carnivores to the east and south of that continent. Primates (the non-human variety) threaten equatorial regions of South America, Africa and Asia.

Having maps like these, rough and ready though they are, is important because they can help researchers choose the most fruitful places to conduct studies into zoonotic transmission. They do need to be used with care. The method Dr Olival and his team adopted does not distinguish zoonoses with epidemic potential from those that might infect a mere handful of humans. But the maps do increase the chance that the next SARS or AIDS might be spotted, almost before it has emerged, and many lives saved as a consequence.

Political morality

If you are a politician, changing your convictions could cost you

Talk is not cheap

Jun 22nd 2017

CYNICS may regard the phrase "political morality" as an oxymoron. Nevertheless, many politicians insist that their stated beliefs have a moral basis rather than a merely pragmatic one. And personal convictions aside, moralising has many benefits: past research suggests that leaders who make moral arguments are seen as having better characters, and that they are better at persuading waverers to their cause.

But all power comes at a price. As Tamar Kreps of the University of Utah and her colleagues report, in a paper to be published soon in the *Journal of Personality and Social Psychology*, those who claim moral rather than pragmatic reasons for their policies may find themselves punished more harshly by voters if they later change their minds.

Dr Kreps's research involved 15 separate experiments, conducted online through Amazon's "Mechanical Turk" service, in which people are paid commissions for completing odd jobs. Each experiment followed a similar structure. Participants read a statement from a hypothetical politician either supporting or opposing some controversial policy—the death penalty, say, or same-sex marriage. In some cases the arguments were made pragmatically, by appealing to economics. In others they were made on moral grounds, citing reasons such as "justice" or "respect".

The participants were then invited to rate the politician on his perceived hypocrisy, his courage, his flexibility, his effectiveness and his worthiness of support. Finally, they read a second statement from the same politician saying that his or her position had now changed, and the rating exercise was repeated.

Dr Kreps and her colleagues tested three ideas. First, they wondered if a leader who had changed his mind after adopting a moral position would seem more hypocritical, and less effective, than one who had justified his initial position on purely pragmatic grounds. Changing a moral view, after all, might seem like breaking a promise. Second, and conversely, perhaps changing one's mind in such circumstances would be seen as morally courageous, and therefore boost support among the public. Last, they investigated whether ratings depended on a participant's own beliefs. A leader coming around to one's own view might be viewed with more indulgence than one who had travelled in the opposite direction.

After totting up the responses, the researchers were left with ratings from more than 5,000 participants. The data showed strong support for the first hypothesis—moralisers who later changed their mind were indeed seen as more hypocritical and, therefore, less worthy of support. There was no evidence for the idea that changing one's position on an ethical matter would be seen as morally courageous. And there was only slight support for the partisanship hypothesis—a result that suggests people are, perhaps, more fair-minded than is often assumed.

These results held not only in the aggregate, but also in most of the individual experiments. This suggests the researchers have found a real pattern rather than being misled by a quirk of the data. Those individual experiments covered putative politicians and business tycoons, persons male and female, and the use of both written statements and television advertisements. Some leaders were described as dependent on popular support, others as uninterested in it, in case dependence made a change of mind seem like pandering. The researchers covered issues from gay marriage and the death penalty to immigration, environmental policy and sexualised advertising. And they also looked at their participants' sexes and their personal moral stances. None of those factors made much difference to the overall pattern.

Climbing down gracefully

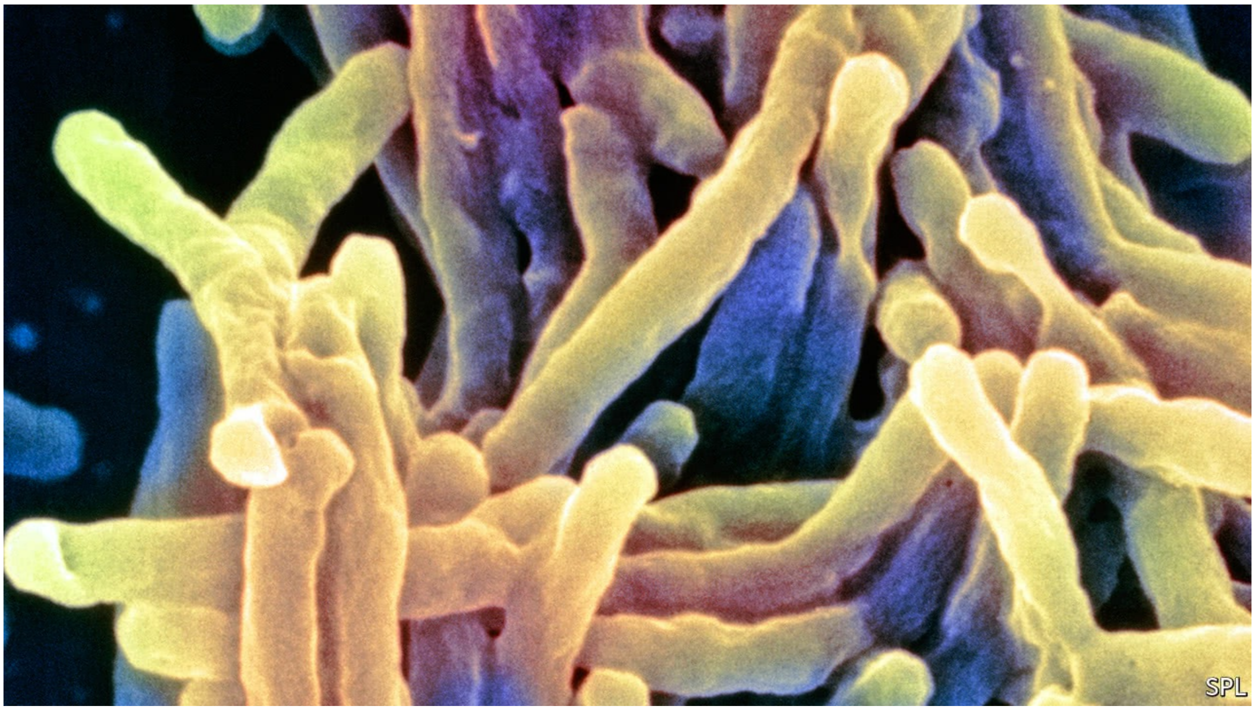
The data did, however, suggest two tactics that might soften the reputational impact of changing one's mind on a moral issue. The first was to attribute the change to a transformational personal experience. ("I spent some time with a death-row inmate and saw what a truly unjust system we have.") Respondents seemed to appreciate the apparent honesty inherent in such a confession. The other was simply to deny that a true change of opinion had taken place, and instead explain the situation away by citing factors beyond one's control. ("My colleagues in the legislature have refused to put this issue on our agenda.") Moralising leaders who used such tactics still seemed like hypocrites. But they were rated as being slightly more courageous than those who did not.

There are, as ever, a few caveats. Hypothetical politicians may be judged differently from flesh-and-blood ones. And all of the participants were American, and the issues were framed in the context of American politics. It may be that things work differently in other countries. But aspiring politicians should take note. Morality is powerful stuff, and as such should be used with care. Once a position has been staked out on moral grounds, it is extremely hard to change it, no matter how good the reasons may be.

The enemy of my enemy

A new antibiotic for drug-resistant tuberculosis

A bug that infects people with cystic fibrosis may yield a treatment for TB



Jun 22nd 2017

TUBERCULOSIS has plagued humanity for thousands of years. The discovery in the 19th century of its cause, a bacterium (pictured above) called *Mycobacterium tuberculosis*, and the consequent development of better hygiene, helped bring that plague under control. Then, in the mid-20th century, what many hoped would be the final nail in its coffin appeared: antibiotic drugs.

Unfortunately, TB is back. After a few decades in which antibiotics did indeed seem to be working miracles, some strains of *M. tuberculosis* have evolved resistance to them. In 2015 5% of the world's 10m cases failed to respond to treatment with isoniazid and rifampicin, the drugs of first resort. Half of those non-responders were infected by strains of the bacterium immune to second-line treatments as well. Most microbiologists regard these numbers as portents of worse to come. That is driving a search for new antibiotics against which *M. tuberculosis* has evolved no resistance.

Eshwar Mahenthiralingam of Cardiff University and Greg Challis of the University of Warwick, both in Britain, think they have found one. As they and their colleagues describe in the *Journal of the American Chemical Society*, they have discovered a compound, produced by another bacterial pathogen, that kills resistant strains of *M. tuberculosis*.

This compound, which they call gladiolin, is created by *Burkholderia gladioli*—a bacterium, generally rare, that thrives in the lungs of those suffering from cystic fibrosis. It is able to gain a foothold there because the respiratory tracts of such patients are clogged with mucus that inhibits the actions of immune-system cells which would otherwise destroy the invaders. What interested Dr Mahenthiralingam and Dr Challis about *B. gladioli* was that, once established in a patient's lungs, it seems able to keep rival bacteria such as *M. tuberculosis* at bay. This suggests it is engaging in chemical warfare.

To isolate the agent that inhibits *B. gladioli*'s competitors, the researchers cultivated samples from a patient with cystic fibrosis and analysed the chemicals secreted by bacteria therein. It was thus they discovered gladiolin, which shuts down bacterial versions of the gene for an enzyme called RNA polymerase that is crucial for life.

This was interesting. But it was also reminiscent of a false dawn involving another substance, etnangien, which was discovered in 2007 and which also inhibits RNA polymerase. Unfortunately, etnangien proved chemically unstable and thus impossible to use as a drug. The first task Dr Mahenthiralingam and Dr Challis undertook was therefore a detailed comparison of the two. They established that the parts of etnangien molecules which cause their instability are not shared by gladiolin. That suggested gladiolin might indeed be robust enough for use against tuberculosis, and encouraged them to test it further.

The new substance performed reasonably well against a strain of tuberculosis that had no resistance to antibiotics. A solution of 400 nanograms (billionths of a gram) per millilitre was enough to inhibit the growth of such bacteria. But isoniazid and rifampicin performed better. They needed only 40 nanograms and 1 nanogram per millilitre of solution respectively to keep the non-resistant bugs under control. Where gladiolin did shine, though, was against a strain of tuberculosis known for its resistance to isoniazid and rifampicin. Even 10,000 nanograms per millilitre of either of those two drugs was insufficient to harm it. However, a mere 1,700 nanograms per millilitre of gladiolin proved enough to knock it out.

Whether gladiolin can be taken out of the Petri dish and made into a useful drug will require many clinical trials to discover. But, in a world crying out for new antibiotics, it seems a useful lead.

Silence, please

How to get rid of weeds by crossing them with GM crops

Domesticating weeds in order to destroy them

Jun 22nd 2017

INTRODUCING genes for herbicide resistance into a crop permits it to be sprayed with weedkiller that really does then kill nothing but weeds. But that works only until the weeds themselves develop resistance to the poison. One way this can happen is through crossbreeding with the crop originally protected—a risk if weed and crop are closely related.

That is the case for rice, where weedy, natural varieties are a perennial problem because of the competition they bring to the cultivars farmers actually want to raise. But, as he describes in *Transgenic Research*, Lu Baorong, an ecologist at Fudan University in Shanghai, thinks he has found a solution. By adding a second transgene to the crop, he can sabotage any weed that crossbreeds with it. Dr Lu's transgene encodes a genetic "silencer" that shuts down the expression of a natural gene called *SH4*. In wild grasses *SH4* promotes a phenomenon called "seed shattering" that releases seeds from the stalk when they are ripe.

Domestication selects against seed shattering because farmers want the seeds to stay attached to a plant as it is harvested. The best cereal crops are those which do not release their seeds until they are deliberately threshed. That means adding an *SH4* silencer to them will, if anything, make them better crops rather than worse ones. Indeed, experiment shows that the silencer has no effect on the productivity of an otherwise genetically un-engineered cultivar, as measured by such things as the number of seed grains per plant, the weight of those grains, the percentage of them that germinate, and the survival rates of the resulting seedlings.

If a silencer-enhanced version does crossbreed with a weedy interloper, though, the offspring will end up carrying the silencer, too. And that, Dr Lu hoped, would damage them by stopping their seeds breaking off naturally, and thus preventing those seeds from spreading.

To test his idea, Dr Lu and his colleagues crossbred a weedy rice strain with a cultivar into which the silencer transgene had been introduced. They then allowed the crossbred offspring to breed with one another, creating second-generation hybrids of a sort that might emerge in the wild. They found that the expression of *SH4* in those hybrids dropped sharply, to as low as 10%. That is a level similar to the one found in cultivars. This reduction in *SH4* expression was accompanied by a reduction in the hybrids' seed-shattering index, a measure of the strength of a plant strain's stalks and the number of its seeds in the soil. In a rice-field, the consequence would be that the weedy grains get harvested along with those of the cultivar, removing them from circulation and thus suppressing the weedy population the following season.

In the long term, that might make herbicides obsolete. In the shorter term, however, Dr Lu hopes to make them more effective, by creating a cultivar in which silencers of *SH4* and, perhaps, other seed-shattering genes are in close chromosomal proximity to the herbicide-resistance gene. That will mean any transfer of herbicide resistance automatically brings seed-shattering problems with it, stopping the spread of herbicide resistance within the weedy population.

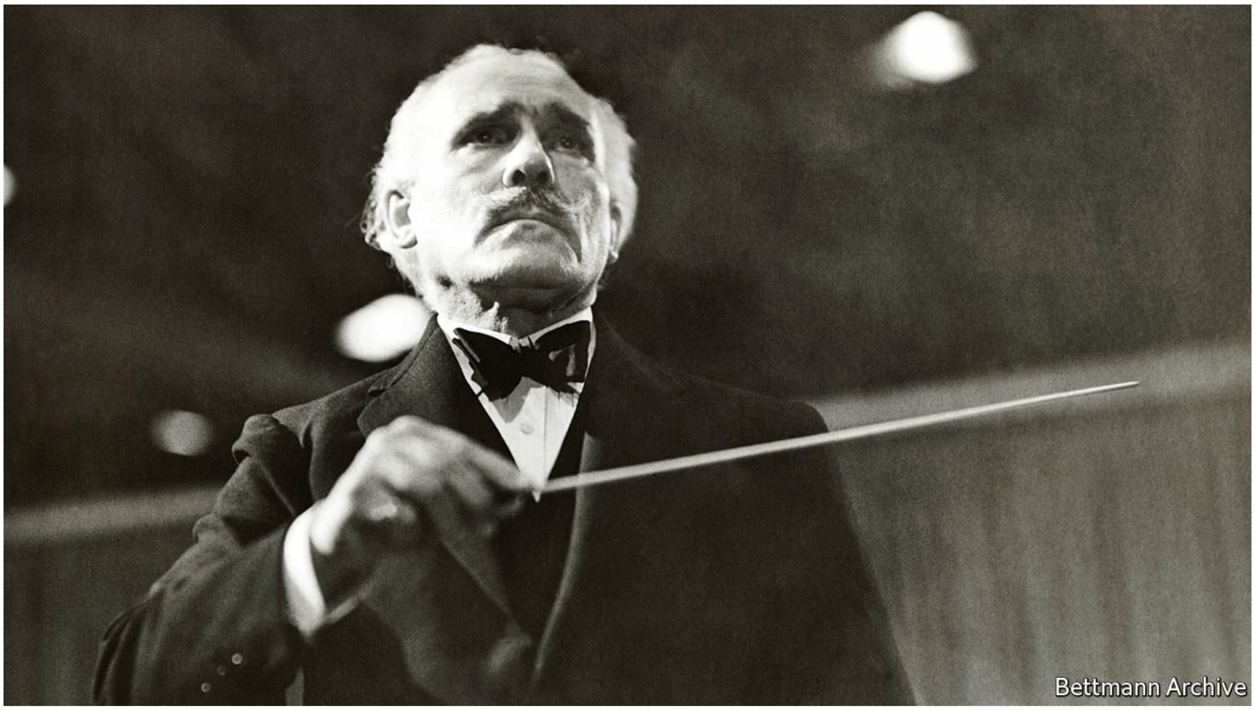
Moreover, what works with rice might reasonably be expected to work, too, with other cereals, such as wheat and sorghum, which also have close relatives that behave as weeds. Dr Lu’s subtle approach of, in effect, domesticating weeds in order to destroy them, could therefore have a big influence on future crop yields.

Books and arts

Maestro di tutti maestri

Toscanini's pursuit of perfection

From his recruitment at 19 to conduct "Aida" onwards, the great conductor was opinionated and demanding



Bettmann Archive

Jun 22nd 2017

Toscanini. By Harvey Sachs. *W.W. Norton; 944 pages; $39.95. To be published in Britain in July; £29.99.*

ASK music-lovers to name a conductor, and among the greats they are likely to mention Arturo Toscanini. The Italian, who died in 1957, is perhaps best known for leading the NBC Symphony Orchestra from the 1930s, which had a large following in America. Yet Toscanini was an elite musician as well as a popular one. And he worked with the world's most prestigious orchestras, as the principal conductor of La Scala in Milan and as a conductor at the Bayreuth Festival in Germany. Harvey Sachs has written the definitive biography of this great, and colourful, character.

Mr Sachs has already published a biography of Toscanini, in 1978. Yet this is not merely a new edition of an old book. Mr Sachs has drawn on a batch of Toscanini's letters unearthed in the 1990s, as well as the archives of many of the organisations he worked with, including La Scala's. The result is an entirely new study.

Drawing on an enormous range of evidence, Mr Sachs paints a vivid picture of the great conductor. His first job with the baton came by accident, while he was on tour in Rio de Janeiro in 1886, after an audience refused to listen to the scheduled maestro. The 19-year-old Toscanini, engaged as a cellist, agreed to take charge only after a panicked subscriber ran in, shouting: "Isn't there anyone in the orchestra who can conduct 'Aida'?" As was his wont, he knew the entire work from memory.

Before long he was leading ensembles all over the world, usually to rave reviews. Critics praised Toscanini's interpretations for hewing closely to composers' intentions. Ermanno Wolf-Ferrari, a now almost unknown composer, sat in as Toscanini performed one of his pieces, gushing, "I come here to hear every single nuance, every bit of phrasing that I intended, expressed by this marvellous man."

The pursuit of perfection did not come without costs, however. Toscanini slept barely five hours a night and went for long stretches without seeing his children, to whom he did not think it worth his time to impart his musical knowledge. And though Mr Sachs lays to rest a long-standing myth that Toscanini once blinded a violinist in a fit of rage, tantrums were certainly common.

Toscanini had equally strong views on the merits of different composers. As he got older, he had little time for the works of Arnold Schönberg or Bela Bartok (though he did enjoy conducting Stravinsky). His oldest love may have been Giuseppe Verdi, Italy's greatest opera composer, with whom he became friends. "Down on your knees to Verdi!" he implored his mother as a teenager.

Yet more than anyone else, Richard Wagner (1813-83) casts a long shadow over the conductor's life. Toscanini incorporated many of the musical ideas Wagner advocated. He favoured dimming the lights in the opera house, for instance, so that the audience would focus on the performance. This provoked fury among Italians who came to the opera house not to listen but to flirt and eat ice cream. Like Wagner, he wanted the orchestra in a pit below the singers rather than on the stage, especially important when performing the bombastic works of Verdi or Wagner, so as not to overpower the singers. La Scala's first orchestra pit was constructed in 1907. Toscanini celebrated by performing Wagner's "Götterdämmerung".

Alongside this lengthy examination of Toscanini's approach to music, Mr Sachs treats the reader to a bit of gossip. Toscanini had a voracious sexual appetite and innumerable lovers. Mr Sachs has dug out letters which Toscanini exchanged with women all over the world. Some drip with sexual innuendo.

Of his time

Mr Sachs also uses Toscanini's life as a window onto a wider discussion of musical and historical themes. He documents Toscanini's many performances in Argentina, then one of the world's richest countries. And his portrait of the music scene in turn-of-the-century Italy is fascinating. Musicians would compete to sit in the prestigious seats in the orchestra; the police were sometimes needed to break up fights. Audiences would aggressively demand encores of the entire performance if they had enjoyed it (Toscanini, however, did not like pandering to such extravagant requests). And despite the myth to the contrary, opera singers worked just as hard back then as they do today. A production of "Götterdämmerung" that opened in Turin in 1895 was performed every other day for six weeks and only the roles of Brünnhilde and Gutrune were double-cast.

Unafraid as he was to court controversy, it was inevitable that Toscanini would be caught up in politics. By the 1920s Benito Mussolini was tightening his grip on Italy. Fiercely anti-fascist, Toscanini refused to accept accolades from a government he did not like. Before long, Mussolini's regime had amassed a massive police file on the conductor. Things turned nasty at a concert in Bologna in 1931. On Toscanini's refusal to play the national anthem, a fascist hit him in the face and others chanted "*A morte*!" ("Death!"). By 1937 he was in America, with NBC broadcasting his work to dozens of radio stations across North America and Europe.

Some readers may wish that Mr Sachs offered more of these rich historical descriptions and less of the minutiae: how important are the names of the ships that carried Toscanini between Europe and America? Or the precise mountain that Toscanini climbed while on holiday? After seeing ten newspaper reviews heaping praise on Toscanini, no one will doubt his greatness. By the umpteenth review over 700 pages, the reader may wish to read something else.

Yet this is a quibble. Mr Sachs's writing style is precise, fluent and gripping. And one can dip in and out of the book, since Mr Sachs helpfully offers reminders of important characters and explains basic concepts. As a study of the life and times of one of the greatest conductors of all time, this book will not soon be bettered.

Mars and Venus revisited

Chatty women and strong, silent men

Stereotypes and flat-out myth bedevil the discussion of women and men's speech styles


Nick Lowndes

Jun 22nd 2017

UBER was having a bad week: accusations of sexism in the ride-hailing company had turned it from a Silicon Valley "unicorn" into something more of an ogre. Matters were not helped by a board meeting to discuss the mess. Arianna Huffington, a director, cited research showing that the likelihood of a board bringing on a woman is higher if it already has at least one female member. David Bonderman, her colleague, quipped that this would just mean more talking. He later apologised and quit.

Some might quietly grumble that, rude or not, Mr Bonderman had a point. It is widely thought in the West that women talk more than men. One popular-science book called "The Female Brain" said they use three times as many words per day as men. Maybe that is why senators kept interrupting Kamala Harris, a Californian senator, during her questioning of Jeff Sessions, America's attorney-general, at a hearing on June 13th. Or why Jim Holt, hosting a panel on cosmology at a science festival in New York, repeatedly talked over Veronika Hubeny, the one woman in the group. Women will talk for ever if you don't stop them.

Except that there is not a whit of evidence that they do. Abby Kaplan, a linguist at the University of Utah, rounded up the facts in "Women Talk More Than Men…And Other Myths About Language Explained", published last year. Researchers have given men and women in groups a task to complete, observed classroom interactions, required mixed-sex groups to reach a joint political agreement, and recorded romantic partners in their homes. No study has shown women talking more, and some (like the romantic-couples study) found them talking rather less.

In the best study of a large sample of natural speech, researchers recorded six groups of university students (five in America, one in Mexico) wearing devices that would randomly switch on and record them over the course of several days. The result? Members of both sexes spoke a statistically indistinguishable average of around 16,000 words daily. This average was dwarfed by differences within each sex, with some taciturn types speaking just a few thousand words, and a few motor-mouths as many as 50,000.

Yet people hear women talking more—and clever researchers have proved that too. When they played scripted conversations in which male and female speakers took perfectly balanced speaking times, respondents heard the woman taking 55% of the speaking time (even when the male and female actors swapped scripts).

Why do people hear women talking more? Perhaps because women and men speak differently. For this, there is some evidence. In some studies, women take more speaking turns, but men take longer ones. In one study, women were more likely to offer reactions ("yeah" or "that's right") and men more likely to offer answers.

Some linguists, like Deborah Tannen of Georgetown University, argue that women and men tend to have different goals when talking: men are more likely to seek status and exchange information, whereas women are more likely to seek connection and exchange affirmation. This view has its detractors, but even its proponents insist that this generality hardly applies to all men and women.

If true, this would help explain events such as Mr Holt's interruptions of Professor Hubeny, often derided as "mansplaining". If one partner in a conversation is seeking dominance and the other is seeking co-operation, the status-seeker will wind up hearing co-operative conversational turns as submissive. That may explain why people think women talk more: in the stereotype, it seems they are nattering on with no clear purpose.

Speakers of both sexes need the full suite of skills: explaining, problem-solving, interrupting, supporting and more. Some people think that women are just biologically better at one kind, and men at another. Culture, though, explains plenty, too. It's not everywhere that men are expected to be the blunt, competitive, problem-solving sex and women the comforters. In rural Madagascar, men are prized for *kabary*: flowery, indirect speech that avoids putting other people on the spot, a mode that is thought to be beyond women's abilities. And in the village of Gapun in Papua New Guinea, women specialise in the *kros*, an elaborate tirade packed with sexual profanity delivered at someone who has wronged her. Western men and women can learn plenty from these examples—and from each other.

Democracy's discontent

A grim diagnosis for Western politics

Edward Luce believes that the liberal order cannot be fixed without a clear view of what has gone wrong

Jun 22nd 2017

The Retreat of Western Liberalism. By Edward Luce.*Grove Atlantic; 234 pages; $24. Little Brown; £16.99.*

FEW doubt that something big happened in Western politics during the past 12 months but nobody is sure what. Turmoil in Washington and London contrasts with centrist stability in Paris and Berlin. Edward Luce, a commentator for the *Financial Times* in Washington, is well placed to observe the shifts and shocks. "The Retreat of Western Liberalism" offers a brisk, timely survey.

"Fusion", the longest of just four chapters, describes the successes of economic globalisation, but also the costs borne by the less well-off in rich countries, notably Britain, America and France. Next, "Reaction" attributes the recent “degeneration” of Western politics to slowing economic growth and to the rich taking an undue share of what little growth there is.

“Fallout” moves to geopolitics and the decline of Western hegemony. America is still unequalled in hard power. At $600bn a year, its defence spending is more than the next seven biggest spenders combined. But it must compete now with China over which of them is to fix and police global norms of trade and finance. In soft power, the kind that convinces rather than coerces, America has lost heavily in recent years. Far from a model to copy, American society is widely viewed by outsiders with puzzlement if not suspicion. The latest Democracy Index (2016) from the Economist Intelligence Unit, a sister company to *The Economist,* demoted it from full to flawed democracy because the level of political distrust in the country has risen so high. None of that hands China victory in Mr Luce’s view. Rather than a new Chinese-led world order to replace the American-led one, he thinks disorder is likelier.

A final brief chapter, “Half Life”, suggests lines of defence and restoration for liberal democracy. People’s trust in politics and government must be recovered, he argues. A combination of stagnant living standards for the broad middle of society and an accumulation of unusable extra wealth by the rich has pushed fairness to the top of public argument. Parties of the right should aim to rationalise and improve, not slash, welfare. Parties of the left should fuss less about identity politics or “personal liberation” and return to their old position as defenders of those struggling to make ends meet. Mr Luce likes the idea of a “universal basic income”, paid to all citizens with no strings attached, but notes that governments would need to be tough about not extending it to all comers from across the world, drawn by its promises. He notes, too, that despite the hostile caricature of the welfare scrounger, most people want not a handout, even a comfortable handout, but meaningful work, the kind that gives a sense of purpose.

Mr Luce is a shrewd observer who has worked in Asia as well as the West. As an intern at the European Union in Brussels and speechwriter for the treasury secretary in Washington during Bill Clinton’s administration, he has seen government from the inside. He believes in liberal democracy and cares about its future. Despite its title, “The Retreat of Western Liberalism” is not bleak or elegiac. Mr Luce is not suggesting that liberalism is done for. He says sensibly that liberal democracy cannot be shored up without a "clear-eyed grasp of what has gone wrong". A more analytical book might have spelled out further what exactly liberal democracy is, how to tell when it is going right and how it differs from capitalist competitors across the globe. At rapid pace and with telling statistics, Mr Luce nevertheless gives a knowledgeable tour through the unmapped terrain in which Western politicians and governments must now operate.

Darkness and dawn

South Korea like you've never seen it

Two new novels show the murkier corners of a success story

Jun 22nd 2017

Familiar Things. By Hwang Sok-yong. Translated by Sora Kim-Russell. *Scribe; 216 pages; £12.99.*

The Impossible Fairy Tale. By Han Yujoo. Translated by Janet Hong. *Graywolf Press; 225 pages; $16. Tilted Axis; £8.99.*

IN THE mega-cities of Asia and Africa, from Cairo to Manila, urban sprawl throws up trash mountains where enterprising slum-dwellers gather a bare living collecting recyclable junk. Seoul, South Korea's spruce high-rise capital, no longer looks like such a place. However, Hwang Sok-yong has to travel back just one generation, to the time of Super Mario console games and early Star Wars films, to tell a story about the garbage-pickers of the so-called Flower Island. In his novel "Familiar Things", on a squalid landfill site outside Seoul amid "towering mounds" of waste, 6,000 people sift and sell the rubbish ferried from the booming city in convoys of trucks.

Their life is seen through the adventures of Bugeye, a boy who, with his resourceful mother, survives “every bad odour in the world” to find solidarity among these human “discards and outcasts”. In their reeking shantytown, “children were useless, worth less than scrap metal.” Yet he thrives, and Mr Hwang sweetens his escapades with charm and compassion. Bugeye forgivably asks, “what was the straight and narrow when you lived in a garbage dump?” Still, he transcends the trash to pursue decency and dignity, thanks to ghostly visitations from the farming families who once inhabited an idyllic village here, “thick with bamboo”. Sora Kim-Russell’s translation moves gracefully between gritty, whiffy realism and folk-tale spookiness.

In “The Impossible Fairy Tale”, Han Yujoo also casts an uncanny cloak of dreams over a South Korean childhood. This, for all its middle-class, apartment-block milieu, is the more unsettling novel. In the incantatory, sing-song prose of an elementary-school book or a bedtime story, the first part introduces the nameless, abused “Child”, with her pitiable “white, red, black and blue body”. Racked by an overwhelming sense of pain, she graduates from classroom pranks to the killing of pampered Mia, the girl who “more or less has everything”. Accursed, “Child” then returns to haunt, perhaps even to become, the author, who explores the writer’s complicity with the sins, and sufferings, of her creatures: “I didn’t kill you. I only forced you to kill.” Janet Hong, the translator, proves adept with both the skin-prickling horror of the novel’s first half, and the second half’s dark night of the literary soul.

Body talk

The rise of performance art

At this year's biggest art events, a medium once political and difficult is now exciting and even beautiful

Jun 22nd 2017 | BASEL, KASSEL AND MÜNSTER

IN THE medieval town hall of the small Westphalian city of Münster, Alexandra Pirici, a young Romanian artist, prepares to tell a story. Word has gone out that she has something special to say; people have been queuing for hours to get in. As things get under way, her six performers give short occasional statements: how long since the shooting of a man crossing the Berlin Wall, how far to the edge of our galaxy. The actors use their bodies to create shapes reminiscent of collapsing monuments, commemorative sculptures and famous posters, moving among the rooms of the Rathaus, singing all the while. The audience is mesmerised. This is a piece of performance art at Skulptur Projekte Münster (SPM), a festival that takes place once a decade, designed to present cutting-edge contemporary sculpture, though this is not sculpture in the conventional sense. The artist describes the performers as "human search engines".

This year SPM coincides with a series of other events that together provide a unique snapshot of contemporary art. Documenta, considered by many to be the critical centre of the contemporary-art world, takes place in Kassel every five years (this year it presented an early version in Athens in April). In 2017 art-lovers have also had the choice of the Venice Biennale as well as Art Basel in Switzerland, the most important modern and contemporary-art fair. All five shows this year are placing an emphasis on performance.

Performance art is over 100 years old. Until recently, though, it was a niche activity. In the early decades of the 20th century, the Italian Futurists saw their work as a way to reach a mass audience directly. The Dadaists borrowed heavily from popular culture, including cabaret and music-hall.

But performance art is most associated with the conceptualism of the 1960s and 1970s, in which the idea was more important than the execution. And New York has been the centre of modern performance since those grungy beginnings, when Vito Acconci notoriously masturbated, heard but unseen, for eight hours a day under a wooden ramp at the Sonnabend Gallery.

Performa, a biennial festival in New York devoted to performance art, is now considered a must-see. Marina Abramovic, probably the most famous living performance artist after Ai Weiwei, hopes to set up a permanent teaching institute in upstate Hudson. It will fill a gap: few art schools teach performance. And the Shed, a centre for performance and other experimental art forms, will open in the Chelsea district in New York in 2019.

Early modern performance art was political—inspired by the Vietnam war, the civil-rights movement, the 1968 riots and a second wave of feminism. And many artists, especially those disillusioned with the art market, made it intentionally difficult. As Carolee Schneemann, an American feminist artist, wrote: “In 1963, to use my body as an extension of my painting-constructions was to threaten the psychic territorial power lines by which women were admitted to the Art Stud Club.”

But the work that propelled performance from minority to mainstream came out of that difficult tradition. In 2010 Ms Abramovic put on a piece called “The Artist is Present” at the Museum of Modern Art (MoMA) in New York. She sat motionless in a chair for seven hours a day and invited members of the public to sit opposite and gaze into her face. Fully 700 hours later, she had faced 1,400 people from minutes to whole days, while 500,000 more looked on. Millions have watched a video of the moment when her former lover, a performance artist named Ulay with whom she made many of her early works, turned up unexpectedly. Both struggled to contain their tears.

Historical parallels help explain the resurgent interest in performance. The Futurists and Dadaists were preoccupied with machines, while today's artists focus on computers. Some also see comparisons between the turbulence of the 1970s and today's instabilities. Documenta deals explicitly with such political themes. In Kassel a small group of visitors was roped together and instructed to communicate with a group in Athens while the rest looked on. Designed to make the participants think about "them" and "us", power relationships and the difficulty of communication, it proved unexpectedly stressful for those inside the cordons.

Into the now

As performance art becomes more popular, it is changing. Many are embracing elements of dance, film, theatre and sculpture, even street theatre and rap music. "Performance art was stuck in the 1970s: protest, people cutting themselves," RoseLee Goldberg, the founder of Performa, said last year. "Some years ago I wondered: why don't we have visually dazzling, emotional and intellectually challenging performance? Why does everything have to be a single gesture performed on the Lower East Side?"

Since then Shirin Neshat, Doug Aitken, Matthew Barney and Ms Abramovic have all produced lavish, powerful works. In 2011 Ragnar Kjartansson, an Icelandic artist, presented "Bliss" at Performa. A re-enactment of the final aria of Mozart's "Marriage of Figaro" performed repeatedly by ten opera singers and a small orchestra for 12 hours, it cemented his reputation as an artist generating unusual excitement. One of the highlights of Basel this year was a work (pictured) by Than Hussein Clark, an emerging artist. The performance mixed theatre, dance, sound and poetry in a 1930s modernist church. Some visitors, enchanted, stayed for the full four hours.

Collecting, showing and restaging performance art is still difficult. Bob Rennie, a Canadian collector, needed 279 athletes to show Martin Creed's

Work No. 850 ("Runners") for three months to the public in his private museum. But such art adds much-needed life and a social dimension to galleries and museums. Klaus Biesenbach, the curator who staged Ms Abramovic's MoMA show, says that performance art looks different to younger people used to filming the world around them, and constantly posting and checking social media to see what else has happened. "It is one of the reasons that even at art fairs, performance-, participation- and time-based art has become part of the norm," he believes. As artists explore the full range of possibilities—from single gesture to Wagner-style "total theatre"—a new, largely analogue medium has emerged to speak to today's digital age.

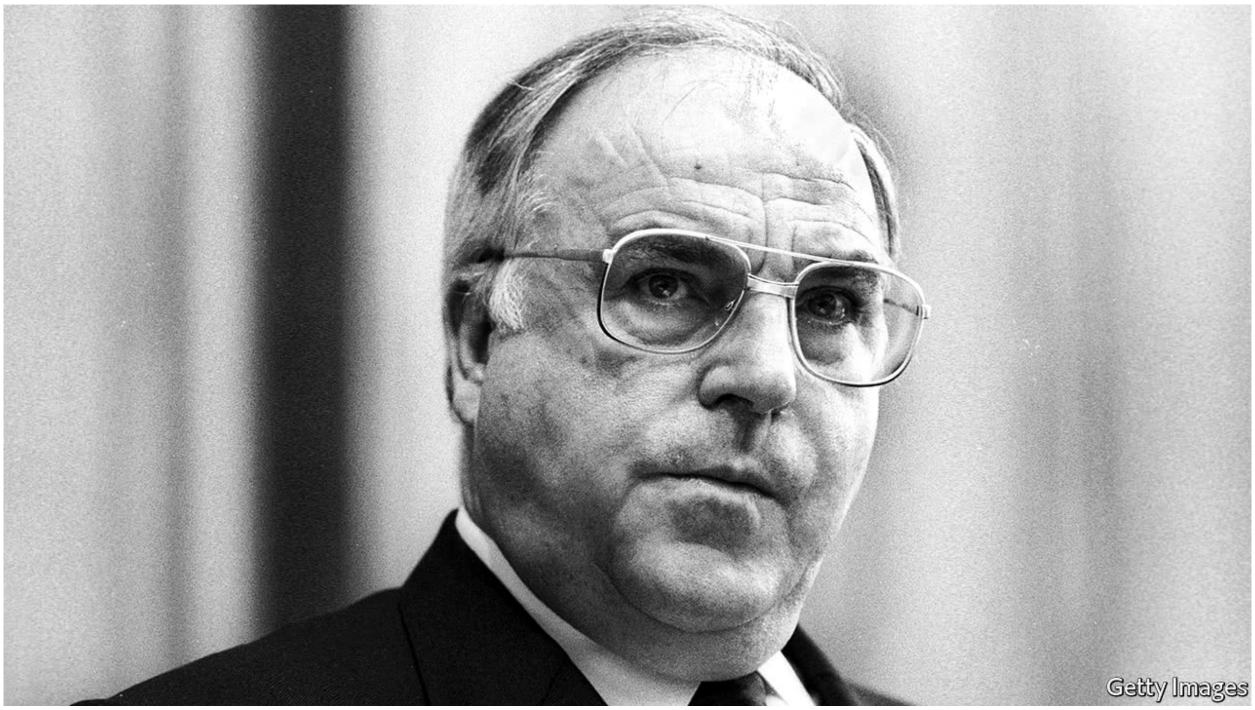
Obituary

- **Helmut Kohl: Germany’s helmsman** [Fri, 23 Jun 09:03]

Germany’s helmsman

Obituary: Helmut Kohl died on June 16th

The man who steered his country through reunification was 87



Jun 24th 2017

HE WAS just 15 when the war ended. The first Americans he met gave him sweets. Had the war gone on longer, he would have been fighting them.

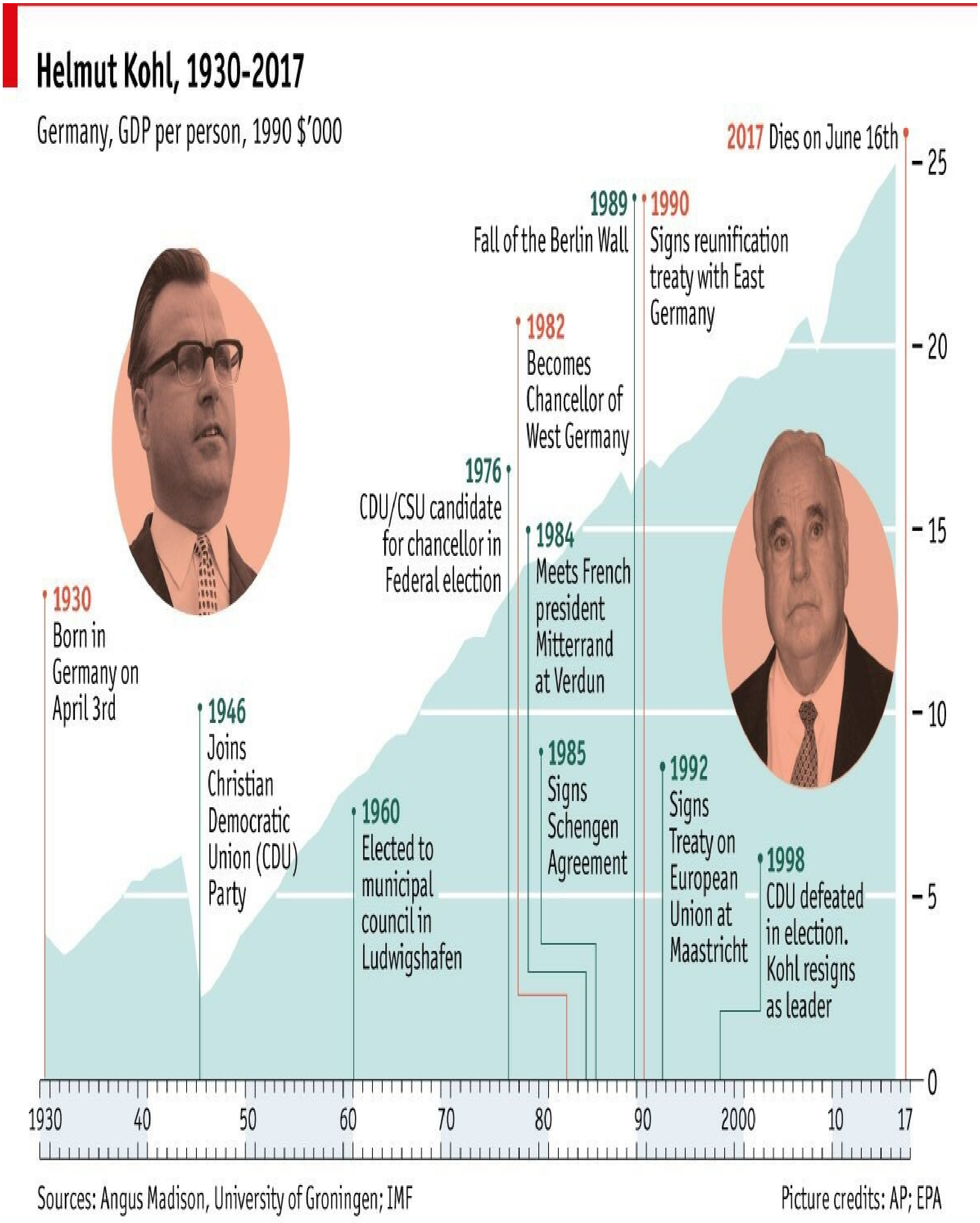
Helmut Kohl was always conscious of his good luck in having missed all that —*die Gnade der späten Geburt*, the mercy of a late birth, was how he put it to the Israeli Knesset in 1984. In that sense he was Germany’s first truly post-war politician. His predecessors were all personally burdened by its history: Konrad Adenauer was a political prisoner under Hitler; Ludwig Erhard risked persecution; Kurt Kiesinger was a Nazi Party member; Willy Brandt was in Swedish exile, and Helmut Schmidt fought on the eastern front.

The career politician from the Rhineland was another matter. His times pushed him neither to heroism nor to villainy. But they offered plenty of scope for his ambition, cunning and vision. His formative experience was the post-war economic miracle, the *Wirtschaftswunder*. West Germany went from ruins to riches, and from being a defeated pariah to a trusted ally. Mr Kohl's task, when he took over the federal chancellery in 1982, was to finish the job. When he left office in 1998, Germany was reunited, and friends—for the first time—with every neighbour. The capital was about to move from sleepy Bonn to imperial Berlin. Russian forces had pulled out of Europe and NATO had offered membership to Poland, the Czech Republic and Hungary. Europe's single currency, the euro, was a done deal. Only ten years earlier, any of that would have seemed the wildest fantasy. And in every one of those changes Mr Kohl played a decisive role.

His giant girth was much mocked: his nickname was *die Birne* ("the Pear"). But people underestimated him at their peril. His unabashed provincialism grated with modern-minded Germans who expected their politicians to be cerebral, cultured and cosmopolitan. He spoke no foreign language, and some said his German was poor, too. He displayed only a token interest in art, music and literature. His personal life was fraught: his long-suffering wife Hannelore committed suicide in 2001. Outside politics, his main interest was food: solid German fare, and plenty of it. Asked if anything interrupted his sleep, he said it was night-time forays to the fridge.

But none could match him on tactics, whether inside his Christian Democratic Union or on the wider political stage. An early flash of genius came in the run-up to the 1980 election, when he stepped aside from the contest to make way for his brainy Bavarian rival, Franz-Joseph Strauss. The man from Munich suffered a thumping defeat—clearing the way for Mr Kohl to take over as conservative leader. In 1982 he expertly split Mr Schmidt's coalition, winning the election which followed. His hold lasted for the next 16 years.

He took over a troubled country. The Baader-Meinhof terrorists had shattered West Germany's self-image of tolerance and stability. Mr Kohl's son Walter was an indirect victim: intrusive security meant he never had a normal childhood, he said in a miserable, caustic memoir. West Germany was divided over defence (whether to accept American medium-range nuclear missiles) and about nuclear power. Social changes, especially feminism, were shaking up society, while the division of Germany seemed eternal.



But Mr Kohl exuded certainty. He bulldozed his way through assorted scandals. Pursuing his own *Ostpolitik*, he shocked diehard anti-communists by inviting East Germany's leader, Erich Honecker, to visit. European integration was his passion, marked by a notable bond with France's president, François Mitterrand; the two men held hands at a commemoration of the slaughter at Verdun. Yet all such efforts were framed by the central and unshakable alliance with America. He invited Ronald Reagan to honour Germany's war dead at a military cemetery—a step too far, many thought, when it turned out that some SS men were buried there too.

Only with Margaret Thatcher could he strike no chord. When she was holidaying in his favourite lakeside resort he cut short a meeting, pleading "unbreakable commitments". Walking down the street later, Britain's leader saw Mr Kohl in a café, busy only with a large cream cake. Their relationship never recovered.

Too big a slice

His political skills were not always matched by judgment. Power politics with the Kremlin was his forte, not dealing with dissidents. Many in the ex-communist world, perhaps unfairly, found him remote and unsympathetic. He insisted that East Germans' worthless money should be swapped for Deutschmarks at a ratio of one for one. That was popular at first, but soon destroyed both the easterners' competitiveness and their jobs. The euro was a political masterstroke, but he ignored warnings, prescient in retrospect, that a common currency needed common political foundations. Gerhard Schröder, his Social Democrat nemesis, inherited (and reformed) an ossified German economy.

Although he made Germany into Europe's leader, he disliked the controversy it provoked. He later disowned his protégée Angela Merkel—*das Mädchen* ("the girl"), as he called her. "She is making my Europe *kaputt*," he complained, with unfeigned proprietorial anguish.

Economic and financial indicators

Output, prices and jobs

Jun 24th 2017

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment rate, %
	latest	qtr*	2017†	2018†	latest	latest	year ago	2017†	
United States	+2.0 Q1	+1.2	+2.2	+2.4	+2.2 May	+1.9 May	+1.0	+2.2	4.3 May
China	+6.9 Q1	+5.3	+6.7	+6.3	+6.5 May	+1.5 May	+2.0	+2.1	4.0 Q1§
Japan	+1.3 Q1	+1.0	+1.4	+1.0	+5.7 Apr	+0.4 Apr	-0.3	+0.6	2.8 Apr
Britain	+2.0 Q1	+0.7	+1.6	+1.3	-0.8 Apr	+2.9 May	+0.3	+2.7	4.6 Mar††
Canada	+2.3 Q1	+3.7	+2.2	+2.1	+5.4 Mar	+1.6 Apr	+1.7	+1.9	6.6 May
Euro area	+1.9 Q1	+2.3	+1.8	+1.6	+1.4 Apr	+1.4 May	-0.1	+1.6	9.3 Apr
Austria	+2.3 Q1	+5.7	+1.8	+1.6	+3.3 Mar	+1.9 May	+0.6	+1.9	5.5 Apr
Belgium	+1.6 Q1	+2.6	+1.5	+1.7	+2.6 Mar	+1.9 May	+2.2	+2.2	6.8 Apr
France	+1.0 Q1	+1.8	+1.4	+1.6	+0.6 Apr	+0.8 May	nil	+1.3	9.5 Apr
Germany	+1.7 Q1	+2.4	+1.8	+1.7	+2.8 Apr	+1.5 May	+0.1	+1.7	3.9 Apr‡
Greece	+0.8 Q1	+1.8	+1.0	+1.8	+1.1 Apr	+1.2 May	-0.9	+1.3	22.5 Mar
Italy	+1.2 Q1	+1.8	+1.0	+0.9	+1.0 Apr	+1.4 May	-0.3	+1.5	11.1 Apr
Netherlands	+3.4 Q1	+1.8	+2.2	+1.8	+2.3 Apr	+1.1 May	nil	+1.3	6.1 May
Spain	+3.0 Q1	+3.3	+2.8	+2.3	-10.2 Apr	+1.9 May	-1.0	+2.1	17.8 Apr
Czech Republic	+3.9 Q1	+5.4	+3.0	+2.6	-2.5 Apr	+2.4 May	+0.1	+2.3	3.3 Apr‡
Denmark	+3.1 Q1	+2.4	+1.5	+1.6	-5.6 Apr	+0.8 May	+0.1	+1.1	4.3 Apr
Hungary	+4.2 Q1	+5.4	+3.4	+3.5	+2.3 Apr	+2.1 May	-0.2	+2.8	4.6 Apr§††
Norway	+2.6 Q1	+0.9	+1.8	+2.1	-5.1 Apr	+2.1 May	+3.4	+2.4	4.6 Apr‡‡
Poland	+4.4 Q1	+4.5	+3.6	+3.3	+9.1 May	+1.9 May	-0.9	+2.0	7.5 May§
Russia	+0.5 Q1	na	+1.4	+1.7	+5.7 May	+4.1 May	+7.3	+4.2	5.2 May§
Sweden	+2.2 Q1	+1.7	+2.6	+2.4	+0.8 Apr	+1.7 May	+0.6	+1.6	7.2 May§
Switzerland	+1.1 Q1	+1.1	+1.4	+1.6	-1.3 Q1	+0.5 May	-0.4	+0.5	3.2 May
Turkey	+5.0 Q1	na	+2.9	+3.0	+5.9 Apr	+11.7 May	+6.6	+10.2	11.7 Mar§
Australia	+1.7 Q1	+1.1	+2.6	+3.0	-0.8 Q1	+2.1 Q1	+1.3	+2.2	5.5 May
Hong Kong	+4.3 Q1	+2.9	+3.0	+2.2	+0.2 Q1	+2.0 May	+2.6	+1.6	3.2 May‡‡
India	+6.1 Q1	+7.2	+7.2	+7.6	+3.1 Apr	+2.2 May	+5.8	+4.6	5.0 2015
Indonesia	+5.0 Q1	na	+5.2	+5.4	+6.4 Apr	+4.3 May	+3.3	+4.2	5.3 Q1§
Malaysia	+5.6 Q1	na	+5.2	+4.8	+4.1 Apr	+3.9 May	+2.0	+4.0	3.4 Apr§
Pakistan	+5.7 2017**	na	+5.7	+5.3	+9.8 Apr	+5.0 May	+3.2	+4.8	5.9 2015
Singapore	+2.7 Q1	-1.3	+2.6	+2.0	+6.7 Apr	+0.4 Apr	-0.5	+1.3	2.2 Q1
South Korea	+3.0 Q1	+4.3	+2.7	+2.6	+1.7 Apr	+2.0 May	+0.8	+1.9	3.6 May§
Taiwan	+2.6 Q1	+3.8	+2.3	+1.2	-0.6 Apr	+0.6 May	+1.2	+0.5	3.8 May
Thailand	+3.3 Q1	+5.2	+3.5	+2.6	-1.7 Apr	nil May	+0.5	+0.8	1.3 Apr§
Argentina	+0.3 Q1	+4.3	+2.5	+3.0	-2.5 Oct	+24.0 May‡	na	+24.3	9.2 Q1§
Brazil	-0.4 Q1	+4.3	+0.6	+2.3	-4.5 Apr	+3.6 May	+9.3	+4.1	13.6 Apr§
Chile	+0.1 Q1	+0.7	+1.6	+2.4	-4.2 Apr	+2.6 May	+4.2	+2.8	6.7 Apr§‡‡
Colombia	+1.1 Q1	-0.9	+2.0	+2.7	-6.8 Apr	+4.4 May	+8.2	+4.2	8.9 Apr§
Mexico	+2.8 Q1	+2.7	+1.9	+2.1	-4.4 Apr	+6.2 May	+2.6	+5.5	3.6 Apr
Venezuela	-8.8 Q4~	-6.2	-7.0	-3.0	na	na	na	+590.5	7.3 Apr§
Egypt	+3.8 Q4	na	+3.5	+4.2	+12.9 Apr	+29.7 May	+12.3	+22.5	12.0 Q1§
Israel	+3.9 Q1	+1.2	+3.6	+4.1	+4.2 Apr	+0.8 May	-0.8	+1.0	4.4 Apr
Saudi Arabia	+1.7 2016	na	-0.5	+2.3	na	-0.7 May	+4.1	+2.2	5.6 2016
South Africa	+1.0 Q1	-0.7	+1.0	+1.7	-0.2 Apr	+5.4 May	+6.2	+5.7	27.7 Q1§
Estonia	+4.4 Q1	+3.3	+2.3	+2.7	+9.5 Apr	+3.3 May	-0.9	+3.1	5.6 Q1§
Finland	+3.6 Q1	+4.7	+1.2	+1.3	+3.1 Apr	+0.8 May	+0.3	+1.1	10.7 May§
Iceland	+5.0 Q1	-7.2	+4.6		na	+1.7 May	+1.7		1.9 May§
Ireland	+7.2 Q4	+10.2	+4.0	+3.2	-1.1 Apr	+0.2 May	nil	+0.5	6.4 May
Latvia	+4.0 Q1	+7.6	+2.7	+3.0	+9.6 Apr	+2.8 May	-0.8	+2.5	9.4 Q1§
Lithuania	+3.9 Q1	+5.8	+3.3	+3.2	+8.0 May	+3.4 May	+0.5	+3.2	7.3 May§
Luxembourg	+3.8 Q4	+5.5	+4.1		+3.4 Apr	+1.7 May	nil		5.9 Apr§
New Zealand	+2.0 Q1	+0.9	+3.1	+2.3	+1.9 Q1	+2.2 Q1	+0.4	+2.2	4.9 Q1
Peru	+2.1 Q1	-0.5	+3.0	+2.9	-2.3 Apr	+3.0 May	+3.5	+3.3	6.2 Apr§
Philippines	+6.4 Q1	+4.5	+6.5	+5.6	+5.9 Apr	+3.1 May	+1.6	+3.1	5.7 Q2§
Portugal	+2.8 Q1	+4.2	+2.4	+1.6	-1.2 Apr	+1.5 May	+0.3	+1.9	10.1 Q1§
Slovakia	+3.1 Q1	+1.9	+3.1	+3.4	-3.2 Apr	+1.1 May	-0.9	+1.6	7.4 May§
Slovenia	+5.3 Q1	na	+2.9	+2.3	+1.4 Apr	+1.5 May	-0.4	+1.9	9.8 Apr§
Ukraine	+2.5 Q1	-3.8	+2.0	+1.6	-6.2 Apr	+13.5 May	+7.5	+13.0	1.3 May§
Vietnam	+6.2 2016	na	+6.3	+6.5	+7.2 May	+3.2 May	+2.3	+4.0	3.4 2015

Source: Haver Analytics. *% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. §Not seasonally adjusted. ‡New series. ~2014 **Year ending June. ††Latest 3 months. ‡‡3-month moving average.

Trade, exchange rates, budget balances and interest rates

Jun 24th 2017

Trade, exchange rates, budget balances and interest rates

	Trade balance	Current-account balance		Currency units, per $		Budget balance	Interest rates	
	latest 12 months, $bn	latest 12 months, $bn	% of GDP 2017†	Jun 21st	year ago	% of GDP 2017†	3-month latest	10-year gov't bonds, latest
United States	-774.7 Apr	-449.3 Q1	-2.6	-	-	-3.5	1.29	2.16
China	+458.9 May	+170.1 Q1	+1.6	6.83	6.58	-4.0	4.69	3.50§§
Japan	+50.6 Apr	+188.4 Apr	+3.6	112	105	-5.1	nil	0.04
Britain	-175.0 Apr	-115.7 Q4	-3.4	0.79	0.68	-3.6	0.32	1.07
Canada	-14.4 Apr	-48.4 Q1	-2.8	1.33	1.28	-2.7	0.85	1.49
Euro area	+276.0 Apr	+384.8 Apr	+3.0	0.90	0.89	-1.4	-0.33	0.26
Austria	-4.6 Mar	+6.6 Q4	+2.3	0.90	0.89	-1.3	-0.33	0.50
Belgium	+24.9 Apr	-2.0 Dec	+1.0	0.90	0.89	-2.3	-0.33	0.58
France	-61.8 Apr	-27.1 Apr	-1.2	0.90	0.89	-3.1	-0.33	0.61
Germany	+269.1 Apr	+272.5 Apr	+8.1	0.90	0.89	+0.5	-0.33	0.26
Greece	-18.9 Apr	-0.7 Apr	-1.1	0.90	0.89	-1.3	-0.33	5.61
Italy	+52.7 Apr	+45.5 Apr	+2.2	0.90	0.89	-2.3	-0.33	1.90
Netherlands	+58.8 Apr	+64.8 Q4	+8.8	0.90	0.89	+0.7	-0.33	0.47
Spain	-23.5 Apr	+26.2 Mar	+1.6	0.90	0.89	-3.3	-0.33	1.38
Czech Republic	+18.4 Apr	+1.4 Q1	+0.9	23.6	24.0	-0.5	0.30	0.90
Denmark	+9.1 Apr	+25.2 Apr	+7.8	6.68	6.60	-0.6	-0.23	0.52
Hungary	+10.9 Mar	+6.3 Q1	+3.7	278	279	-2.5	0.15	2.95
Norway	+21.0 May	+22.4 Q1	+5.5	8.54	8.31	+4.1	0.88	1.54
Poland	+2.6 Apr	-1.2 Apr	-0.8	3.81	3.91	-2.8	1.53	3.19
Russia	+103.3 Apr	+34.9 Q1	+2.8	59.5	64.1	-2.2	11.3	8.13
Sweden	-2.2 Apr	+22.0 Q1	+4.8	8.77	8.25	+0.3	-0.51	0.45
Switzerland	+38.4 Apr	+70.6 Q4	+9.7	0.97	0.96	+0.2	-0.73	-0.15
Turkey	-59.8 May	-33.2 Apr	-4.5	3.53	2.90	-2.4	13.0	10.4
Australia	+17.0 Apr	-25.0 Q1	-1.5	1.32	1.34	-2.0	1.94	2.39
Hong Kong	-56.5 Apr	+14.9 Q4	+6.6	7.80	7.76	+1.5	0.77	1.35
India	-122.4 May	-15.2 Q1	-1.2	64.5	67.5	-3.2	6.25	6.43
Indonesia	+12.4 May	-14.6 Q1	-1.7	13,319	13,263	-2.0	6.97	6.79
Malaysia	+19.2 Apr	+6.6 Q1	+1.4	4.29	4.03	-3.0	3.42	3.90
Pakistan	-33.0 May	-7.2 Q1	-3.1	105	105	-4.5	6.13	8.20†††
Singapore	+46.8 May	+59.0 Q1	+19.0	1.39	1.34	-1.0	na	1.99
South Korea	+86.9 May	+93.0 Apr	+6.0	1,144	1,157	+0.7	1.36	2.14
Taiwan	+14.6 May	+69.1 Q1	+12.3	30.5	32.3	-0.8	0.66	1.08
Thailand	+15.9 Apr	+42.3 Q1	+11.8	34.0	35.2	-2.4	1.26	2.33
Argentina	+0.9 Apr	-15.0 Q4	-2.7	16.4	13.9	-5.7	18.0	na
Brazil	+57.0 May	-19.8 Apr	-1.3	3.33	3.40	-7.7	9.61	10.1
Chile	+4.2 May	-5.0 Q1	-1.4	664	676	-2.2	0.27	4.03
Colombia	-12.3 Apr	-11.9 Q1	-3.8	3,053	2,980	-3.2	5.97	6.50
Mexico	-9.2 Apr	-22.0 Q1	-2.5	18.1	18.6	-2.3	7.20	6.96
Venezuela	-36.2 Oct~	-17.8 Q3~	-0.6	10.1	9.99	-19.6	14.6	10.4
Egypt	-33.4 Apr	-18.0 Q1	-5.8	18.1	8.88	-9.3	19.4	na
Israel	-12.1 May	+11.7 Q1	+4.2	3.54	3.86	-2.5	0.14	2.06
Saudi Arabia	+43.4 2016	-24.9 Q4	+2.0	3.75	3.75	-7.3	1.78	3.68
South Africa	+2.6 Apr	-7.9 Q1	-3.5	13.1	14.7	-3.2	7.33	8.58
Estonia	-2.0 Apr	+0.6 Apr	+1.7	0.90	0.89	-0.4	-0.33	na
Finland	-3.1 Apr	-2.0 Apr	-0.8	0.90	0.89	-1.8	-0.33	0.32
Iceland	-1.1 May	+1.6 Q1	+5.9	105	123	+1.0	4.90	na
Ireland	+52.1 Apr	+14.4 Q4	+4.4	0.90	0.89	-0.8	-0.33	0.75
Latvia	-2.3 Apr	+0.4 Apr	-0.4	0.90	0.89	-1.1	-0.33	na
Lithuania	-2.7 Apr	nil Q1	-1.6	0.90	0.89	-1.0	-0.33	0.75
Luxembourg	-6.5 Mar	+2.7 Q1	+4.3	0.90	0.89	+1.2	-0.33	na
New Zealand	-2.5 Apr	-5.8 Q1	-3.1	1.38	1.40	+0.6	1.94	2.80
Peru	+3.7 Apr	-3.8 Q1	-1.5	3.27	3.29	-2.7	1.38	na
Philippines	-26.9 Apr	-0.4 Mar	+0.4	50.3	46.4	-2.8	2.06	4.64
Portugal	-12.5 Apr	+2.0 Apr	+0.1	0.90	0.89	-1.8	-0.33	2.94
Slovakia	+3.8 Apr	-0.5 Apr	-0.8	0.90	0.89	-1.6	-0.33	1.05
Slovenia	nil Mar	+3.0 Apr	+5.2	0.90	0.89	-1.6	-0.33	na
Ukraine	-2.8 Apr	-3.1 Q1	-4.2	26.0	24.9	-3.0	12.5	na
Vietnam	-1.9 May	+8.5 2016	-0.7	22,726	22,301	-5.5	4.80	5.68

Source: Haver Analytics. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. ~2014 §§5-year yield. †††Dollar-denominated bonds.

| Section menu | Main menu |

The Economist commodity-price index

Jun 24th 2017

The Economist commodity-price index

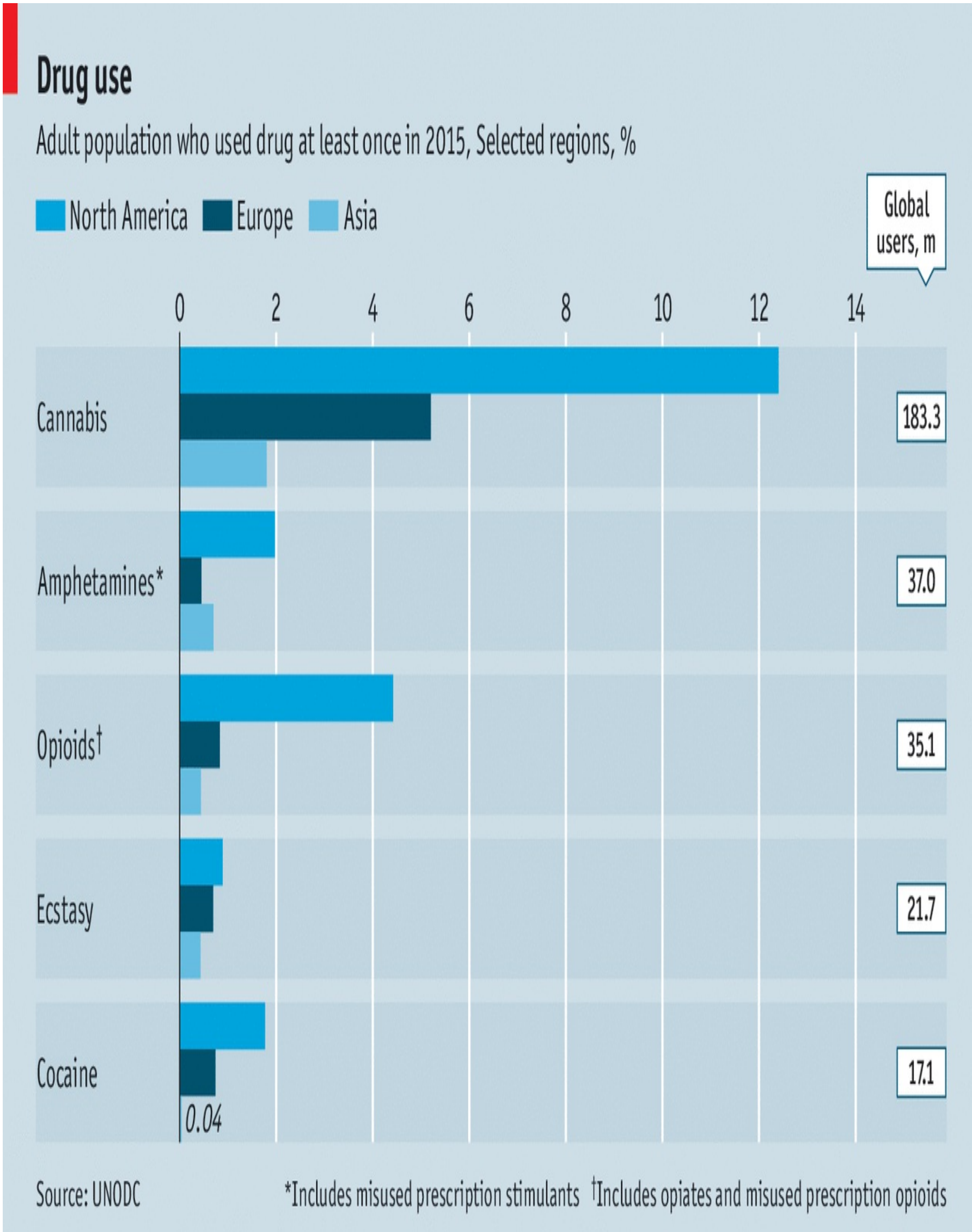
2005=100

	Jun 13th	Jun 20th*	% change on one month	% change on one year
Dollar Index				
All Items	141.1	141.2	-1.4	+0.7
Food	153.7	153.4	-0.6	-8.9
Industrials				
All	128.0	128.6	-2.4	+15.8
Nfa†	131.2	129.5	-4.7	+8.1
Metals	126.6	128.2	-1.3	+19.5
Sterling Index				
All items	201.6	203.6	+1.5	+17.1
Euro Index				
All items	156.5	157.8	-0.5	+2.0
Gold				
$ per oz	1,263.7	1,242.8	-1.4	-2.2
West Texas Intermediate				
$ per barrel	46.5	43.5	-15.5	-11.2

Sources: Bloomberg; CME Group; Cotlook; Darmenn & Curl; FT; ICCO; ICO; ISO; Live Rice Index; LME; NZ Wool Services; Thompson Lloyd & Ewart; Thomson Reuters; Urner Barry; WSJ. *Provisional
†Non-food agriculturals.

Drug use

Jun 24th 2017



Economist.com

In 2015 some 255m people used drugs at least once, according to the UN Office on Drugs and Crime. Of these around 30m, or 0.6% of the world's adult population, suffered from drug-use disorders such as drug dependency. Opioids are used less than some other drugs (cannabis comes top), but they are the most harmful, accounting for 70% of global health problems attributed to drug-use disorders. In America more people die from misuse of opioids than from road-traffic accidents or violence. Cocaine use appears to have increased in North America and Europe, as has the quantity seized: globally, 864 tonnes of cocaine were impounded in 2015, the largest amount on record.

Markets

Jun 24th 2017

Markets

	Index Jun 21st	% change on one week	% change on Dec 30th 2016 in local currency	in $ terms
United States (DJIA)	21,410.0	+0.2	+8.3	+8.3
United States (S&P 500)	2,435.6	-0.1	+8.8	+8.8
United States (NAScomp)	6,234.0	+0.6	+15.8	+15.8
China (SSEA)	3,305.5	+0.8	+1.7	+3.5
China (SSEB, $ terms)	324.1	+0.9	-5.2	-5.2
Japan (Nikkei 225)	20,138.8	+1.3	+5.4	+10.1
Japan (Topix)	1,611.6	+1.2	+6.1	+10.9
Britain (FTSE 100)	7,447.8	-0.4	+4.3	+6.9
Canada (S&P TSX)	15,148.5	-0.1	-0.9	nil
Euro area (FTSE Euro 100)	1,215.8	+0.1	+9.3	+15.5
Euro area (EURO STOXX 50)	3,554.4	+0.2	+8.0	+14.1
Austria (ATX)	3,110.3	-0.7	+18.8	+25.5
Belgium (Bel 20)	3,869.9	-0.8	+7.3	+13.4
France (CAC 40)	5,274.3	+0.6	+8.5	+14.6
Germany (DAX)*	12,774.3	-0.2	+11.3	+17.5
Greece (Athex Comp)	823.3	+2.8	+27.9	+35.1
Italy (FTSE/MIB)	21,071.9	+0.5	+9.6	+15.7
Netherlands (AEX)	520.5	-0.2	+7.7	+13.8
Spain (Madrid SE)	1,083.9	-0.2	+14.9	+21.4
Czech Republic (PX)	995.0	-0.5	+8.0	+17.1
Denmark (OMXCB)	917.5	+0.2	+14.9	+21.3
Hungary (BUX)	35,945.2	-0.1	+12.3	+18.5
Norway (OSEAX)	767.8	-1.6	+0.4	+1.2
Poland (WIG)	61,162.2	+1.3	+18.2	+29.4
Russia (RTS, $ terms)	973.3	-4.0	-15.5	-15.5
Sweden (OMXS30)	1,641.7	+0.1	+8.2	+12.0
Switzerland (SMI)	8,985.6	+1.5	+9.3	+14.0
Turkey (BIST)	99,390.1	-0.2	+27.2	+26.8
Australia (All Ord.)	5,703.2	-2.7	-0.3	+4.4
Hong Kong (Hang Seng)	25,694.6	-0.7	+16.8	+16.1
India (BSE)	31,283.6	+0.4	+17.5	+23.6
Indonesia (JSX)	5,818.5	+0.4	+9.9	+11.1
Malaysia (KLSE)	1,775.6	-0.9	+8.2	+13.1
Pakistan (KSE)	45,474.5	-4.5	-4.9	-5.3
Singapore (STI)	3,201.8	-1.6	+11.1	+15.4
South Korea (KOSPI)	2,357.5	-0.6	+16.3	+22.8
Taiwan (TWI)	10,349.7	+2.8	+11.8	+18.3
Thailand (SET)	1,577.0	nil	+2.2	+7.7
Argentina (MERV)	20,614.4	-2.7	+21.8	+17.4
Brazil (BVSP)	60,761.7	-1.9	+0.9	-1.3
Chile (IGPA)	23,818.3	-2.5	+14.9	+15.8
Colombia (IGBC)	10,665.5	-1.4	+5.5	+3.8
Mexico (IPC)	48,983.5	-0.6	+7.3	+21.9
Venezuela (IBC)	121,418.1	+12.0	+283.0	na
Egypt (EGX 30)	13,376.4	-0.9	+8.4	+8.5
Israel (TA-100)	1,296.6	+0.3	+1.5	+10.3
Saudi Arabia (Tadawul)	7,334.9	+7.0	+1.3	+1.4
South Africa (JSE AS)	51,402.7	-0.2	+1.5	+6.3
Europe (FTSEurofirst 300)	1,527.2	+0.3	+6.9	+12.9
World, dev'd (MSCI)	1,920.0	-0.5	+9.6	+9.6
Emerging markets (MSCI)	1,006.5	-0.7	+16.7	+16.7
World, all (MSCI)	465.6	-0.6	+10.4	+10.4
World bonds (Citigroup)	924.4	-1.0	+4.6	+4.6
EMBI+ (JPMorgan)	822.4	-0.9	+6.5	+6.5
Hedge funds (HFRX)	1,234.7§	nil	+2.6	+2.6
Volatility, US (VIX)	10.8	+10.6	+14.0	(levels)
CDSs, Eur (iTRAXX)†	55.5	-2.9	-23.1	-18.8
CDSs, N Am (CDX)†	62.9	+7.0	-7.2	-7.2
Carbon trading (EU ETS) €	4.9	-1.4	-25.7	-21.5

Sources: IHS Markit; Thomson Reuters. *Total return index.
†Credit-default-swap spreads, basis points. §June 20th.