The Economist

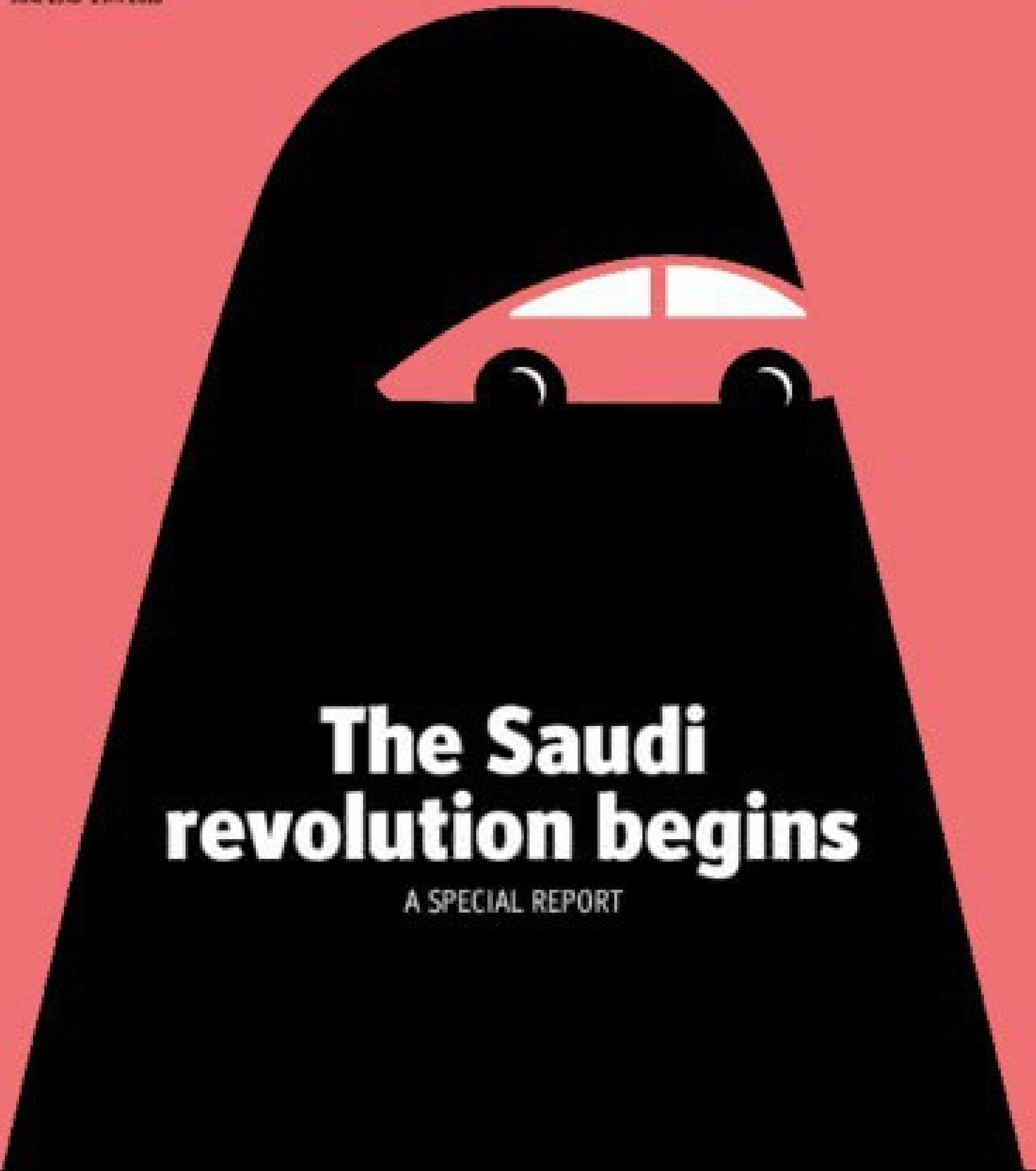
JUNE 23RD–29TH 2018

Britain in the grip of Podsnappery

AMLO, Mexico's answer to Donald Trump

Would a trade war wreck the economy?

China's super-cities



The Saudi revolution begins

A SPECIAL REPORT

The Economist

2018-06-23

The world this week

Politics this week

Jun 21st 2018

Donald Trump signed an executive order allowing the children of **illegal immigrants** to stay with their parents in detention centres if caught crossing the Mexican border. Previously, under the White House's "zero-tolerance" policy for illicit border-crossing, there had been a sharp rise in families being forcibly split up. Pictures of tearful children torn from their parents provoked an outcry, though a poll found that a small majority of Republicans supported the policy. Amnesty International said officials had intentionally inflicted "severe mental suffering" on the migrants. See article.

The director of the **FBI**, Christopher Wray, said his agency would not repeat the mistakes uncovered in a report by the Justice Department's internal watchdog, which criticised the handling of investigations into Hillary Clinton and Donald Trump during the election in 2016. Among other things, it found that James Comey, then the FBI chief, had broken policy by making the investigation into Mrs Clinton's e-mail server public, but that he had not acted with political bias.

Paul Manafort, Mr Trump's former campaign manager, was sent to jail by a judge after he allegedly tried to sway the testimony of two witnesses at his forthcoming trail on a range of charges, which include money-laundering. He had been on bail ahead of the trial.

America withdrew from the UN **Human Rights Council**, a body that includes China, Cuba, the Democratic Republic of Congo and other paragons of virtue. Nikki Haley, America's ambassador to the UN, said the body protected abusers of human rights and was a "cesspool of political bias", especially against Israel. The council's supporters retort that the council does some good, and that if democracies such as America pull out it will probably do less. See article.

If at first you don't succeed

New talks were held to try to end **South Sudan's** five-year civil war. It is the first time the two key leaders in the conflict have met in two years. All previous attempts to broker a peace deal have failed.

Israeli jets struck 25 targets in **Gaza** linked to Hamas. The strikes were in response to almost 50 projectiles fired at Israel, said the Israeli military. See article.

The UN said that war crimes were committed by forces loyal to the regime of Bashar al-Assad in the Eastern Ghouta region of **Syria**. The UN is still investigating whether chemical weapons were used in an attack on rebels in Douma.

The World Health Organisation said that the **Ebola** outbreak in the Democratic Republic of Congo has largely been contained, but officials warned against complacency.

Hello Duque

Iván Duque, a conservative who opposes parts of the peace agreement between **Colombia's** government and the FARC guerrilla group, won the country's presidential election. He took 54% of the vote in a run-off, defeating Gustavo Petro, a far-left former mayor of Bogotá. See article.

Masaya, a town near Managua, **Nicaragua's** capital, declared that it no longer recognises the presidency of Daniel Ortega and will govern itself. At least three people were killed in an operation to regain control of the town. More than 170 people have died in protests since April. Mediators from the Catholic church suspended negotiations between the government and the opposition because the government refused to allow foreign human-rights observers into the country.

Canada's parliament voted to legalise the recreational use of cannabis. The law regulates its cultivation, sets limits on possession and prohibits marketing that would encourage consumption. When it takes effect in October, Canada will be the second country in the world, after Uruguay, to make it legal to puff marijuana for pleasure.

Europe's critical point

A political crisis rocked **Germany**. The alliance between Angela Merkel's Christian Democrats and its more conservative Bavarian sister party, the

CSU, looked as if it might break down over how to handle migrants. Mrs Merkel seems to have won two more weeks to solve the problem. See article.

Italy's interior minister, Matteo Salvini, called for a census of Roma. He threatened to deport Roma who are not Italian citizens, but said that "unfortunately" those Roma who were Italian would be allowed to stay. See article.

The **Hungarian** parliament passed a law that would send anyone who helps illegal immigrants, including lawyers who assist asylum-seekers, to prison for a year. The nationalist government calls migrants a security threat. There are hardly any of them in Hungary, but many passed through on their way to Germany in 2015.

The British government fended off another attempt by Remainers to ensure that MPs have the final decision should the **Brexit** talks end with no deal. The government won a vote in Parliament by 319 to 303 votes after giving further assurances that MPs would have a "meaningful vote". One Tory Remainer said that meant a "real say". Brexiteers said nothing had changed and MPs would get no say. See article.

Mounting trouble

India's ruling Hindu-nationalist Bharatiya Janata Party pulled out of an alliance with the People's Democratic Party in **Kashmir**, prompting the state government to collapse. Kashmir's governor, who is appointed by the BJP-led central government, will assume control of the state. Separately, unknown attackers murdered Shujaat Bukhari, one of Kashmir's most respected journalists.

New Zealand's prime minister, Jacinda Ardern, has given birth to her first child, a baby girl. She will now take six weeks of maternity leave, during which her duties will be performed by the deputy prime minister. She is only the second elected leader in modern history to give birth in office. The first was Benazir Bhutto, a prime minister of Pakistan, in 1990.

Kim Jong Un’s makeover continued with a two-day visit to China, where the **North Korean** dictator was hailed as a leader trying to develop his impoverished nation. Mr Kim, who keeps babies in prison camps and has had members of his own family killed, attended a banquet hosted by Xi Jinping, China’s president. The pair discussed Mr Kim’s recent summit with Donald Trump, which was held in Singapore.

Business this week

Jun 21st 2018

The prospect of an all-out **trade war** between America and China became real. Donald Trump said he would impose tariffs on $50bn of Chinese goods, because Beijing was not dealing with American complaints about stealing intellectual property. China responded in kind by announcing penalties on $50bn of American goods, which prompted Mr Trump to threaten to levy additional tariffs on goods worth $400bn. See article.

Taking the war seriously

Global **stockmarkets** took fright at the trade news, none more so than in China. The Shanghai Composite fell by 4% in a day to its lowest level in 20 months. The Shenzhen Composite dropped by 6%. Yi Gang, the governor of the **People's Bank of China**, said investors should "stay calm and rational". The central bank pumped 200bn yuan ($31bn) into financial institutions, followed by a smaller intervention, to ensure they remain liquid. See article.

Oil prices swung up and down in part because of China's plan to target tariffs at American energy supplies. Investors were also jittery ahead of an **OPEC** meeting on June 22nd to discuss whether to increase oil production after an 18-month freeze in output.

Germany's central bank cut its forecast of the country's economic growth rate this year to 2%, from 2.5%. The Bundesbank thinks the "external environment" is driving up uncertainty in the German economy.

Mario Draghi hinted that the **European Central Bank** could restart its bond-buying programme if economic conditions deteriorate, just days after the bank announced that it would phase out its purchasing of assets. The ECB's president emphasised that interest rates would remain ultra-low until at least September 2019. The ECB is to halve the amount of assets it buys each month to €15bn ($17bn) from this September and will end all purchases in December.

MSCI, a company that designs stockmarket indices, said that **Argentina** would return to its emerging-market index in 2019 after an absence of ten years. That should lower the country's borrowing costs and increase investment in its stock and bond markets, a boost for Argentina, which is battling a run on the peso and has had to turn to the IMF for help. Saudi Arabia will also be added to the MSCI emerging-market index for the first time.

Chasing the Fox

Disney raised its bid for the bulk of **21st Century Fox's** assets to $71bn, almost half of which is in cash and the rest in shares. That tops an unsolicited rival all-cash offer of $65bn from Comcast.

The White House announced that Kathy Kraninger would be nominated to head the **Consumer Financial Protection Bureau**, a bugbear for Republicans ever since its creation as part of the Dodd-Frank reforms. The agency is being led by Mick Mulvaney, who is also the head of the White House budget office, where Ms Kraninger currently works. Some (mostly Democrats) questioned Ms Kraninger's appointment, claiming that—as a White House insider—she lacks the experience to run an independent office.

The flow of European **venture capital** hit its highest level for a decade last year, according to Invest Europe, a trade association for the industry. Of the €6.4bn ($7.2bn) in investments, 45% went to information and communications startups and 23% to biotech and health care.

In the biggest banking merger in Britain in a decade, **CYBG**, the owner of Clydesdale and Yorkshire banks, agreed to pay £1.7bn ($2.3bn) for **Virgin Money**. The deal creates Britain's sixth-largest bank.

Ford and **Volkswagen** said that they were talking about a "strategic alliance" which could see them develop commercial vehicles together. Ford also unveiled plans to create a hub for electric and autonomous cars, technologies where it has lagged behind its rivals.

Rupert Stadler, the chief executive of **Audi**, Volkswagen's luxury brand, was sent to jail in Germany while a judge looked into allegations that he might try to interfere with an investigation into VW’s emissions cheating. He is the most senior executive at the VW group to have been arrested over the scandal.

General Electric was booted out of the Dow Jones Industrial Average. The company had been on the index of 30 share prices continuously since 1907 and was one of its original components in 1896. It is replaced by Walgreens Boots, a pharmacy chain. GE was the most valuable American company in 2000, but its share price has halved over the past year owing to a difficult restructuring process.

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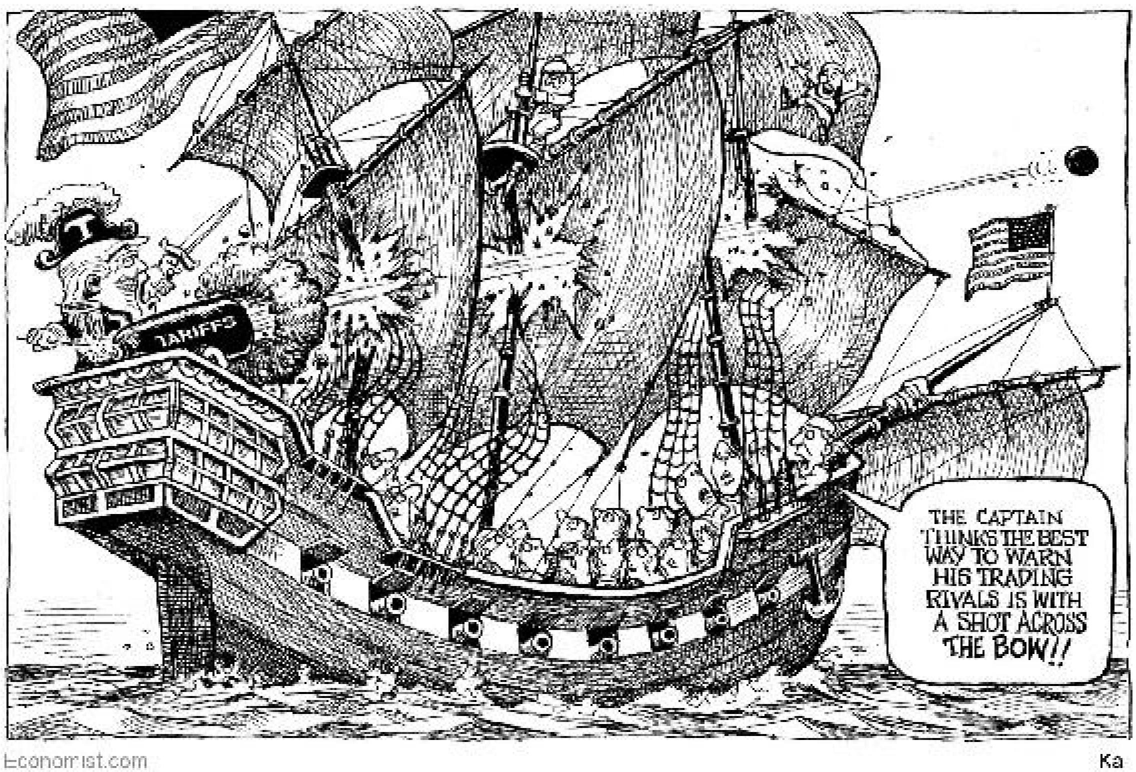
KAL’s cartoon



Jun 21st 2018

Leaders

Andrés Manuel López Obrador

AMLO, Mexico's answer to Donald Trump

How scared should the world be of Mexico's likely next president?

Jun 23rd 2018

THESE days Mexicans agree on two things. Their football team's victory over Germany on June 17th was magnificent. And the elections on July 1st will be the most important in decades. The front-runner for the presidency, Andrés Manuel López Obrador, leads a coalition called "Juntos haremos historia" ("Together we will make history"). His opponents fear that he will achieve just that, in a bad way.

Mr López Obrador, who has run for the presidency twice before, has a folksy air of incorruptibility that enchants many Mexicans. He promises a "radical revolution". Some hear that as a threat. Mr López Obrador has at times opposed the measures earlier governments have taken to modernise the economy. His critics liken him to Hugo Chávez, whose "Bolivarian revolution" has brought ruin to Venezuela. The nationalist populism he offers is unlike anything Mexico has seen since the early 1980s. And if the polls are right, he will win.

With that, Latin America's second-biggest country will join a clutch of democracies where electorates have rebelled against the established order. What is about to happen in Mexico feels akin to the election of Donald Trump in America, Britain's vote to leave the European Union and Italy's turn towards populism. It may be repeated in Brazil, where the front-runner to win the presidency in October is Jair Bolsonaro, who speaks viciously about gay people but warmly of military rule.

The causes of popular anger vary. In Latin America, as elsewhere, voters are furious at elites they regard as corrupt, ineffectual and condescending. Just as American populists decry the "swamp" in Washington and Brazilians are aghast at the filth of their political class, Mr López Obrador fulminates against the "mafia of power" that he claims controls Mexico.

A leap into the unknown

The charismatic leaders who ride these resentments to power are almost always false prophets, promising security and prosperity even as they erode their foundations. The danger they pose to new democracies is greater than in more deeply rooted ones. Mr Trump is constrained by Congress, an independent judiciary, a free press and a bureaucracy with a long tradition of following the law. Mr López Obrador, by contrast, will govern a country that has been democratic only since 2000, and where corruption is widespread and growing worse. The next president's main job should be to reinforce the institutions that underpin a modern economy, democracy and above all the rule of law. The risk with Mr López Obrador, who will be the first non-technocratically minded president in 36 years, is that he will do precisely the opposite (see Briefing).

Mexican technocracy has had its successes. Orthodox economic policies have ensured relatively steady if unspectacular growth since the 1990s. Thanks to the North American Free-Trade Agreement (NAFTA) with the United States and Canada, which took effect in 1994, Mexico is the world's fourth-biggest exporter of motor vehicles. The outgoing president, Enrique Peña Nieto, opened energy and telecoms to competition and is trying to impose higher standards on a failing school system. Alas, progress has been slower than politicians promised and is uneven. Mexico's south, where a quarter of the population lives, has ox-drawn ploughs rather than assembly lines. By

Mexico’s own measure, nearly 44% of its citizens are poor.

The main source of Mexicans’ discontent is not inequality but crime and corruption, which have run riot under Mr Peña. The murder rate has broken a record set in 2011. The ruling party has seen countless scandals. It emerged that Mr Peña’s wife’s $7m home had belonged to a government contractor. In an ordinary election, Mexicans would ditch Mr Peña’s Institutional Revolutionary Party and turn back to the conservative National Action Party. But after its last crime-ridden years in power, from 2006 to 2012, they are fed up with that, too. They want change, which Mr López Obrador certainly offers.

The firebrand from Tabasco

What sort of change remains to be seen. The biography that beguiles his supporters is replete with danger signals. Time and again he has shown contempt for the law. He has urged people not to pay their electricity bills. After he lost in 2006 his supporters proclaimed him the “legitimate president” and blocked Mexico City’s main street for weeks. He has said that the courts should be an instrument of “popular sentiment”.

His supporters say he has matured, and that his record as Mexico City’s well-liked mayor from 2000 to 2005 shows that he was always pragmatic. He has made his peace with NAFTA and no longer talks of reversing the energy reform. He promises to run a disciplined budget, to respect the independence of the central bank and not to raise taxes. Some of his ideas, like a nationwide apprenticeship programme, make sense.

But he seems to have little idea how a modern economy or democracy works. He disparages independent institutions, such as the supreme court. He talks of making Mexico self-sufficient in food and of building oil refineries, which are unlikely to make business sense. His ideas are simplistic. He wants to halve the salaries of senior officials, including the president, and to subject himself to a recall referendum every two years. Though personally clean, he has formed alliances with politicians who are anything but. He denounces Mr Peña’s education reform, which offers poor children a chance of a brighter future. Yes, Mr López Obrador has reinvented himself, but as a bundle of contradictions.

That makes his presidency a risky experiment. The financial markets might tame a López Obrador government. But a congressional majority for his party might equally encourage radicalism. It might go well if, say, he curbs corruption or stands up to America over trade. More likely, progress will remain elusive. Mexico cannot stop graft without the institutions Mr López Obrador scorns. And with protectionists at the helm in its two biggest member-states, NAFTA could well collapse. That would further poison relations with the United States, possibly imperilling co-operation over drugs and immigration. We worry about Mr López Obrador's presidency, but wish him luck. If he fails, worse may follow.

Time to go

Turkey’s president deserves to lose on June 24th

Failing that, voters should at least elect a parliament that can check him

Jun 21st 2018

WHAT does a president have to do to destroy the trust of Turks? Debauching the currency, poisoning relations with Europe and America, locking up tens of thousands of innocent people, muzzling the press, reigniting a civil war and fiddling with the constitution to gain the powers of a sultan surely ought to be enough. Recep Tayyip Erdogan has done all that and more in recent years. When voters cast their ballots in presidential and parliamentary elections on June 24th, they should show him the door of his vast new palace in Ankara.

There was much to admire in Mr Erdogan when his Justice and Development (AK) party first took power in 2002. He showed that an Islamist party could govern with moderation; women in Turkey are free to wear what they like. The economy has boomed. GDP has more than doubled, and the results, in terms of roads, bridges and, above all, plentiful and cheap housing, are plain for all to see. The army was tamed, Kurdish-language rights were recognised and accession talks to join the European Union began in 2005.

But power rots leaders. As he becomes more autocratic, Mr Erdogan is reversing his own achievements (see article). Artificially low interest rates have caused a slump in the lira (down 55% in the past four years), pushed inflation up to double digits and led firms to overload themselves with debt. After a period of breakneck growth, a hard landing seems imminent. The war against Kurdish militants has resumed, both in the south-east of the country and across the border in Syria. As relations with NATO and the EU deteriorate, Mr Erdogan has struck up an alliance of convenience with Russia.

The vicious attempted coup of July 2016 deserved to fail. But Mr Erdogan's revenge has been indiscriminate and disproportionate. Some 110,000 people have lost their jobs in the army, schools and the bureaucracy; more than 50,000 people were arrested, of whom 35,000 have been convicted. Taking advantage of a climate of fear and a state of emergency, Mr Erdogan pushed through a constitutional reform that turns Turkey from a parliamentary to a presidential system, greatly reducing the power of the legislature to check a now-mighty president, ie, himself. These changes were approved by a close referendum in 2017, amid credible allegations of cheating.

A vote for pluralism

For all these reasons, Mr Erdogan should go. Who should replace him is less obvious. Of the alternatives, Selahattin Demirtas, the leader of the HDP, the main Kurdish party, is impressive but has no chance of winning—not just because he is a Kurd in a country that mistrusts them, but also because he is campaigning from behind bars, having been jailed on trumped-up terrorism charges. On balance, Muharrem Ince, a former teacher who now represents Kemal Ataturk's old party, the CHP, is the best option. Despite the CHP's statist instincts, Mr Ince is a strong-minded and decent candidate. He has made a point of visiting Mr Demirtas in prison; as the child of observant Muslims, he could win over some AK voters.

Polls suggest that Mr Ince will find it hard to win even if he can force Mr Erdogan into a run-off on July 8th. That makes the parliamentary ballot especially important. There is a good chance that AK (and a smaller ally) will lose its majority. For that to happen, though, the HDP will have to clear a 10% threshold or it will get no seats at all. Voters should opt for it wherever they can. Even if Mr Erdogan wins re-election, an opposition-controlled chamber will be able to speak out against his abuses, block his decrees and perhaps reverse his constitutional changes. Any checks and balances are better than none. To stop the sultan, Turkey needs an effective opposition.

Don't crash it

Could a trade war derail global growth?

Rising tariffs are the worst of many threats to the world economy

Jun 21st 2018

LOOK at the headlines, and you would struggle to believe that the global economy is in good health. President Donald Trump continues to fire off volleys in his inchoate trade war, throwing financial markets into turmoil and drawing retaliation. The Federal Reserve is raising interest rates—an activity that usually ends in a recession in America. Tighter credit and a rising dollar are squeezing emerging markets, some of which, such as Argentina, are under severe stress.

Yet the world economy is thriving. Growth has slowed slightly since 2017, but still seems to be beating the languid pace set in the five years before that. America may even be speeding up, thanks to Mr Trump's tax cuts and spending binge. A higher oil price, which in past economic cycles might have been a drag, is today spurring investment in the production of American shale. Some forecasts have growth exceeding 4% in the second quarter of 2018.

This sugar rush, however, brings dangers. The first is that it provides temporary political cover for Mr Trump's recklessness. The second is that, if America accelerates and the rest of the world slows, widening differentials in interest rates would push up the dollar still more. That would worsen problems in emerging markets and further provoke Mr Trump by making it harder for him to achieve his goal of balanced trade.

The trade war is the biggest threat to global growth (see article). On June 15th the White House confirmed that a 25% tariff on up to $50bn of Chinese imports would soon go into effect. Three days later, after China promised to retaliate, the president expanded, by as much as $400bn, the other goods America is threatening to tax. If he follows through, nine-tenths of roughly $500bn-worth of goods imported from China each year will face American levies. Meanwhile, the European Union is poised to impose retaliatory tariffs in response to America's action against EU steel and aluminium. No wonder markets have caught the jitters.

I'll see you and erase you

The president is unafraid of escalating trade disputes because he believes he has a winning hand. America buys from China almost four times as much as it sells there, limiting China's ability to match tariffs. The White House hopes this imbalance will lead China to yield to its demands, some of which (cutting the theft of American firms' intellectual property) are more reasonable than others (shrinking the bilateral trade deficit).

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But Mr Trump overestimates his bargaining power. If China runs out of American goods to tax, it could raise existing tariffs higher. Or it could harass American firms operating in China. More important, the president's mercantilism blinds him to the damage he could inflict on America. He thinks it is better not to trade at all than to run a trade deficit. This folly also dictates his tactics towards Canada, Mexico and the EU. Mr Trump could yet withdraw from the North American Free-Trade Agreement and slap tariffs on cars.

The problem is not that America depends on trade. In fact, it is a big enough free-trade area for the eventual damage to GDP, even from a fully fledged trade war, to be limited to a few percentage points (smaller, specialised economies are more dependent on trade and would suffer a lot more). Such self-inflicted harm would impose a pointless cost on the average American household of perhaps thousands of dollars. That would be bad, but it would hardly be fatal.

The bigger issue is the vast disruption that would occur in the transition to more autarky. America’s economy is configured for designing iPhones, not assembling their components; the innards of its cars and planes cross national borders many times before the final product is ready. Faced with tariffs, firms have to redirect labour and capital to replace imports.

Some analysts attribute Mr Trump’s presidency to the economic shock from trade with China after 2000. The turmoil caused by reversing globalisation would be just as bad. One estimate puts American job losses from a trade war at 550,000. The hit to China would also be severe. Any adjustment would be prolonged by Mr Trump’s unpredictability. Without knowing whether tariffs might rise or fall, what company would think it wise to invest in a new supply chain?

It is difficult to imagine such a realignment without a global recession. Tariffs temporarily push up inflation, making it harder for central banks to cushion the blow. The flight to safety accompanying any global downturn would keep the dollar strong, even as America’s fiscal stimulus peters out after 2019.

So be wary. The trade war may yet be contained, to the benefit of the world economy. But America is the engine of global growth. In Mr Trump, a dangerous driver is at the wheel.

Stop it

How the West's immigration policies clash with values

And why the values usually win

Jun 21st 2018

IN TEXAS an infant is separated from his mother by the federal government to deter others from coming. In the Mediterranean a boat with some 630 migrants on board is prevented from docking at an Italian port, and Italy's deputy prime minister seeks to boost his popularity by threatening to expel Roma people. In Berlin a coalition government may fall over how to handle immigration (see article). These things might look separate; in fact they are connected.

The failure to gain political consent for immigration has been implicated in the biggest upheavals in the West: Brexit, Donald Trump's victory, the grip Viktor Orban has over Hungary, the rise of the Northern League in Italy. All these events have pushed politics in a direction that is worrying for those who prefer their markets free and their societies open. This creates a painful trade-off. Resist the demands for more brutal immigration enforcement, and electorates may keep voting for candidates who thrive on blaming foreigners for everything. Accept the solutions proposed by the likes of Mr Trump (see article) or Mr Orban, and Western societies will offend against their fundamental values.

Take the White House's approach, which resulted in 2,342 children being separated from their families last month. To use children's suffering as a deterrent was wrong. It is the sort of thing that will one day be taught in history classes alongside the internment of Japanese-Americans during the second world war. To argue that the administration had to act in this way to uphold the law is false. Neither George W. Bush nor Barack Obama, who deported many more people annually than Mr Trump, resorted to separations. To claim it was necessary to control immigration is dubious. In 2000 the government stopped 1.6m people crossing the southern border; in 2016, when Mr Trump was elected, the numbers had fallen by 75%. Deterrence no doubt played its part, but prosperity and a lower birth rate in Mexico almost certainly mattered more. No wonder, after a public outcry, Mr Trump abandoned the policy.

Other examples of deterrence have fared no better. Britain's government concluded from the Brexit referendum that it should redouble efforts to create a "hostile environment" for immigrants. It ended up sending notices to people who had arrived in Britain from the Caribbean in the 1950s, ordering them to produce documents to prove they were British. The harassment, detention and deportations that followed resulted in the resignation of the home secretary. Likewise, in 2015 European governments argued that rescuing boats carrying migrants from north Africa merely encouraged more to risk that journey. Then as many as 1,200 people drowned in ten days, and Europeans were horrified at the cruelty being meted out in their name. European leaders concluded that voters were not pro-drowning after all.

Shock and awfulness

The left often concludes from this that people calling for enforcement are cruel and racist. But that is wrong, too. In principle countries must be able to secure their borders and uphold the law. In practice a policy of neglect invites a backlash that helps people like Matteo Salvini, leader of the Northern League (slogan: "Italians First"), or Horst Seehofer, Germany's interior minister, who has threatened to bring down Angela Merkel. The outrage feeds on itself. Mr Salvini wants to deport hundreds of thousands of migrants from Italy; Mr Seehofer wants to send tens of thousands of migrants to Italy.

The Platonic ideal of an immigration policy is one that has the consent of the host country. It treats migrants humanely but also firmly, swiftly returning those who arrived illegally or whose claims to asylum have failed. This is easy to prescribe but hard to enact. Courts are overstretched, many cases are hard to adjudicate and poor countries may not want their citizens back. And so rich countries tend to pay poorer ones to set up vast holding-pens for humans, as Italy does with Libya and the EU does with Turkey. This involves something which would not be tolerated at home, but is somehow acceptable because it is out of sight.

Europeans were right to condemn the separation of children. But they face a wave of migrants from their populous, poor, war-torn neighbours. When they draw up their own policies, they should remember their discomfort this week.

Off the rails

How to stop the decline of public transport in rich countries

Co-opt the competition from Uber and other app-base firms

Jun 21st 2018

TO THOSE who have to squeeze onto the number 25 bus in London, or the A train in New York, the change might not be noticeable. But public transport is becoming less busy in those cities, and in others besides. Passenger numbers are flat or falling in almost every American metropolis, and in some Canadian and European ones, too. That is despite healthy growth in urban populations and employment. Nose-to-armpit travellers may be even more surprised to hear that the emptying of public transport is a problem.

Although transport agencies blame their unpopularity on things like roadworks and broken signals, it seems more likely that they are being outcompeted (see article). App-based taxi services like Uber and Lyft are more comfortable and convenient than trains or buses. Cycling is nicer than it was, and rental bikes are more widely available. Cars are cheap to buy, thanks to cut-rate loans, and ever cheaper to run. Online shopping, home working and office-sharing mean more people can avoid travelling altogether.

The competition is only likely to grow. More than one laboratory is churning out new transport technologies and applications (see article). Silicon Valley invented Uber and, more recently, apps that let people rent electric scooters and then abandon them on the pavement. China created dockless bicycles and battery-powered “e-bikes”, both of which are spreading. Some inventions will fail, or will be regulated out of existence (at one point, Segways were the future). But new ideas, including driverless taxis, are coming around the corner. Mass transport is much less nimble. As New York’s Second Avenue subway, London’s Crossrail and Amsterdam’s North-South metro line have shown, building new train lines is now incredibly complicated and expensive.

This is a headache for the operators of public-transport systems. It is also a problem for cities. Like it or not—and many people do not—mass public transport does some things very well. It provides a service for people who are too old, too young, too poor, too fearful or too drunk to drive or ride a bike. Trains and subways cause less pollution than cars and move people at far higher densities. The danger is that public transport could become a rump service, ever less popular and ever less good, partly because of its unpopularity. Fewer passengers mean fewer trains and buses, which leads to longer waits for those who persist with them. Cars, whether driven or driverless, will clog the roads.

To some extent, that dystopian future can be seen off by pricing road use properly. Many cities, particularly in America, generously subsidise driving by forcing developers to provide lots of parking spaces. Elsewhere, cities have created congestion-charging zones. But that is a hopelessly crude tool. Most congestion zones in effect sell daily tickets to drive around as much as you like within the zone—and charge nothing to vehicles such as taxis and minicabs. It would be much better to charge for each use of a road, with higher prices for busy ones.

Transport agencies should also embrace the upstarts, and copy them. Cities tend either to ignore app-based services or to try to push them off the streets. That is understandable, given the rules-are-for-losers attitude of firms like Uber. But it is an error. Although new forms of transport often compete with old ones in city centres, they ought to complement each other in suburbs. Taxi services and e-bikes could get people to and from railway stations and bus stops, which are often inconveniently far apart outside the urban core.

She’s got a ticket to ride, but she don’t care

It is doubtful that most people make hard distinctions between public and private transport. They just want to get somewhere, and there is a cost in time, money and comfort. An ideal system would let them move across a city for a single payment, transferring from trains to taxis to bicycles as needed. Building a platform to allow that is hard, and requires much sweet-talking of legacy networks as well as technology firms—though a few cities, like Helsinki and Birmingham, in England, are trying. It is probably the secret to keeping cities moving.

The Saudi revolution begins

How to ensure Muhammad bin Salman's reforms succeed

The crown prince's boldness could transform the Arab world for the better. Failure would bring more chaos

Jun 23rd 2018

ONE Saudi cleric thundered that letting women drive would lead to immorality and a lack of virgins. Another declared that women were incapable of taking the wheel because they were half-brained. Still another drew on science, ruling that driving would damage their ovaries. Such tosh is at last being cast aside. On June 24th Saudi women will be allowed to drive their cars. That is one step towards emancipation; among the others must be an end to male "guardianship", for example, in deciding women can study or travel abroad. Yet getting women behind the wheel is a welcome blow against the idea that Islamic piety is best shown by repressing them.

Female drivers are the most visible aspect of a social revolution, one brought about not from the streets but the palace of Muhammad bin Salman, the crown prince. Cinemas have opened; music is performed in public; the killjoy morality police are off the streets. Social liberalisation is part of the crown prince’s ambition to wean the economy away from oil. But as our special report sets out, his changes come with more authoritarianism at home, and recklessness abroad. The world must hope that the bold prince triumphs over the brutish one.

Can’t buy me love

Saudi Arabia is uniquely disliked by Westerners of all political stripes. They are appalled by its sharia punishments and mistreatment of women, and scared by its Wahhabi form of Islam, which has fed gruesome jihadist ideologies such as that of Islamic State. Despite the kingdom’s wealth, businessmen would rather work in freewheeling Dubai than Riyadh. Fellow Arabs often deride Saudis as rich, lazy and arrogant.

Yet the world has a vital interest in Saudi Arabia’s fate. It is the biggest oil exporter, and home to Islam’s two holiest sites. It is central to the Gulf, the Arab region and the Islamic world. Successful reforms would help spread stability to a region in chaos, and dynamism to its economies. A more normal Saudi Arabia should moderate the Islamic world, by example and because the flow of petrodollars to zealots would slow. Failure, by contrast, could spread turmoil to the Gulf, which broadly avoided the upheaval of the Arab spring of 2011.

It is thus worrying that Saudi Arabia faces such daunting problems. Volatile oil revenues make up more than 80% of government income, the IMF reckons. Even with rising crude prices, the country is grappling with a large budget deficit. For all the gains in health and education, GDP per person has been flat for decades. Saudis work mostly in cushy government jobs. Oil wealth has hidden a woefully unproductive economy, and fuelled Islamic ultra-puritanism around the world.

To his credit, Prince Muhammad recognises that change is needed. However, he is unnecessarily adding to his task. Abroad, he has proved rash. His war against the Houthis, a Shia militia in Yemen—now centred on the battle for the port of Hodeida—has brought disease and hunger to Yemenis, a missile war over Saudi cities and embarrassment to Western allies that provide weapons and other help. Last year Saudi Arabia sullied itself by detaining the Lebanese prime minister, Saad Hariri, releasing him only under international pressure. With its main ally, the United Arab Emirates (UAE), it has led the way in isolating Qatar, a contrarian emirate, by cutting land, sea and air links (the Saudis even want to dig a canal to make the place an island). In doing so they have split the Gulf Co-operation Council, the club of oil monarchies. As the Arab cold war spreads, Iran and other foes are gaining advantage.

At home Prince Muhammad has developed a taste for repression. The number of executions has risen. More dissenters are in jail, among them, perversely, women who campaigned to drive. Everything, it seems, must be a gift from the Al Sauds: the name of the country, the oil bounty and now the right to drive a car. He has also adopted the view that all Islamists, even the non-violent offshoots of the Muslim Brotherhood, are as grave a menace as Sunni jihadists and Shia militias. Thus, the Saudis and Emiratis are leading a counter-revolution against the Arab spring and the hope of democracy. Sadly, America has all but given them carte blanche.

And the crown prince's effort to boost the private sector is strangely centralised. Even the promotion of entertainment is run by a government agency. His focus on "giga-projects", notably plans to build NEOM, a futuristic city in the north-west with separate laws, looks mega-risky. Previous attempts to carve out copycat versions of Dubai, the business and tourism hub in the UAE, have been a disappointment. The King Abdullah Financial District in Riyadh stands almost empty.

Instead of planning a dream city, the crown prince should aim to make all of Saudi Arabia a bit more like Dubai—open to the world, friendly to business, efficiently run, socially liberal, religiously tolerant and, above all, governed by a predictable system of laws. His decision to lock up hundreds of tycoons, officials and princes arbitrarily in a gilded Saudi hotel last year in an "anti-corruption campaign" frightened investors.

He should also study the UAE's federalism. The loose union of seven emirates in 1971 may be unique, but a country as large and diverse as Saudi Arabia has much to gain from devolving power. It would let different parts of the country express their identities more freely and adapt religious rules to their traditions—more relaxed in Jeddah, more strict inland in Riyadh and allowing more space for Shias in the east. It would also permit experimentation with economic reforms. Above all, it could lead to forms of local representation.

Crowning success

In carrying out his transformation, Prince Muhammad is weakening the old pillars of Al Saud rule—the princes, the clerics and the businessmen. Democracy can help him build a new base of legitimacy. The crown prince could turn his popularity among the young and women into a political force. That would help him in what is likely to be a long reign once he becomes king. Right now, he is on the road to becoming another Arab strongman. As the Arab spring showed, autocracy is brittle. Better to become a new sort of Arab monarch: one who treats his people as citizens, not subjects.

Letters

Letter to the editor

On football, Donald Trump, RBS, California, speed limits, Tom Wolfe, reincarnation


Getty Images

Jun 21st 2018

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


Davide Bonazzi

A game of two ideologies

"How to win the World Cup" (June 9th) presented the heartening conclusion that "dictatorships are rubbish at football". It would be neat if the beautiful game could only thrive in democracies. But this conclusion, which is based on data for the period between 1990 and 2018, is mistaken. Italy won two World Cups during Benito Mussolini's dictatorship in the 1930s (beating an authoritarian Hungary in 1938). Latin American countries, such as Argentina, Brazil and Uruguay, have had excellent international sides both in democratic periods and when under military dictatorship.

Countries in communist east Europe, including Hungary, whose "Golden Team" lost just one match between 1950 and 1956 (the World Cup final in 1954), Czechoslovakia (World Cup finalist in 1962), Yugoslavia and the Soviet Union (four-time finalist in the European Championship), were an equal match for any national team in democratic Western Europe. Spain under Francisco Franco won the European Championship in 1964 and produced the most dominant club team of any period, the formidable Real Madrid side that won five consecutive European Cups in the 1950s.

A study of the relationship between democracy and football performance based on data after 1990, when communism had broken down in east Europe and military dictatorships had fallen in Latin America, suffers from selection bias. The countries that do well today are by and large the same countries that did well in the interwar period and in the decades after the second world war, namely countries in Europe and southern Latin America. They have dominated football irrespective of their political stripe. Dictatorships are, alas, not necessarily rubbish at football. But the countries that are still dictatorships today are.

PROFESSOR JORGEN MOLLER
Aarhus University
Aarhus, Denmark

Summit view

Say what you want about Donald Trump—and you go on at length about his penchant for upending the post-1945 rules-based international order and its long-term consequences ("Demolition man", June 9th)—but he has succeeded in getting Kim Jong Un to the negotiating table and committing to denuclearise the Korean peninsula. Perhaps what Mr Kim needed to hear to bring him to his senses was not another carrot offered in the form of yet another international gabfest, such as the wholly ineffective six-party talks on Iran, but an American president who had the gumption to call him "rocket man" and growl that "mine's bigger than yours".

SANJIV MEHTA
Montreal

The cost of rescuing a bank

The British government paid £5.02 per share for Royal Bank of Scotland in 2008 and recently sold 925m shares at £2.71, representing a loss to taxpayers of £2.1bn, or $2.8bn ("Cut your losses", June 9th). You reported the National Audit Office's estimate that the cost of bailing out RBS was actually more like £6.25 per share. This takes the loss to taxpayers to £3.3bn. But the real loss is far greater, namely the opportunity forgone. Had the £6.25 cost per share been put instead into the FTSE all-index tracker, it would have almost doubled in value since, to £12 per share. So, the real cost to the taxpayer of the recent sale of RBS shares amounts to more than £8.6bn.

JONATHAN MICHIE

President
Kellogg College
University of Oxford

The top two

“Almost blue it” (June 9th) described California’s primary system, where the two candidates in a primary who get the most votes go on to the general election regardless of party, as “dysfunctional”. The article then proceeded to describe the primary elections in Orange County, where voters were spoiled for choice, an underfunded candidate beat his wealthy rivals, and both a Republican and a Democrat advanced to November’s general election in a district evenly split between the two parties. These are the exact kind of outcomes that California’s voters wanted when they approved the top-two system.

If you consider competition and choice dysfunctional, I hate to imagine the words you reserve for closed primaries that limit voter choice, empower special interests, and create even greater polarisation in Congress.

CONYERS DAVIS
Acting director
Schwarzenegger Institute
University of Southern California

Los Angeles

You got a fast car

I agree that the costs and benefits of speed on public roads have to be balanced, but I was surprised that your leader supporting the reduction of speed limits in France did not mention Germany ("Live fast, die fast", June 2nd). Sections of the German Autobahn have unrestricted speed limits. Its roads are as safe as its European neighbours and significantly safer than America's. This shows that governments do not have to control "humanity's love of speed" by imposing limits, but by investing in smart technology to control traffic flows and maintain roads. Enforcing the rules on safe driving and strict tests also help. Taking away a freedom should never be a model if effective alternatives exist.

MARTIN IHRIG
Associate dean
Division of business
New York University

Frenchmen who complain about reducing the speed limit should be glad they did not live in their grandfathers' time. In 1923 Rudyard Kipling took a tour of France in a chauffeur-driven Rolls-Royce, passing the time by writing "A Song of French Roads". One line celebrates how "Ninety to the lawless hour the kilometres fly”. Lawless indeed. The speed limit outside towns was then a mere 30kph.

PHILIP HOLBERTON
Kempsey, Australia

Radical chic

I enjoyed your obituary of the sartorial Tom Wolfe, in which he fixed “A proper Windsor knot!” on his tie (May 26th). But in the picture accompanying the article, Mr Wolfe used a four-in-hand knot on his tie, which tends to be longer and narrower than the Windsor. Of the two, the four-in-hand knot is actually the more traditional, having a long history associated with driving horse-carriages. The Windsor is the relatively new invention, attributed to the Duke of Windsor, who desired a wider knot with a more symmetrical appearance.

JOHN GRAVES
Houston

Reliving the future

I do not for one moment begrudge James Carville his fun in his wish to be reincarnated as the bond market, because he could then “intimidate everybody” (“Matteo Salvini’s quest for power”, June 2nd). Personally I would like to come back as the law of unintended consequences, which I suspect would be a laugh a minute.

PETER WILKINSON
Wheathampstead, Hertfordshire

Briefing

United States

Urban myths

In praise of gentrification

Accusations levelled at gentrification in America lack force, meanwhile its benefits go unsung

Jun 21st 2018 | NEW YORK, OAKLAND AND WASHINGTON, DC

GENTRIFIER has surpassed many worthier slurs to become the dirtiest word in American cities. In the popular telling, hordes of well-to-do whites are descending upon poor, minority neighbourhoods that were made to endure decades of discrimination. With their avocado on toast, beard oil and cappuccinos, these people snuff out local culture. As rents rise, lifelong residents are evicted and forced to leave. In this view, the quintessential scene might be one witnessed in Oakland, California, where a miserable-looking homeless encampment rests a mere ten-minute walk from a Whole Foods landscaped with palm trees and bougainvillea, offering chia and flax seed upon entry. An ancient, sinister force lurks behind the overpriced produce. "'Gentrification' is but a more pleasing name for white supremacy," wrote Ta-Nehisi Coates. It is "the interest on enslavement, the interest on Jim Crow, the interest on redlining, compounding across the years."

This story is better described as an urban myth. The supposed ills of gentrification—which might be more neutrally defined as poorer urban neighbourhoods becoming wealthier—lack rigorous support. The most careful empirical analyses conducted by urban economists have failed to detect a rise in displacement within gentrifying neighbourhoods. Often, they find that poor residents are more likely to stay put if they live in these areas. At the same time, the benefits of gentrification are scarcely considered. Longtime residents reap the rewards of reduced crime and better amenities. Those lucky enough to own their homes come out richer. The left usually bemoans the lack of investment in historically non-white neighbourhoods, white flight from city centres and economic segregation. Yet gentrification straightforwardly reverses each of those regrettable trends.

One in, none out

The anti-gentrification brigades often cite anecdotes from residents forced to move. Yet the data suggest a different story. An influential study by Lance Freeman and Frank Braconi found that poor residents living in New York's gentrifying neighbourhoods during the 1990s were actually less likely to move than poor residents of non-gentrifying areas. A follow-up study by Mr Freeman, using a nationwide sample, found scant association between gentrification and displacement. A more recent examination found that financially vulnerable residents in Philadelphia—those with low credit scores and no mortgages—are no more likely to move if they live in a gentrifying neighbourhood.

These studies undermine the widely held belief that for every horrid kale-munching millennial moving in, one longtime resident must be chucked out. The surprising result is explained by three underlying trends.

The first is that poor Americans are obliged to move very frequently, regardless of the circumstances of their district, as the Princeton sociologist Matthew Desmond so harrowingly demonstrated in his research on eviction. The second is that poor neighbourhoods have lacked investment for decades, and so have considerable slack in their commercial and residential property markets. A lot of wealthier city dwellers can thus move in without pushing out incumbent residents or businesses. "Given the typical pattern of low-income renter mobility in New York City, a neighbourhood could go from a

30% poverty population to 12% in as few as ten years without any displacement whatsoever," noted Messrs Freeman and Braconi in their study. Indeed, the number of poor people living in New York's gentrifying neighbourhoods barely budged from 1990 to 2014, according to a study by New York University's Furman Centre. Third, city governments often promote affordable-housing schemes, such as rent control or stabilisation, in response to rising rents.

Gentrification has been so thoroughly demonised that a mere discussion of its benefits might seem subversive. That does not make them any less real. Residents of gentrifying neighbourhoods who own their homes have reaped considerable windfalls. One black resident of Logan Circle, a residential district in downtown Washington, bought his home in 1993 for $130,000. He recently sold it for $1.6m. Businesses gain from having more customers, with more to spend. Having new shops, like well-stocked grocery stores, and sources of employment nearby can reduce commuting costs and time. Tax collection surges and so does political clout. Crime, already on the decline in American city centres, seems to fall even further in gentrifying neighbourhoods, as MIT economists observed after Cambridge, Massachusetts, undid its rent-control scheme.

Those who bemoan segregation and gentrification simultaneously risk contradiction. The introduction of affluent, white residents into poor, minority districts boosts racial and economic integration. It can dilute the concentration of poverty—which a mountain of economic and sociological literature has linked to all manner of poor outcomes, including teenage pregnancy, incarceration and early death. Gentrification steers cash into deprived neighbourhoods and brings people into depopulated areas through market forces, all without the necessity of governmental intervention. The Trump administration is unlikely to offer large infusions of cash to dilapidated cities. In these circumstances, arguing against gentrification can amount to insistence that poor neighbourhoods remain poor and that racially segregated neighbourhoods stay cut off.

What, then, accounts for the antipathy towards gentrification? The first reason is financial. Though the process has been going on for a few decades, the increased attention comes in the middle of a broader concern about the cost of housing in American cities. The share of households that are "rent burdened"—those spending more than 30% of pre-tax income on rent—has increased from 32% in 2001 to 38% in 2015. Things are worse among the poor; 52% of those below the federal poverty line spend over half their income on housing. Rents have risen dramatically, though this can be the fault of thoughtless regulations which hinder supply more than the malevolence of gentrifiers. The net creation of jobs has outpaced additional housing in New York City by a rate of two to one. In San Francisco, perhaps the most restricted American metropolitan area, this ratio is eight to one.

A second reason gentrification is disliked is culture. The argument is that the arrival of yuppie professionals sipping kombucha will alter the character of a place in an unseemly way. "Don't Brooklyn my Detroit" T-shirts are now a common sight in Motor City. In truth, Detroit would do well with a bit more Brooklyn. Across big American cities, for every gentrifying neighbourhood ten remain poor. Opposing gentrification has become a way for people to display their anti-racist bona fides. This leads to the exaggerated equation of gentrification with white supremacy. Such objections parallel those made by white NIMBYs who fret that a new bus stop or apartment complex will bring people who might also alter the culture of their neighbourhood—for the worse.

Porcini progressives

The term gentrification has become tarred. But called by any other name—revitalisation, reinvestment, renaissance—it would smell sweet. Take Shaw, a historical centre of black culture in Washington which limped into the 1970s as a shadow of itself after a series of race riots. Decades of decline followed, in which a crack epidemic caused the murder rate to spike. Today, crime is down. The O Street Market, where one person was killed and eight were injured in a shoot-out in 1994, is now a tranquil grocery store. Luxury flats with angular chairs and oversized espresso machines in the lobby have sprouted opposite liquor stores. An avant-garde speakeasy beckons from the basement beneath a humble doughnut store. At the Columbia Room, a wood-panelled bar with leather chairs, mixologists conjure $16 concoctions of scotch, blackberry shrub and porcini mushrooms. This is how progress tastes.

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The art of the empty gesture

America’s spat with the UN Human Rights Council

Which club counts Eritrea, North Korea, Iran and the USA among its members?

Jun 21st 2018 | WASHINGTON, DC

OF ALL the international arrangements President Donald Trump has forsaken, the UN Human Rights Council deserves the least sympathy. In announcing America’s withdrawal from the Geneva-based body, America’s ambassador to the UN, Nikki Haley, called it, “a protector of human-rights abusers and a cesspool of political bias.” Given that it currently includes abusers such as Congo and Venezuela among its 47 members, and is disproportionately fixated on alleged Israeli abuses, that was hard to deny. Yet America’s withdrawal will only make it harder to improve a body that has, despite its flaws, shown recent signs of promise. It also represents another small, but conspicuous, dent in America’s international leadership.

The council was formed in 2006, as the successor to the terminally discredited UN Commission on Human Rights, a body now best remembered for having had Muammar Qaddafi, Libya's then dictator, as its chairman a couple of years before its unlamented demise. The council was designed to be smaller, more orderly and more accountable. Its members are elected to three-year terms by the UN General Assembly, which can also vote, by a two-thirds majority, to remove any deemed to have committed "gross and systematic violations of human rights". Not many have been. Yet the assembly performs valuable work.

It carries out regular human-rights audits, known as "universal periodic reviews", on each UN member state. It has also sent investigators to the scene of many alleged atrocities, including recently in Burundi, Eritrea, Myanmar, North Korea and Syria. Last month the council voted to send another mission to Gaza, to investigate the killing of Palestinian protesters by Israeli troops. That was justified, notwithstanding the body's anti-Israel bias, which is symbolised by a standing agenda item on the Palestinian Territories that must be raised at every council meeting.

Moreover, under America's influence, the anti-Israel animus has been growing less evident. Between 2006 and 2009, when America last boycotted the council, at the instigation of George W. Bush, six of its 12 "special sessions" were devoted to Israel. After America rejoined, under Barack Obama, only one of the 14 or so sessions was on Israel. The lesson is clear. If America truly wanted to stand with Israel and improve the UN body, it would not now join Eritrea, Iran and North Korea in refusing to take part in it.

That suggests its decision is motivated more by Mr Trump's general aversion to international bodies. After all, he has previously talked of withdrawing from the UN altogether. Quitting the council is far short of that, but it is damaging to American leadership nonetheless. Indeed, that is especially true given the timing. Withdrawing from the world's main human-rights forum even as its president was grappling with his policy of dividing migrant children from their families is not a good look for the shining city upon a hill.

The Ford Phoenix

Ford has ambitious plans for Detroit’s most beautiful ruin

An symbol of decline will, hopefully, become one of rebirth

Jun 21st 2018 | DETROIT

DETROITERS still know how to throw a party. On June 19th more than 4,000 of the Motor City’s residents, government officials, artists, employees of Ford and members of the Ford family gathered at Michigan Central Station, a huge, dilapidated 18-floor Beaux-Arts hulk covered with graffiti, to celebrate its planned rebirth with speeches, music and poetry. Once the world’s tallest railway station, the vacant building became emblematic of the city’s descent into bankruptcy and despair. “‘The train station is dead’ meant ‘Detroit is dead’,” said Mike Duggan, the mayor of Detroit, who was among the revellers. From the moment the last train left the station in 1988, its demolition was often discussed. Then Ford struck a deal to buy what Detroiters now hope will become a symbol of the city’s rebirth.

Detroit’s comeback is still tentative. Nearly all the recovery has happened in downtown and midtown, an area covering just seven of the city’s 139 square miles. City officials hope that such a symbolic investment will direct more development westward, even beyond Corktown, Detroit's oldest neighbourhood, where the railway station stands. Once the fief of Irish Detroiters, Corktown has a few trendy places to eat, but many of its Victorian houses are abandoned. "This marks the first time where the whole renaissance of Detroit that we have seen happening downtown starts to flourish into the neighbourhoods," says Big Sean, a rapper who performed at the Ford party alongside Tracy Smith, America's poet laureate; Joshua McClendon, a Detroit-born cellist; and the Detroit Children's Choir.

Ford is making a big bet on the gargantuan ruin. The first thing the company had to work out was whether the building was even structurally sound. Bill Ford, chairman of Ford and great-grandson of Henry Ford, will not say how much the company paid or what the renovation might cost, but he insists that a budget has been set aside for such big construction projects. "We underinvested for too long in our facilities," says Mr Ford.

After surviving the recession as the healthiest of Detroit's big three carmakers, Ford is going through a rough patch. Last year Mr Ford fired Mark Fields, his chief executive, and replaced him with Jim Hackett, a former boss of Steelcase, a maker of office furniture whose previous experience in carmaking consisted of 15 months as boss of Ford's tech incubator.

Mr Hackett has announced a turnaround plan that involves cost cuts of $14bn over five years and a $1bn investment in Argo, a self-driving start up. But he has yet to persuade investors that he can transform Ford into a successful maker of electric and driverless cars while not losing sight of petrol-drinking vehicles, the company's core business. Uber, Tesla and Waymo (Alphabet's driverless-car unit) are all worth more than Ford or General Motors (GM), the other big domestic carmaker, even though they lose money, and bring in no more sales in a year than Ford or GM do in less than a month. Perhaps an alliance with Volkswagen that was announced on June 19th, at first to develop new commercial vehicles, will eventually deepen. A closer association might strengthen and energise Ford.

As well as the railway station, Ford is also spending $1bn on the redesign of the 80 buildings forming its headquarters in Dearborn, a Detroit suburb. It hopes that these two big renovation projects will help persuade shareholders that it is ready for the revolution in carmaking technologies, as well as ride-hailing and ride-sharing. Mr Ford wants Corktown to become the centre for the development of Ford's driverless and electric cars. He hopes to lure young talent away from Silicon Valley to become part of Detroit's comeback story.

Plans for the renovation are still vague, but Ford expects to use the ground floor for cafés, restaurants, shops and performance venues and to turn the higher floors into office space. The firm has been promised subsidies by the city and the state of Michigan, and has already received a few calls from potential tenants. It is planning to use half of the station's 500,000 square feet for 2,500 new and existing employees and to lease out the other half, preferably to transport start ups.

For those with long memories, this initiative has a familiar ring. Henry Ford II, grandson of the firm's founder, tried to revive the city's fortunes in 1970 with the construction of the Renaissance Centre, a group of seven interconnected skyscrapers on the riverfront. It cost around $350m to build. The skyscrapers changed ownership several times and were finally bought by GM, Ford's arch-rival, for only $72m. The experience has not deterred the Fords from trying again. "We have an emotional attachment to Detroit," explains Mr Ford, and also a sense of responsibility to the city that made Ford a household name.

He can pride himself on already accomplishing one successful reinvention in Motor City. He remade Ford's River Rouge plant, once a huge factory of belching smokestacks with its own electricity plant and integrated steel mill, into a test lab for green manufacturing methods. "What the Rouge was in the industrial age, Corktown will be to Ford in the information age," reckons Mr Hackett.

Affirmative dissatistaction

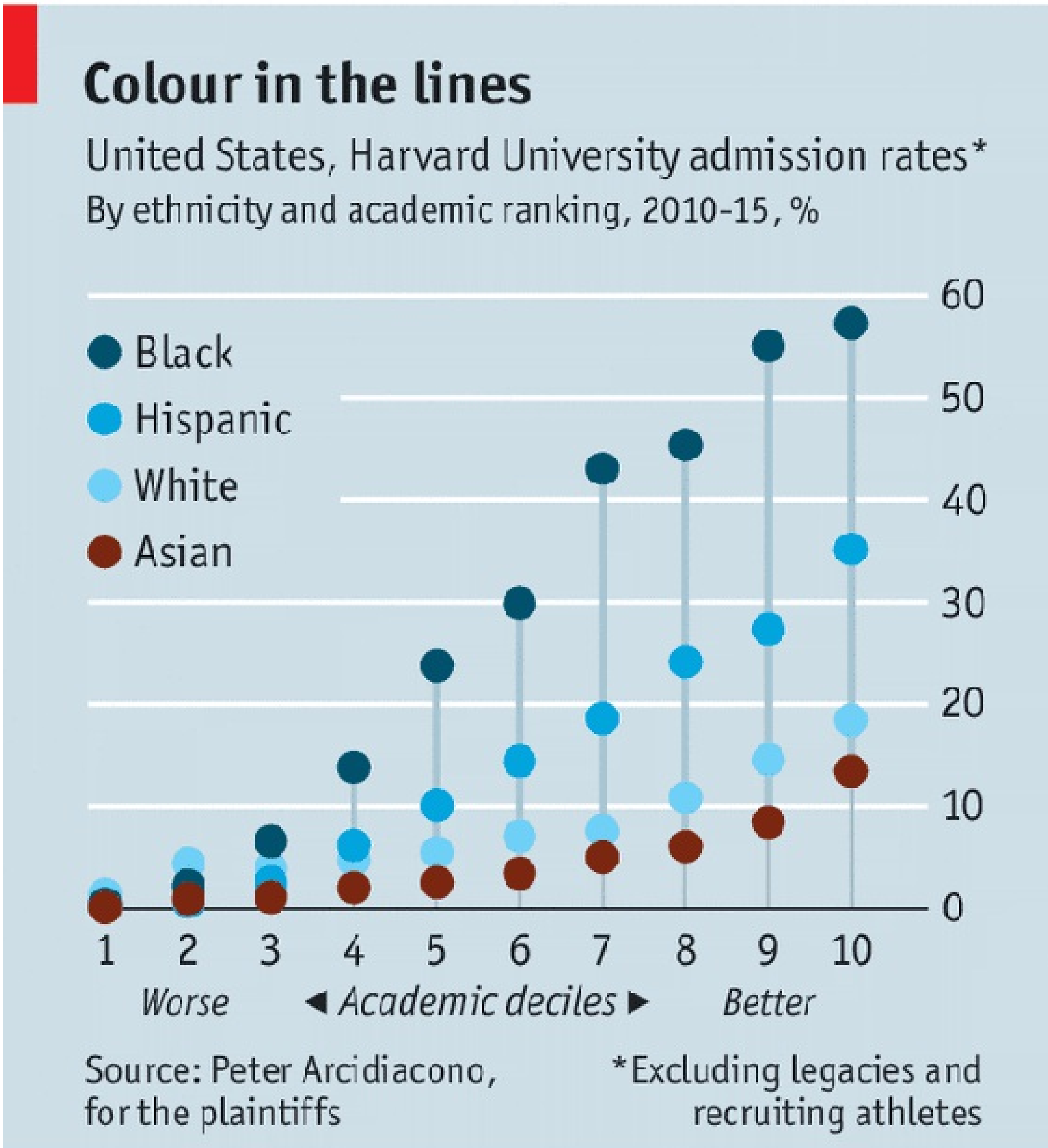
A lawsuit reveals how peculiar Harvard's definition of merit is

The university's reputation for fairness and impartiality emerges bruised

Jun 21st 2018

ABBOTT LAWRENCE LOWELL, the president of Harvard from 1909 until 1933, thought the university had too many Jews. In the first year of Lowell's presidency, they made up 10% of the student body. By 1922 their numbers had more than doubled. To address what he called "the Hebrew problem", Lowell proposed an explicit Jewish quota of 15%. When that proved controversial, he set about making "a rule whose motive was less obvious on its face" to deny admission to students suspected of being Jewish. Admission to Harvard, previously granted by meeting a clear academic cut-off, became more nebulous—based more heavily on the "character and fitness" of applicants. The new "holistic" admissions policy worked as intended, successfully suppressing Jewish admissions.

Harvard, like many of America's top universities, retains a holistic admissions process. Unlike elite universities in most other countries, American colleges do not simply select the cleverest pupils—they also take into account extracurricular activities, family wealth and race. To critics, this system still operates as an engine of unfairness, except that the victims have now become Asian-Americans, who outperform their white peers on academic measures but still face stiffer odds when applying to Ivy League colleges. Students for Fair Admissions (SFFA), an organisation founded by Edward Blum, a conservative activist opposed to race-based affirmative action, filed a lawsuit against Harvard alleging discrimination against Asian-American students in 2014. Despite a furious effort to quash the suit, Harvard was forced to turn over 90,000 pages on its tightly guarded admissions process. On June 15th both sides revealed duelling statistical analyses of admissions-decision data in court filings. Harvard's reputation for fairness and impartiality emerges bruised.



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By the admission office's own ratings, Asian-Americans rank higher than white applicants in both their academic prowess and the quality of their extracurricular activities. Yet their admission rates are much lower. For Asian-Americans in the top decile of academic skill, just 13.4% are admitted, compared with 18.5% of whites (see chart). Asians are scored much worse on another measure of applicant quality—the "personal rating"—by admissions officers. Unlike the other two metrics, personality is judged subjectively and is decided by admissions officers who have not met the applicants. The alumni who conduct in-person interviews rate Asian-Americans as highly as white applicants. To SFFA, this constitutes clear proof of discrimination.

Peter Arcidiacono, an economist at Duke University employed by the plaintiffs, built a statistical model of the effect of race on admissions. He estimates that a male, non-poor Asian-American applicant with the qualifications to have a 25% chance of admission to Harvard would have a 36% chance if he were white. If he were Hispanic, that would be 77%; if black, it would rise to 95%. Damningly for the defendants, an internal report by Harvard's research arm, obtained during discovery, reached the same conclusions. Harvard officials claim that the report was incomplete and the analysis oversimplified.

Fighting statistics with statistics, Harvard's lawyers hired David Card, a prominent labour economist at the University of California, Berkeley. His model includes factors like the quality of a candidate's high school, parents' occupations and the disputed personal rating. Under these controls, Mr Card claims that Asian-American applicants are not disadvantaged compared with whites. But given that these factors are themselves correlated with race, Mr Card's argument is statistically rather like saying that once you correct for racial bias, Harvard is not racially biased.

The duelling economists disagree because they cannot agree on what constitutes fairness. Susan Dynarski, an economist at the University of Michigan, argues that Mr Arcidiacono's model tests for racial bias in an idealised system. Mr Card's model searches for racial bias in the context of how Harvard actually operates.

For those unconvinced by fancy maths, the basic statistics also look worrying. Harvard insists that it has no racial quotas or floors, which would fall foul of Supreme Court rulings and jeopardise the university's federal funding. Yet the share of Asian-Americans it admits has stayed near 20% over the past decade. This is true even as the number of Asian-Americans in high schools has increased. Caltech, a top university without race-based affirmative action, saw its share of Asian-Americans increase dramatically over the same period.

Court filings also reveal how legacy preferences, which give significant advantages to the relatives of alumni, skew Harvard's admissions system. A suppressed internal report shows that the preference is the same size as that given to black applicants. Roughly 34% of legacy applicants are admitted—more than five times the rate of non-legacy applicants. This is tantamount to affirmative action for well-off white students. According to a survey of freshmen conducted by the *Harvard Crimson*, the college newspaper, 88% of legacy students come from families making more than $125,000 a year. Recruited athletes, which Harvard admits in droves to fill its lacrosse teams and rowing eights, are also disproportionately white. By Mr Arcidiacono's reckoning, 22% of white students are legacies and 16% are recruited athletes.

Even if Harvard does not actually discriminate against Asian-Americans, its insistence on preserving hereditary preferences undermines its case. Rakesh Khurana, the dean of Harvard College, justified the policy on the grounds that it would bring those with "more experience with Harvard" together with "others who are less familiar with Harvard". Others say that it is necessary to ensure fundraising. Aside from the moral questions this poses, it is worth noting that nearby MIT, which does not favour legacy applicants, manages to do just fine.

Still kicking

Small-town American newspapers are surprisingly resilient

Reports of their death have been greatly exaggerated

Jun 21st 2018 | LONDON, KENTUCKY

JAY NOLAN surveys his media empire from a shed-like building outside London, Kentucky. On his desk is a stack of eight newspapers, including the *Berea Citizen* (“established in 1899”, circulation 4,511), the *Mountain Advocate* (“since 1904”, circulation 4,500) and the *Pineville Sun-Cumberland Courier* (“celebrating 109 years”, circulation 1,646).

Each paper is under local management, with its own publisher and editor, but Nolan Group Newspapers owns a majority stake in all of them and prints them at its press outside London. Together, the eight papers have a combined circulation of about 25,000 and employ a dozen journalists and nine ad-sales representatives. They bring in around $2m in revenue, perhaps $3m in a good year, with a profit margin of about 10%, says Mr Nolan.

The local-newspaper business is not going to make him rich. Which is why he also owns J. Frank Publishing, which undertakes contract printing work for other newspapers and commercial clients, and produces banners and signs where margins are juicier. Mr Nolan, a third-generation newspaperman, took over the business in March, when his father retired to Florida. It is not a role he planned. After five years in the army, including deployments to Afghanistan, he returned home, initially taking a job in finance in California. "I can make a lot more money in the sign business," he says, but local newspapers are important. "If journalists aren't here, Kentucky will become as corrupt as Afghanistan."

This is a worry that animates discussion of local news in America. Circulation and ad revenue have been shrinking for years, as has the number of newsroom staff. Papers have become thinner or shut down altogether. America has lost a fifth of its newspapers since 2004.

Media-watchers worry about "news deserts", or areas without any newspapers. The mere presence of reporters at city-council meetings can help keep them straight, says Al Cross, the director of the Institute for Rural Journalism at the University of Kentucky.

Yet look beyond the headline figures, and the health of small-town newspapers may not be as bad as it appears. Fully 61% of weekly papers and 70% of dailies that have ceased publication since 2004 are in counties with more than 100,000 people. Just 20% of weeklies and 11% of dailies disappeared in counties with fewer than 30,000 people, according to researchers at the University of North Carolina (UNC). The number and variety of newspapers that continue to exist—in tiny towns with populations in four figures, at gas stations in poor rural counties, and in villages clumped near each other—give hope to even the most pessimistic observer.

There are two main reasons for the resilience of small-town newspapers. The first is that size matters. Businesses in small communities know that every reader of a local paper is a potential customer, and advertise accordingly. Newspapers in bigger cities do not enjoy this advantage. Nor are they representative of the industry. Although much attention is lavished on newspapers in metropolitan areas, they represent less than 2% of all American newspapers, according to a paper entitled "Despite losses, community newspapers still dominate the US market". Community dailies and weeklies, by contrast, account for 60% of all the papers sold.

Second, small communities rally round their newspapers in ways that bigger ones do not, with rates of loyalty twice that of readers of national or regional papers, according to research by Penelope Muse Abernathy of UNC. The *Shawangunk Journal*, published from Ellenville, New York and serving the region around it, was on the verge of shutting down when its publisher tried a new tactic: a subscription drive with an annual price of at least $55 a year and as much as subscribers could afford to give. Some people contribute as much every month, says Amberly Jane Campbell, who describes herself as "publisher, distributor, managing editor, and everything else". The paper is now back in the black. Asking for donations is an increasingly popular business model.

Small papers are not relying on goodwill alone. They are experimenting with the same things the big papers are trying, including digital advertising, events, sponsored content, glossy supplements and magazines, and price increases. Some, such as the *Sentinel-Echo* in London, are even expecting modest growth, mostly from online.

Taking the First

The survival of small-town newspapers in America is far from guaranteed. The towns they serve are growing older and thinning out as working-age Americans migrate from small towns to cities, often never to return. Mandatory advertising by local government, a significant source of revenue, is increasingly under attack as state legislatures try to save money. Tariffs on imported Canadian newsprint have raised costs. Another worrying trend is of local owners selling to big media companies as the industry consolidates, robbing local newspapers of the very thing that makes them valuable. Yet they may be "in a stronger position than their metro cousins", according to a recent report by the Tow Centre for Digital Journalism. That is crucial. As Mr Nolan puts it, "We have to have a free and vibrant press in America to be great in America." That is as true of little towns in the hills and hollows of Kentucky as it is in Washington, DC.

Lexington

A blot against America

But Donald Trump's ill-fated policy of caging children will hurt his party more than him

Jun 21st 2018

THERE is a moment in "The Plot Against America", Philip Roth's tale of America succumbing to 1930s-style authoritarianism, when the nine-year-old protagonist experiences a profound revulsion at the foibles on which wickedness thrives. "Never in my life had I so harshly judged any adult," he recalls of his Jewish aunt's preening over a brief interaction with the anti-Semitic president, Charles Lindbergh. "Nor had I understood till then how the shameless vanity of utter fools can so strongly determine the fate of others." That is as much respite as the recently deceased author, who combined a stubborn faith in America with a gloomy view of its politics, allows his reader. There is no chance of America sharing his awakening. The power of the boy's epiphany lies not only in its clarity, but also in its futility.

Roth's pessimism about the prospect of national redemption should be instructive to critics of President Donald Trump's policy of caging migrant children in isolation from their parents. They hope voters will recoil from both this ill-fated debasement of American values and its architect. But not even the policy's cancellation on June 20th will achieve that. Though America has experienced many moral corrections, from abolitionism to the civil-rights movement, they have never come in the emetic moment Mr Trump's critics pine for. The tortured issues of race and national identity that explain its dark times, as they do now, are too contested. America's moral shortcomings under Mr Trump, including his attempted Muslim ban, slashing of the refugee programme and draconian border policy, were the promises of his election campaign. There are indeed too many echoes of 2016 in this latest row for his opponents to feel triumphant.

Mr Trump entered American politics, three years ago this month, with a campaign-defining rant against Mexican "rapists" and other illegal immigrants. It was reprehensible and effective in several ways. It positioned him with voters, most of them Republicans, who worried about immigration, and against the party's patrician leaders, including his main rivals at that time, the Bush clan. It also showed, notwithstanding legitimate worries about the effect of immigration on wages, how well he understood the issue's ability to connect with the racial anxiety of America's dwindling white majority. He thereby engineered the most racially divisive election in years. Many Republicans disliked it. Yet because the Democrats are associated with the immigrant communities Mr Trump attacked, his tactic also turbocharged partisan enmity, which helped mollify them. In the run-up to what are expected to be gruelling mid-terms for Republicans, Mr Trump's family separations were an effort to dust off a winning script.

There are many clues to that, starting with the erratic ways the administration defended it. Restrictionists such as Jeff Sessions, the attorney-general, presented family separation as a deterrent against illegal crossings. Kirstjen Nielsen, the secretary of homeland security, said it was not the administration's policy. Mr Trump said it was because of a law passed by the Democrats, which is pretty much his 2016 strategy. The conservative media, now as then, tried to normalise his latest transgression with snarky jokes about what a no-big-deal it was and yet how crazy it made liberals. On Fox News, Laura Ingraham described Mr Trump's strip-lit child cages as "essentially summer camps". The president's roster of outraged critics was also the same. It consisted of Democrats, pro-immigrant groups, Hollywood celebrities and Never Trump Republicans (including Laura Bush, whose intervention was not the game-changer her admirers hoped).

With only a small majority of Republican voters in favour of the policy, it had long looked like a misstep nonetheless. Yet Mr Trump's decision to change course represents neither a disastrous retreat nor a major moral repulse. Indeed, the farrago signalled his strength as well as his weakness. Though prominent Trump supporters were unhappy with the policy, including some evangelical Christians, few blamed him for it. Franklin Graham called it "disgraceful", but blamed "politicians for the last 20, 30 years". Republicans in Congress, while working to find a legislative climbdown for the president, similarly restrained themselves. The policy's cancellation by executive decree looks more like a precautionary step by a president enjoying his best ratings since his inauguration. There may even be a modest upside for him. The row provides Republicans facing difficult mid-term contests—including Senator Ted Cruz, who tried to provide a legislative escape route—with a rare issue on which they can claim to have disagreed slightly with the president.

Mr Trump's opponents need to tread carefully. If politics were about being right, not winning arguments, Mr Trump would not be president. Most Americans want migrants to be treated humanely but, as his election showed, they also want strong borders. The ever-sprung trap Mr Trump sets his opponents is that, in feverish concern for the first, they neglect the second.

A dish best served cold

The danger for Mr Trump's Republican supporters is less immediate, but greater and perhaps insurmountable. The history of America's moral corrections suggests that what they lack in spontaneity they make up for with momentum. Democrats' opposition to the civil war cost them the presidency for over two decades. Republicans' opposition to civil rights cost them most of their non-white support, leading them to the white-identity politics from which Mr Trump is now wringing the last drop of juice.

It would be a short-term strategy, in an increasingly non-white America, even if he were a more ruthless demagogue than he is. Asked to compare Mr

Trump with his fictional villain, Roth said Lindbergh was imposing, a heroic aviator, and Mr Trump "just a con artist". His dog-whistle on immigration may sustain his presidency; it will not interrupt how America is changing. That combination spells a long-term disaster for his party.

The Americas

Duque, príncipe, presidente

Colombia’s new president will struggle to heal his country’s divisions

Iván Duque’s alliances and campaign promises will make reconciliation difficult

Jun 21st 2018 | BOGOTÁ

WHEN Colombia’s news channels declared Iván Duque the winner of the presidential election on June 17th, 45 minutes after polls closed, many Colombians were relieved. “I was terrified of Gustavo Petro,”—Mr Duque’s left-wing rival—said a woman waiting for the winner to give his acceptance speech at a convention centre in Bogotá. When Mr Duque came on stage he sought to overcome the campaign’s bitterness. He would “turn the page of polarisation”, he promised.

Mr Duque’s victory, with 54% of the vote, was comfortable. The job that awaits him, starting on August 7th, will be arduous. He campaigned as a sceptic of the peace agreement with the FARC, a guerrilla group that ended its 52-year war against the state in 2016. He must now work out how to revise the accord without pushing some former guerrillas into taking up arms. Mr Duque will have to control corruption, which fuelled the anger that gave

Mr Petro 8m votes, more than any other left-wing candidate in Colombia's history. He must speed up sluggish economic growth. And he will also have to step out of the shadow of his mentor, Álvaro Uribe, a former president who inspires as much fear and loathing as Mr Petro.

The son of a prominent politician, Mr Duque has wanted to be president since he was a child. But until six months ago few Colombians knew who he was. He began his career as a protégé of the current president, Juan Manuel Santos. As Colombia's deputy representative to the Inter-American Development Bank (IDB), Mr Duque helped lead negotiations in 2010 to increase its capital base. He did "the carpentry work of talking to every country", says Luis Alberto Moreno, who was then the IDB's president.

Mr Duque's ticket to the presidency was Mr Uribe, who fervently opposed the peace process launched by Mr Santos. They bonded when Mr Uribe, mandated by the UN to investigate an attack by Israel on a Turkish flotilla in 2010, asked Mr Duque to help. In 2014 Mr Duque was elected to the senate as a candidate of the Democratic Centre, the party Mr Uribe formed to oppose Mr Santos.

For the Democratic Centre, "Duque is a great invention," says Carlos Cortes, a political analyst. His mentor is a hate figure for many Colombians, who associate the successful offensive against the FARC during his presidency with atrocities by paramilitary groups. Mr Duque is unstained by that history. He is young, charming and sings *vallenato*, a type of Colombian folk music. Unlike some of Mr Uribe's allies, he is not under investigation for corruption or links to paramilitary groups.

He will have to prove that he is his own man without alienating Mr Uribe, who remains a powerful senator. To obtain majorities in congress, the new president will have to strike bargains with parties other than the Democratic Centre and its conservative allies.

His trickiest task will be to modify the peace accord, as demanded by the *uribistas*, without wrecking the peace itself. Their biggest objection is to the "transitional-justice" provisions, which offer lenient sentences to FARC members if they confess to their crimes. Ten members of the FARC, now a political party, will be able to take their seats in congress before they serve any prison time. While the accord says the government should co-operate with farmers to replace coca, the raw material for cocaine, with legal crops, Mr Duque wants to return to the practice, ended by Mr Santos, of fumigating coca from the air.

In his victory speech Mr Duque promised not to tear up the deal, bits of which are part of the constitution. His government will see to it that "justice and security are suitable sisters", he said. But his notion of justice contradicts that of the FARC's leaders. Old and war-weary, they are unlikely to return to jungle hideouts. But Mr Duque's confrontation with the group may add to the growing number of FARC "dissidents" who refuse to accept the accord. They are fighting the ELN, another guerrilla group, and the Clan del Golfo, a mafia linked to demobilised paramilitary groups, for control of the cocaine trade.

A return to aerial fumigation could encourage farmers to sell coca to such groups and to join their ranks. The new president might also end the peace talks Mr Santos has started with the ELN. Mr Duque has set strict conditions, such as requiring the ELN to gather in designated zones before talks begin. The ELN is unlikely to accept that.

Although smaller than the FARC, the group is as resilient. In the 1970s an offensive reduced it to just 36 fighters; it has since built itself back up to about 2,000. The group shelters in next-door Venezuela.

Corruption is as difficult to fight. Like voters elsewhere in Latin America, Colombians are fuming about serial scandals, including revelations that Odebrecht, a Brazilian construction company that bribed politicians across the region, paid some of Mr Santos's campaign expenses. In congress it is commonplace for representatives to demand pork for their districts, and kickbacks from pork-related contracts, in exchange for passing laws. Mr Duque needs to clamp down on such practices. "If this mess continues, Petro will be president in four years," says Mauricio Vargas, a political consultant.

Mr Duque will inherit an economy that is recovering from a slump in oil prices that began in 2014 and continued until last year. Unlike Mr Petro, he is friendly to business and does not frighten the financial markets. But the economy suffers from plenty of maladies, including high public debt, an unaffordable pension system that funnels money to the relatively well off, and low productivity. Mr Duque's main economic proposal is to cut regulation and business taxes, but that will not be enough. To contain the budget deficit, he will need to couple that with higher taxes charged on personal income.

Wherever he turns, Mr Duque will face difficult choices. In pleading for unity, he told his supporters, "I do not recognise enemies in Colombia." But he belongs to a political clan that has been defined by its enemies. He has work to do.

Bello

Latin America searches for redemption on the football pitch

The extra intensity of Latin American fandom

Jun 21st 2018

THIS football World Cup is barely a week old, but already Latin America has stolen the limelight. There have been memorable performances on the pitch: Mexico's humbling of Germany, Peru outplaying Denmark but contriving to lose, flashes of magic from Brazil and three goals for Diego Costa, Spain's Brazilian-born striker. There have been shocks, too, such as Argentina's draw with Iceland and a battling ten-man Colombia losing to Japan. But more than the players, it is the fans who have caught the eye.

Multitudes of Latin Americans have packed the stadiums in deepest Russia as if they were attending home games. According to FIFA, the organisers, five of the seven countries that (after Russia itself) snapped up most tickets in advance were Latin American. They were Brazil (73,000), Colombia (65,000), Mexico (60,000), Argentina (54,000) and Peru (44,000). Many of the fans from the United States (89,000), too, are Latinos who may support their countries of origin, and to them should be added Latino migrants in

European countries. Supporters from South America have paid up to $10,000 for the pleasure of watching their national team, in some cases financing the trip by selling cars or taking out loans.

What explains such devotion? The World Cup has a unique appeal in Latin America. During each tournament Eduardo Galeano, a leftist Uruguayan writer who died in 2015, would settle in front of his television having hung a sign on the front door of his flat in Montevideo saying "Cerrado por fútbol" (Closed because of football). For European fans, club often comes before country. For Latin Americans it is the reverse. However much they may despair at their countries' problems, Latin American patriotism is strong and uncomplicated. As a Colombian fan in Moscow put it to DW.com, a German news agency, "We love football and we love our country." Grown men burst into tears when singing "Contigo Peru", an unofficial national anthem, before the match against Denmark that marked their country's return to the final stages of a World Cup for the first time since 1982.

Another reason is that football is one of the few things at which Latin America is world class. Between them, three South American teams (Argentina, Brazil and Uruguay) have won the trophy nine out of the 20 times it has been contested. Footballers are a leading export: European club sides are stuffed with Latin American stars. With 8.5% of the world's population, Latin America accounts for a quarter of the teams in this year's tournament. Although Brazil does not always practise *o jogo bonito* (the beautiful game), Latin American teams are more likely than their European rivals to turn football into an art form.

Football also fits two characteristic features of Latin American culture like a glove. It is a shared public party in a region where the fiesta is paramount. And it is a passion, in the original sense of the word of religious suffering. "Football is the last sacred ritual of our time," argued Pier Paolo Pasolini, an Italian film director. That may be true in Europe. In Latin America, where popular religiosity remains strong, football borrows from the devotional intensity of its fans.

This is not to romanticise the sport. With the partial exception of Mexico, domestic leagues reflect many of the region's ills: they are often poorly financed, tainted by corruption and feature violent clashes between rival fans.

But football is also a democratising force. As in the rest of the world it is a route for upward social mobility. In Latin America that means that the racial mix of national teams tends to reflect the country more accurately than do political or business elites.

Above all, the World Cup can be a source of national redemption. Take Peru. In the 1970s it had a fine team. In the qualifying round for the tournament in 1986, it almost displaced the Argentina of Diego Maradona, the Cup's eventual winner. Then tragedy struck: the next year several members of the national team and some rising stars were killed in a plane crash. Peru at that time was racked by hyperinflation and terrorism. Recovery came, but by then football was poorly run. It was only with a new boss of the football federation and a new coach, Ricardo Gareca, an Argentine colleague of Mr Maradona in 1986, that a dysfunctional group of individuals became an attractive team of mainly young players. For Peruvians, football has gone from being a source of national shame to being one of pride.

Latin America could do with more of that. The tournament comes with much of the region in a funk because of crime, corruption and sluggish economies. A footballing victory wouldn't change that. But it would provide some joy.

Asia

General dysfunction

Pakistan’s army is using every trick to sideline Nawaz Sharif

Ordinary Pakistanis are resentful of its unchecked power

Jun 21st 2018 | Islamabad

EARLIER this month a spokesman for Pakistan’s army decided to respond to claims that it was attempting to fix next month’s general election. It would not be the first time. In 1990, for instance, the army-dominated spy agency, Inter-Services Intelligence, funnelled cash to opponents of the left-wing Pakistan People’s Party (PPP), helping to secure its defeat. The military spokesman, General Asif Ghafoor, sternly denied that any such “engineering” was going on this time around. But a pile of evidence to the contrary is poking through the camouflage.

The object of the army’s meddling is Nawaz Sharif, who was ousted as prime minister by the courts last year. Mr Sharif had been the beneficiary of the army’s largesse in 1990, when he began his first stint as prime minister. But they soon fell out.

He resigned under pressure from the army in 1993 and was toppled again by it in a coup in 1999. Mr Sharif returned to power in 2013 eager to assert civilian control of foreign and security policy, which the army regards as its exclusive domain. In reply, the army undermined Mr Sharif, backing a months-long street protest by a big opposition party, the Pakistan Movement for Justice (PTI), aimed at overthrowing his government. It also refused the government's request for help in dispersing another group of protesters that had blocked a busy intersection last year. A general was photographed at the scene handing money to the protesters. The army bristles at claims that it steered the Supreme Court to remove Mr Sharif last year on flimsy charges of "dishonesty". But Mr Sharif (pictured, with gun) blames its unseen hand.

Indeed, Mr Sharif is trying to turn the impending election into a referendum on his treatment by the generals, although he coyly refers to them using such codewords as "the establishment" and "aliens". Last month he accused the army of facilitating a terrorist attack in India in 2008, in which 166 people were killed. Never has the army felt its privileged position so threatened, says Talat Masood, a former general.

Misguided democracy

Indirect elections to the upper house of parliament earlier this year give a sense of how the army operates. Weeks before the country's four provincial assemblies were due to select the new senators, the government of the sparsely populated province of Balochistan, which was led by Mr Sharif's party, the PML-N, collapsed owing to the abrupt defection of several lawmakers. One of Mr Sharif's allies accused the ISI of orchestrating the insurrection. At any rate, independents and the former PML-N members went on to form the pro-military Balochistan Awami Party (BAP), which then secured several of Balochistan's seats in the senate. The new senators, in conjunction with an improbable alliance of otherwise feuding opposition parties, together mustered enough votes to defeat the PML-N's candidate for chairman of the senate. (An Urdu-language newspaper carried details of how the army allegedly helped senators to remember how to vote, by marking the corners of their ballot papers.) That, in turn, put paid to the PML-N's hopes of passing legislation to scrap the woolly articles of the constitution that the courts had used to justify Mr Sharif's dismissal.

Imran Khan, the leader of PTI, does not deny that the army interferes in politics. He says a stronger civilian government (meaning one led by him) is the answer. He may have his way. PTI has benefited from a wave of defections from the PML-N in the most populous province, Punjab. In private, many politicians admit to being pressed, in some cases with the threat of corruption charges, to leave the PML-N. If the PTI can make headway in Punjab, where the PML-N won 116 of 148 seats at the last election, in 2013, Mr Khan stands a good chance of becoming the leader of a coalition government. Such a government would be "preferable" to the army, adds Hussain Haqqani, a former diplomat.

Media outlets that caterwaul about all this become the victims of commercial crises. Geo, the most popular television station in the country, was mysteriously dropped by cable companies. They relented when it toned down its criticism of the judiciary and its support for Mr Sharif. Gul Bukhari, a journalist who supports the PML-N, was recently abducted for several hours. This week *Dawn*, a liberal newspaper, announced that it is being barred from distributing in much of the country. We are "110% muzzled", sighs one journalist.

The only thing standing in the way of the army's plan is voters' apparent sympathy for Mr Sharif. His rallies draw large crowds. Polling by Gallup puts the PML-N 13 points ahead of the PTI nationally, and 20 points up in Punjab. "We know the establishment might attempt to manipulate the elections," says Muzzafar Mughal, a resident of a swing district in the city of Rawalpindi, "but we will vote for him again."

Indeed, many Pakistanis have recently begun expressing unheard-of criticism of the army. A burgeoning civil-rights organisation, the Pushtun Protection Movement (PTM), was formed last year to protest against the army's tactics in its campaign against Islamist insurgents. The PTM accuses the army of indiscriminately flattening villages. It wants the UN to investigate the fate of 20,000 missing people, and calls for the removal of military checkpoints and curfews in the tribal regions where most of Pakistan's 30m Pushtuns live.

The army's response has been fierce: 37 PTM activists have been arrested for "sedition". Manzoor Pashteen, the movement's charismatic 24-year-old leader, was last month prevented from boarding a flight to a rally in the southern city of Karachi. He drove for two days to get there instead. When he arrived, he found 10,000 supporters sitting on the ground in the dark. The firms contracted to provide chairs and lights for the event had suddenly pulled out—yet another of the unexplained reversals that are so common when criticism of the army is involved.

Non-Pushtuns are starting to support the PTM, a source of particular concern for the army. At the rally in Karachi, a 66-year-old woman from Balochistan, where locals have also long complained of military abuses, held up a picture of her son, missing for a year, for the cameras. Some generals counsel a softer response. The PTM activists awaiting trial have belatedly been granted bail, possibly a sign that the army is relenting slightly. But it does not seem to have the courage needed to make a broader retreat from politics.

Sleeping with the fishes

Democracy is foundering in the Maldives

The president offers voters a dictatorial form of development

Jun 21st 2018 | MALÉ

A LOW-SLUNG archipelago in the middle of the Indian Ocean, the Maldives faces long-term danger from the global rise in sea level. In the shorter term, it risks sinking in a different sense. Ten years after being launched, its experiment with democracy is listing badly, unable to keep afloat.

The 19-month jail sentence handed down on June 13th against an ex-president, Maumoon Abdul Gayoom, is just the latest of many distress signals. Mr Gayoom, who is 80, ran the Maldives for three decades with an iron fist before being voted out of office in 2008. He was convicted of aiding an alleged coup plot against his own half-brother, Abdulla Yameen, the country's president since 2013. His imprisonment marks the end of a long feud between the two siblings and also the culmination of a campaign by Mr Yameen to clear the way, ahead of national polls set for September 23rd, for his own re-election.

The campaign got going in February, when Mr Yameen imposed a state of emergency after the country's top court, showing surprising wilfulness, ordered that all political prisoners be freed. Had that ruling been followed, the president would have lost his majority in parliament and might have been impeached. Moreover, numerous convicted or jailed opposition leaders could have stood for election. Among them was Mohamed Nasheed, the winner of the Maldives' first free election in 2008, whom Messrs Gayoom and Yameen later forced from office. Mr Nasheed has lived in exile since being granted asylum in Britain two years ago, after fleeing a conviction on scarcely credible charges of terrorism.

With less than a month for candidates to register for the country's third-ever multi-party election, however, it looks increasingly likely that Mr Yameen will end up running virtually unopposed. His takeover of the Progressive Party of the Maldives, long a vehicle for his half-brother's rule, appears complete. An attempt by Mr Yameen's opponents to agree on a joint candidate appears to have failed. The second-largest opposition group, the Jumhooree Party, is rumoured to be seeking a deal with Mr Yameen.

The larger Maldivian Democratic Party has gone ahead and put the exiled Mr Nasheed on its posters, even though police recently issued him with a summons to return and complete his prison sentence. In May police had confiscated ballot boxes at a party primary in an unsubtle attempt to thwart Mr Nasheed. With ballots collected instead in empty jerrycans and even a cement mixer, the former president still won 99.8% of votes. But although he has proved that his party remains loyal, and secured backing for his own right to contest elections from the UN, which regards his conviction as illegal, Mr Nasheed has been unable to stop the steady accumulation of power in Mr Yameen's hands.

New defamation laws have been accompanied by attacks on journalists and the suppression of opposition protests. Media outlets have received stern warnings not to promote candidates the government deems ineligible. Mr Yameen, meanwhile, campaigns on a mix of warnings about threats to the country's Islamic faith and boasts of his record in luring investment. On this score he gets a big helping hand from non-democratic patrons, chief among them China and Saudi Arabia. Chinese labourers toil around the clock on the

“Friendship Bridge”, which will link the capital, Malé, to the main airport; it is supposed to be ready in time for the election. A giant, Saudi-sponsored mosque is rising in the city centre.

Such concrete signs of change may, in the end, prove weightier than protests about the slide towards dictatorship. So far Mr Yameen has been able to brush aside Western criticism of his darkening record on human rights. India, a giant neighbour that has in the past waded in to uphold constitutional norms, and which is anxious about growing Chinese influence, has shown no appetite for confrontation. Its diplomats do not have much faith in the Maldivian opposition, and have found it hard to counter charges that India’s own government does not always respect democratic niceties. In short, even as the tide of dictatorship rises, there are few hands working to bail out the Maldives’ foundering democracy.

City bickers

India’s national government and the city of Delhi are feuding

No grievance is too petty, no tactic too underhanded

Jun 21st 2018 | DELHI

AMONG the world’s megacities, Delhi, India’s capital, has a good claim to several dubious distinctions: foulest air, hottest summer, most precarious water supply. It is currently in the running for a new distinction, too: the world’s most dysfunctional metropolis. As a dust-storm swirled earlier this month, its chief minister and other elected officials held a sit-in and hunger strike at the residence of the lieutenant-governor, who is appointed by the central government. The main opposition leaders held a similar protest at the chief minister’s office. And the city’s top-ranking bureaucrats pursued a work-to-rule boycott of their elected bosses.

Considering the way Delhi’s government is set up, it is a wonder that the city functions at all. Like India’s 29 states, Delhi is run by a government drawn from an elected assembly. In contrast to the states’, however, the powers it exercises are severely restricted. The unelected lieutenant-governor must sign off on nearly any appointment or expenditure. Delhi has no police force of its own: its finest answer not to any local official but directly to the national government. Unlike Indian states, Delhi cannot run its own civil service: the city's administrators are appointed, transferred or sacked at the whim of the (national) home ministry. Yet the city government is expected to provide schools, health care, water, sewage and other services.

This unfair division has created trouble for decades. But the fallout has been limited because the party running the capital has often happened to be the same as the one in charge of the national government. For ten of the 15 years before the last election in Delhi, in 2015, for instance, the Congress party held sway in both.

In that election, however, the Aam Aadmi party (AAP), an upstart anti-corruption group, swept out the Congress and all other rivals, capturing an unprecedented 67 of 70 seats in the Delhi assembly. An equally dramatic sweep the year before had seen the Hindu-nationalist Bharatiya Janata Party (BJP) win power at the centre. The stage was set for a test of wills.

The clash between the parties was not so obvious at first as the AAP, fired by reformist zeal, focused on local affairs. The party is widely acknowledged to have brought rapid improvements to local services. Delhi public schools now produce some of the country's best exam results for state institutions. A network of local clinics for the poor has won praise as a model for public health. Ordinary Delhi-wallahs say petty corruption in services provided by the city has been drastically curtailed.

But as the AAP and Delhi's chief minister, Arvind Kejriwal, showed growing ambitions in national rather than local politics, the BJP has grown more hostile. "Every instrument of central government control has been used against us," says Atishi Marlena, a former adviser. "We are outsiders, we don't represent business as usual, so they are determined to stop us."

Delhi police have routinely blocked AAP events, arrested its workers, and charged its members of the assembly with petty offences. The home ministry, say AAP supporters, has handicapped the city administration by serially declining to appoint bureaucrats to vacant posts, transferring those judged sympathetic to the AAP and installing BJP loyalists instead. Under the BJP the city's lieutenant-governors have routinely cancelled appointments and vetoed proposals, even for projects vetted by the bureaucrats appointed by the home ministry.

Ms Marlena, who claimed a token salary of just one rupee, was among nine experts dismissed in April on the grounds that the home ministry had not approved the creation of their posts, several of which had existed under previous governments. In another instance the lieutenant-governor cancelled a carefully conceived project to improve the distribution of medicines with the terse note, “I am not sure this is a good idea.”

The AAP’s riposte is to agitate for Delhi to gain full statehood. That campaign, of course, will be another alluring target for the saboteurs in the central government.

Speak no evil

In Myanmar, sex education comes from smartphones

Teachers and parents do not like to talk about flowers and pumps

Jun 21st 2018 | YANGON

MASTURBATION does not exist in Myanmar—not the practice, which is presumably common enough, but the word itself, which is absent from the government-approved dictionary. When it comes to sex, accepted terms are hard to find. Linguists disagree as to whether “vagina” and “penis” have proper equivalents in Burmese. Most people simply point at their body parts or use euphemisms, says Nandar, a local activist who translates feminist literature. Parents tend to speak coyly of “flowers” and “pumps”—if they talk to their children at all about the birds and the bees.

In theory, sex education is offered in schools, but most teachers skip the topic. They are often too embarrassed to talk about sex in the classroom. Most parents do not want them to anyway (it could arouse children’s curiosity, many argue). Last year an MP from the ruling National League for Democracy proposed giving the subject more prominence. The government did not take up her suggestion.

Laws about sex are a muddle. The morning-after pill is freely available on supermarket shelves for less than a dollar a pack. Abortion is illegal, but widely practised. Sodomy, or “unnatural offences”, as the criminal code inherited from colonial times puts it, is outlawed. So is adultery. Even holding a woman’s hand can be considered an “outrage to her modesty”. Marital rape remains legal. During a recent Burmese New Year festival, Yangon officials banned the sale of contraceptives and Viagra in the hope of curbing sex crimes.

The urban elite is loosening up a bit. “The Vagina Monologues”, a risqué play, was recently performed in Yangon, the commercial capital. (A few years ago the mere publication of the V-word, in English, in a local paper created such a furore that the paper apologised.) But in much of the country, old wives’ tales still hold sway. Women are told that washing their hair when menstruating could be fatal. Eating tea-leaf salad or guava at the wrong time of the month is also dicing with death. Women’s underwear must be washed separately from men’s, so as not to jeopardise masculinity. Those expecting babies should not eat spicy food, let alone have sex.

But even if the sexual revolution has not reached Myanmar, the technological one has. Smartphones are changing the way ordinary Burmese understand their bodies. In anonymous chats, young women dare to ask doctors questions they would never broach in person, says Michael Lwin, who developed maymay, an app providing guidance about maternal, child and female health.

But it is mainly from porn that teenagers are learning about subjects their elders won’t discuss. Demand is high. The trailer for “Violet of Myanmar”, allegedly the country’s first high-definition adult movie, created a storm when it was posted online last year. The offending material was quickly taken down, but not before the police launched an investigation into how it ever came to be put up in the first place. On the plus side, at least they now have indisputable proof that masturbation does indeed exist.

Poor laws

Why Indonesia is so bad at lawmaking

Corruption and a lack of expertise are partly to blame

Jun 21st 2018 | JAKARTA

THIS May, to mark the start of Ramadan, Sharp Indonesia, an offshoot of a Japanese electronics giant, launched the world's first halal fridge. Not a fridge for halal food; an appliance that is itself supposedly *sharia*-compliant (though the Koran does not mention fridges). At a press conference the firm's executives donned *batik* shirts and huddled around it, giving a cheery thumbs-up.

The stunt was primarily a marketing exercise, but soon Indonesian shoppers will be able to snap up many more improbable, halal-certified goods. For that they can thank a vaguely worded law which comes into effect in October next year. It stipulates that most products must be halal-certified, without precisely defining which products it means. Lawyers argue that it could apply to inedible goods, such as fridges, and even to services like consulting.

That is by no means Indonesia's only woolly law. Under an open-ended one against defamation, creators of internet memes have been arrested for embarrassing politicians. An anti-pornography law allows officials to prosecute people who perform "actions deemed indecent" in public. A counter-terrorism statute, passed in May, is equally imprecise. Even those who harm the environment can be cast as terrorists. Such broad-brush rules could easily be turned on political protesters, points out Andreas Harsono of Human Rights Watch, a pressure group.

Other regulations, enacted to strengthen the economy, are simply ill-thought-through. In an attempt to capture more value from Indonesia's abundant minerals, the government in 2014 banned exports of unprocessed ore. But instead of building refineries and smelters, many mining firms simply shut up shop. By 2015 the production of nickel, a big export, had dropped by 60% from its peak. A similar edict said that only Indonesian ships could export coal and palm oil and import rice, though the wording was characteristically vague. That was shelved in June, following protests from industry.

Lawmakers are also unproductive. Last year parliament set itself a target of approving 52 bills, but in the end passed only six—a figure which is not unusually low. That irks voters. "They do nothing; they just talk," laments Pochaki, a manager in Jakarta. That means that draft laws typically take an agonisingly long time to be enacted. Take the new criminal code, which may at last become law in the next few months. The one now in force, adapted from a Dutch colonial precursor written in 1918, has not been revised since 1981. Talk of an update started in the 1980s, with the first of many drafts appearing in 1993.

Why is Indonesia so bad at lawmaking? One reason is a lack of expertise. It has been a democracy for only 20 years. Before that, the government, rather than the legislature, drew up most laws. Whereas in many other countries legal boffins do the drafting, in Indonesia the job can fall to politicians, many of whom are inexperienced. After the most recent election in 2014, well over half the members of parliament were new to the job.

Another concern is graft. Polls routinely find that the national parliament is considered the country's most corrupt institution. A graft-busting commission has found grounds to arrest MPs from all ten of the parties represented in it.

Yet another factor is Indonesia's political culture. Consensus is prized, and governments generally include a motley array of parties. There is very little party discipline. Instead, as bills are thrashed out in committee, everyone weighs in, including various government departments, which are often at loggerheads. The counter-terrorism bill was held up for months because of a dispute between the police and the army, for instance.

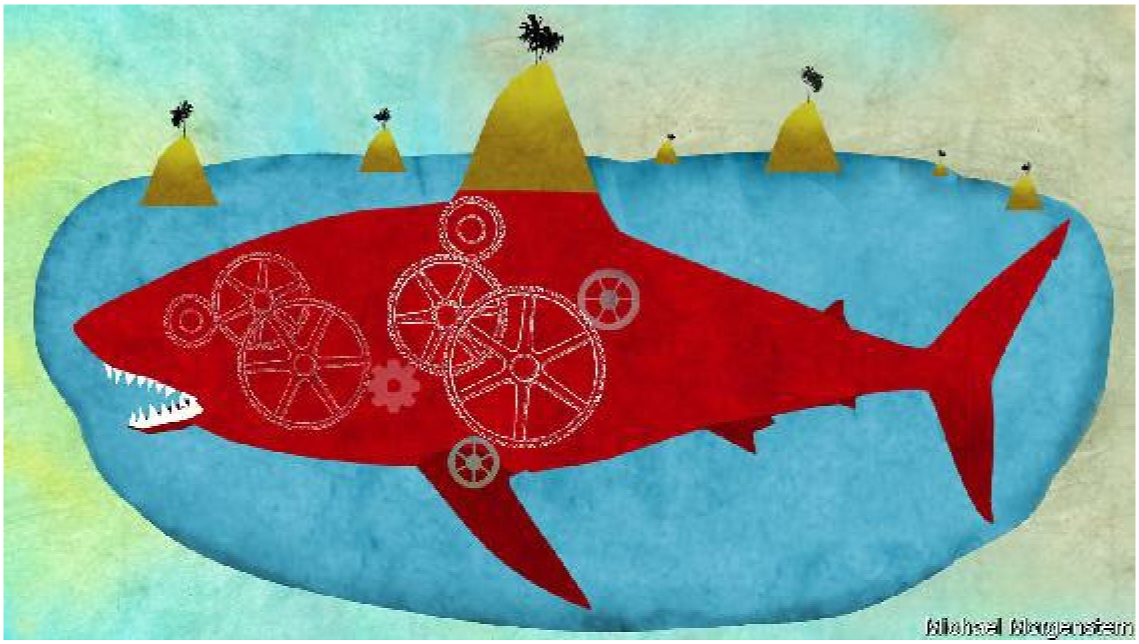
The problem is compounded by regional legislation. Provinces and regencies (roughly equivalent to counties) have the power to produce their own laws. This creates a "jungle" of often-contradictory regulation, says Simon Butt, a professor of Indonesian law at Sydney University. When local laws conflict with regulations issued by the central government, it is not clear which have precedence. Some functions of government, such as granting logging permits, end up being done at both levels, creating confusion.

In 2016 the home-affairs ministry tried to simplify the legal system by voiding 3,000 local regulations, only to be reversed by the constitutional court last year. Its decision has emboldened provincial governors and regents and adds to the importance of regional elections to be held on June 27th. However, such polls are usually won on personality and local issues, rather than lawmaking ability. Indonesia's legal jungle will not be cut down soon.

Banyan

China has militarised the South China Sea and got away with it

It is not clear what the “consequences” are that America has promised



Jun 21st 2018

LESS than three years ago, Xi Jinping stood with Barack Obama in the Rose Garden at the White House and lied through his teeth. In response to mounting concern over China’s massive terraforming efforts in the South China Sea—satellite images showed seven artificial islands sprouting in different spots—the country’s president was all honey and balm. China absolutely did not, Mr Xi purred, “intend to pursue militarisation” on its islands. Its construction activities in the sea were not meant to “target or impact” any country.

As Steven Stashwick points out in the *Diplomat*, a journal on Asian affairs, these denials were always suspect, given the growing evidence of radar installations and bomber-sized bunkers made of reinforced concrete. Last month came the revelation that China had installed anti-ship and surface-to-air missiles on three islands in the Spratly archipelago west of the Philippines—far, far from its own shores. (Some or all of the Spratlys are claimed by

Brunei, China, Malaysia, the Philippines, Taiwan and Vietnam.) That follows China's biggest ever naval review, in the South China Sea in April. Later in May China declared that several bombers had landed in the Paracel Islands, which it disputes with Vietnam. It seems only a matter of time, says Bill Hayton of Chatham House, a think-tank, before the final step in China's militarisation of the sea: the deployment of attack aircraft in the Spratlys.

While other claimants continue to dredge, expand and reinforce the islets they occupy, the scale of China's reclamation—which has slowed at last but which covers about 3,200 acres (1,300 hectares) in the Spratlys alone—dwarfs all the others' efforts put together. China had claimed to be serving the common good: making navigation safer by building lighthouses, for instance. That never rang true. For one thing, the reclamation is an ecological catastrophe. Reefs are crucial spawning grounds for the sea's fast-diminishing fisheries, which account for 12% of the global catch. China's recent actions further undermine its professions of altruism and redraw the strategic map. Admiral Philip Davidson, the new head of America's Indo-Pacific Command, says that "China is now capable of controlling the South China Sea in all scenarios short of war with the United States."

The question is what others will do about it. To date, Chinese expansionary tactics have for the most part involved incremental steps: moves not so provocative as to incite a response. One trick is not always to deploy the navy, but the coastguard and "maritime militias", when intimidating neighbours. That, as Andrew Erickson of America's Naval War College argues, has allowed China to get its way with less fuss. Presumably China thinks it can now get away with it again.

Economist.com

It may be right. Two years ago, a UN tribunal at The Hague ruled against China's grandiose territorial claims in the sea in a case brought by the Philippines. But Rodrigo Duterte, who had just become president, made it clear that he would put the case to one side. He has since sucked up to Mr Xi while often slamming America, his country's historical ally. The Philippines needs Chinese investment. Mr Duterte will even consider joint exploitation of gas reserves with China in disputed waters. The Philippines' existing gasfields may run out in the mid-2020s.

Compared with the Philippines, Vietnam has much more powerful armed forces. And as a communist state, like China, with a history of people's wars, it can counter China's militias with its own, made up of fishermen and other sailors. When China hauled an oil-exploration rig into Vietnamese waters, Vietnam eventually managed to get the rig to withdraw. In public, Vietnam takes a more robust stand against Chinese assertiveness.

That, however, hides behind-the-scenes discussions, which also include joint development. China is the giant. Neighbours have little choice but to rub along with it. Yet there are political risks. Bloody protests broke out in Vietnam during the stand-off in 2014, with anger directed not only at China but also at Vietnam's own rulers. There were more anti-Chinese protests earlier this month. And on June 12th, Philippine independence day, Mr Duterte was thrown off guard by protests over Chinese seizures of fish from Filipino vessels near Scarborough Shoal. In 2012 China reneged on a promise to withdraw from this reef, which is on the Philippine continental shelf, almost four times further from China than it is from the Philippines. Mr Duterte thought he had struck a deal to allow Filipino fishermen back. The Chinese claim the seizures were a mistake. But if Mr Duterte cannot show more fruit from his pro-China policy, says Jay Batongbacal of the University of the Philippines, the political cost will rise.

Untruth and non-consequences

As for America, President Donald Trump's administration appears to have a strategy of pressing China on several fronts, including trade and more robust support for Taiwan. It has rescinded China's invitation to annual naval drills off Hawaii, while inviting Vietnam instead. It has increased "freedom of navigation operations" in the South China Sea (sending vessels close to China's new islands) and persuaded France and Britain to conduct them too. Presumably the red line set by Mr Obama—no Chinese construction on Scarborough Shoal—still holds.

America's defence secretary, James Mattis, promised "larger consequences" if China does not change track. Yet for now Mr Xi, while blaming America's own "militarisation" as the source of tension, must feel he has accomplished much. He has a chokehold on one of the world's busiest shipping routes and is in a position to make good on China's claims to the sea's oil, gas and fish. He has gained strategic depth in any conflict over Taiwan. And, through the sheer fact of possession, he has underpinned China's fatuous historical claims to the South China Sea. To his people, Mr Xi can paint it all as a return to the rightful order. Right now, it is not clear what the larger consequences of that might be.

China

- **Urbanisation: A tale of 19 mega-cities**

A tale of 19 megacities

China is trying to turn itself into a country of 19 super-regions

The planned city clusters are far larger than any others around the world

Jun 21st 2018 | KUNSHAN

CHINA’S urbanisation is a marvel. The population of its cities has quintupled over the past 40 years, reaching 813m. By 2030 roughly one in five of the world’s city-dwellers will be Chinese. But this mushrooming is not without its flaws. Rules restricting migrants’ access to public services mean that some 250m people living in cities are second-class citizens (see chart), who could in theory be sent back to their home districts. That, in turn, has crimped the growth of China’s cities, which would otherwise be even bigger.

Economist.com

Restraining pell-mell urbanisation may sound like a good thing, but it worries the government's economists, since bigger cities are associated with higher productivity and faster economic growth. Hence a new plan to remake the country's map. The idea is to foster the rise of mammoth urban clusters, anchored around giant hubs and containing dozens of smaller, but by no means small, nearby cities. The plan calls for 19 clusters in all, which would account for nine-tenths of economic activity (see map). China would, in effect, condense into a country of super-regions. Three are already well on track: the Pearl River Delta, next to Hong Kong; the Yangtze River Delta, which surrounds Shanghai; and Jingjinji, centred on Beijing.

For some urban planners, the strategy is beguiling. They see the clusters as engines for growth that could transform China into a wealthy, innovative powerhouse. But others think it is a trap—a government-driven exercise in development that will lead to gridlock and waste.

Hu Qiuping, a safety manager for a chemicals company, is in the urban vanguard. She lives in Wuxi, a city of 6m about 150km west of Shanghai. A trip between the two used to take a couple of hours. Today the bullet train takes just 29 minutes. Every Monday and Friday she works in Wuxi, inspecting the chemicals factory. From Tuesday to Thursday she travels to the firm's headquarters in Shanghai. She could have based herself in either city, but living costs were much lower in Wuxi. At first she wondered whether her commute was unusual. It was not. "I see familiar faces on the train every day," she says.

Economist.com

For those in bedroom communities near London or Manhattan, Ms Hu's train rides probably sound familiar. But three features make China's super-regions exceptional. The first is scale. The biggest existing city cluster in the world is greater Tokyo, home to some 40m people. When it is fully connected the Yangtze delta, where Ms Hu is based, will be almost four times as big, with 150m people. The average population of the five biggest clusters that China hopes to develop is 110m. Part of the reason is that the physical area of most of the Chinese clusters will also be bigger. The most prosperous, the Pearl delta, is expected to cover 42,000 square kilometres, about the same as the Netherlands.

Given that spread, it might seem nonsensical to talk of the clusters as unified entities. But the second point is the speed of transport links, notably the bullet trains between cities. This expands the viable area of China's clusters. The Jingjinji region around Beijing has five high-speed train lines today. By 2020 there should be 12 more intercity lines, and another nine by 2030. Towns that are woven into the networks can see their fortunes change almost overnight. Plans for a new intercity train to Haining, a smaller city in the Yangtze River Delta, partly explain a doubling of house prices there. "The way that we measure distances has changed from space to time," says Ren Yongsheng of Vantown, a property developer in Haining.

The third difference is the top-down nature of the clusters. China is far from alone in wanting to knot cities together. "Cluster policy" has been in vogue in urban planning for years, with governments trying to devise the right mix of infrastructure and incentives to conjure up the next Silicon Valley, or something like it. But China has intervened more heavily than most. To encourage people to disperse throughout clusters, it has raised the barriers to obtaining a *hukou*, or official residency permit, in the wealthiest cities and lowered them in smaller ones nearby. Whereas Shanghai is picky about granting permits to migrants, Nanjing, to its west, has flung its doors open to university graduates. As construction gets under way in Xiong'an, a new city designed to relieve pressure on Beijing, efforts to push people out of the capital could become more aggressive. The scenes of police forcing thousands of migrant workers to leave Beijing last winter might prove to have been a preview.

The concept of city clusters is grounded in the theory of agglomeration benefits, which holds that the bigger the city, the more productive it is. A large, integrated labour market makes it easier for employers to find the right people for the right jobs. As companies gather together, specialised supply chains can take shape. Knowledge also spreads more easily. In advanced countries, the doubling of a city's population can increase productivity by 2-5%, according to the Organisation for Economic Co-operation and Development, a club mostly of rich countries. Studies have found that the potential gains in China are even bigger, perhaps because of its cities' surprising lack of density. Take Guangzhou, one of China's more crowded cities. If it had the same density as Seoul, it could house an additional 4.2m people on its existing land, according to the World Bank.

But China's government has long resisted the emergence of true megacities. It aims to prevent the population of its two biggest cities, Beijing and Shanghai, from exceeding 23m and 25m, respectively, in 2035—little bigger than they are today. City clusters are a workaround. In the jargon of urban planners, they represent "borrowed size": cities can, in principle, have the benefits of agglomeration with fewer of the downsides such as congestion. Alain Bertaud of New York University says that, if integrated well, China's city clusters could, thanks to their size, achieve levels of productivity never seen in other countries. He says it would be comparable to the differences between England and the rest of the world during the Industrial Revolution.

This vision of hyper-productive Chinese clusters is a pipe dream for now. The government first mentioned city clusters as a development strategy in 2006. It was not until 2016 that it elaborated the concept. Of its 19 identified clusters, just a few have published detailed plans so far. The gap between talk and policy remains vast. Officials have called for more region-wide governance, a welcome change from the municipal turf battles that have bedevilled China. In January the Yangtze River Delta area established an office for regional co-ordination, the first of its kind. But it is a bureaucratic minnow, with little more than a dozen employees. Stefan Rau of the Asian Development Bank says it is essential that regional offices have power over budgets if they are to play a useful role.

Lustrous clusters

Evidence about economic gains from clustering in China is promising, if limited. Counties enjoy a 6% boost in productivity from being tied into the

Yangtze super-region, according to an article published last year in the *Journal of the Asia Pacific Economy*. But the researchers found few such gains in other regions. That might be because they looked at old data. A more recent study, published in April by the National Bureau of Economic Research in America, supported the idea of big knowledge spillovers in super-regions. When cities were connected by high-speed rail, the quantity and quality of academic papers by local researchers increased by nearly a third, according to the authors.

Sceptics, however, note that the most successful clusters tend not to be creations of the government. As China's economy has modernised, the tendency towards concentration has been irresistible, especially in coastal areas. Some towns have specialised in electronics, others in the clothing industry and so on. There has also been much more migration to the coast than to other regions. It is the clusters that have coalesced naturally, especially the deltas of the Pearl and Yangtze rivers, that have the brightest prospects.

Beyond these coastal conurbations, the outlook is dimmer. Several of the 19 designated clusters seem fanciful. An economic zone linking Nanning, a poor provincial capital, to Haikou, a port on Hainan island, some 500km and a ferry crossing away, is unlikely to amount to much. The proposed cluster in the middle reaches of the Yangtze, a territory larger than Poland, is too expansive to make sense. Even within promising areas, government plans can be counter-productive. Beijing could benefit from shifting some of its universities and businesses to other cities in the Jingjinji region. But Xi Jinping, the president, has decided that an entirely new city, Xiong'an, should be created, some 100km away. A similar development closer to Beijing would have a better shot at success.

The main concern for those trying to lead productive lives across the vast super-regions is more mundane: how easy it is to get from A to B. The government classifies clusters as "one-hour economic zones" or "two-hour economic zones", depending on the time it takes to cross the cluster by high-speed rail. But it often takes longer to get to train stations within cities than to travel by train between cities. Ding Shu works in Shanghai and lives in Kunshan, a satellite town linked to Shanghai by a subway. Factoring in her bus ride to the subway, security checks to enter the station, walking time and waiting time, she spends about four hours a day commuting. She says she is thinking about looking for a job closer to home. New rail lines to Shanghai might eventually help. But for now, Ms Ding sees herself as a victim of urban sprawl, not the denizen of a seamless city cluster.

Middle East and Africa

A Bridge too far

Bridge Academies battles its enemies

It is cheap and popular with parents, but unions are trying to shut it down

Jun 21st 2018

“BRIDGE is unauthorised and illegal,” says Wilson Sossion, the secretary-general of the Kenya National Union of Teachers. “The curriculum they teach and the medium they use are not approved. The teachers are untrained and unqualified. They should be closed down.”

Bridge International Academies is the world’s most controversial low-cost for-profit chain of schools. It has raised about $140m in investment from the likes of Bill Gates, Mark Zuckerberg and the International Finance Corporation (IFC), the private-investment arm of the World Bank. Some 120,000 children are enrolled in its schools in Kenya, Uganda, Liberia, Nigeria and India. It gets results: in Kenya, its biggest market, costs per pupil are $190 a year (parents pay an average of $84 a year), compared with $313 in government schools, and 86% of children score well enough to pass into secondary school, compared with a national average of 76%. Since half the primary-school pupils in the developing world cannot read or write a sentence, such schools are doing a crucial job.

Yet Bridge is the *bête noire* of unions and NGOs around the world. Many NGOs disapprove of for-profit education, and unions clearly have an interest in undermining it. In Kenya, teachers are paid less than those in government schools (though more than in most private schools) and are rewarded or fired partly on the basis of their performance.

Bridge says Mr Sossion's claim that the schools are illegal is nonsense: they are not registered because the government has been sitting on the paperwork. It maintains that most of its teachers are government-trained. "The reason he [Mr Sossion] campaigns against us", says Shannon May, one of Bridge's founders, "is that we show that governments don't need to increase budgets and pay teachers more in order to improve education."

Bridge's opponents are making headway. The ombudsman for the IFC said last month that it would investigate a 27-page complaint by a consortium of unions and NGOs. Ms May is delighted. "It gives us the opportunity to have these false assertions rebutted once again."

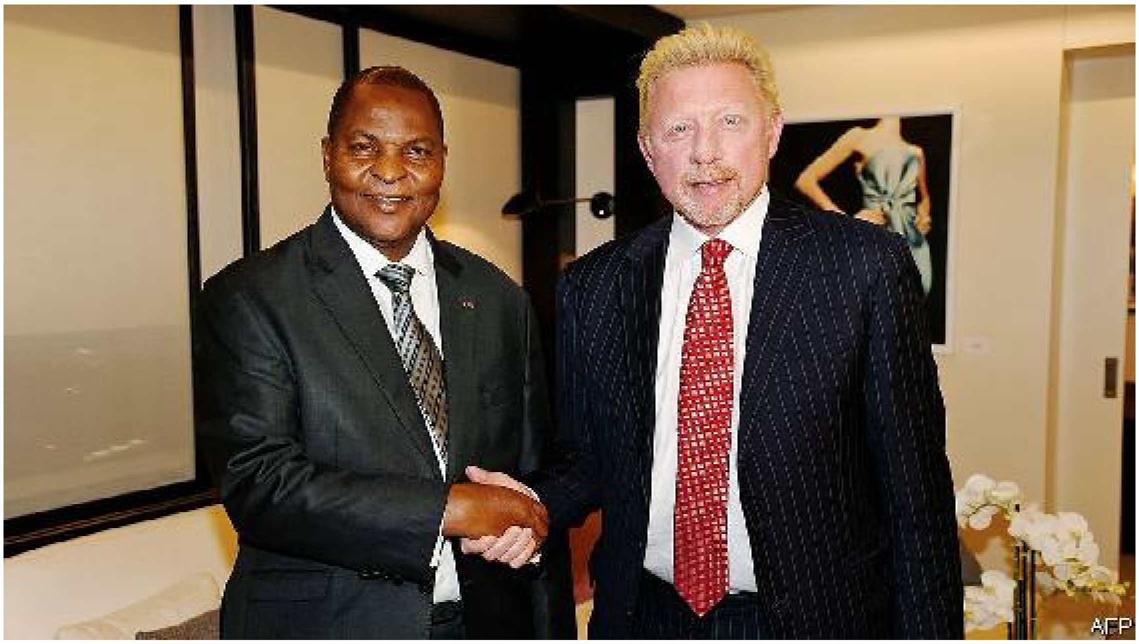
In Uganda, meanwhile, the president's wife, Janet Museveni, said earlier this year that Bridge schools were illegal and should be closed. In Kenya enrolment fell from 100,000 in 2015 to 80,000 in 2017, and is still falling. Mr Sossion claims credit. "When a union campaigns against a company, parents will listen. Their business model will collapse."

But things could take a turn in Bridge's favour. In Kenya, opposition to Mr Sossion within the union has raised questions about how long he can last. In Uganda, Bridge schools remain open. And in Nigeria, Bridge is exploring a less politically contentious way of operating. It has a contract with the government of Edo state to improve primary schooling for half a million pupils. "The government-pay market has vast potential for this business," says Steve Beck of Novastar Ventures, a fund that has invested in Bridge. Partnership with governments probably beats being a punchball.

Ambassador of aces

Boris Becker, African diplomat

The German tennis star is not the first to have claimed diplomatic immunity in court



Jun 21st 2018 | NAIROBI

WHEN people say "diplomatic service", they seldom mean an envoy who can slam an ace over the net at 130 miles per hour. Yet Boris Becker, a German former tennis star who could once do just that, told a London court on June 14th that he should be excused from proceedings because he has diplomatic immunity.

After Mr Becker was declared bankrupt last year he faced claims to his assets from a private bank. Instead of coughing up, Mr Becker said that he is, in fact, a representative of the Central African Republic (CAR), a failed state wedged between Congo and Chad. This, Mr Becker said, should end the "farce" of his being pursued by creditors.

In fact the farce had only just begun. On June 19th officials in the CAR's foreign ministry told AFP, a newswire, that the diplomatic passport was a fake, possibly from a batch of passports stolen in 2014. Mr Becker had claimed to be a sports envoy for the country, working out of its Brussels embassy. The officials said that the job did not exist. That is despite a picture of Mr Becker on the embassy's website, and a photo (above) of his meeting the CAR's president, Faustin-Archange Touadéra, in April, when he claimed to have been appointed.

What is the reality? It is hard to say; perhaps Mr Becker really is a diplomat. The CAR is a country with a state budget of around $380m, which is not quite double the annual revenue of the All England Tennis club at Wimbledon, where Mr Becker won his first major title in 1985. It is known for civil war and anarchy and, like Mr Becker, struggles to pay its debts. It is plausible that one arm of the CAR government does not know what the other is doing.

It would not be the first time that a diplomatic passport has found its way into unlikely hands. In 2013 Alma Shalabayeva, the wife of a Kazakh billionaire, Mukhtar Ablyazov, was arrested in Rome with just such a passport, also issued by the CAR. Until his death in 2015, Antonio Deinde Fernandez, a Nigerian billionaire, served as the CAR's ambassador to the UN for 18 years. Curiously, he had also served as a deputy ambassador to the UN for Mozambique. Others who have apparently been made diplomats by the CAR include an Israeli businessman and an adviser to Libya's former dictator, Muammar Qaddafi.

The countries that have the most difficulty keeping track of all their diplomats are often small and plagued by graft. In December, the tiny Comoros Islands cancelled "at least" 158 diplomatic passports. They had been used for all sorts of purposes, including breaking sanctions on Iran. In 2011 a Danish filmmaker, Mads Brugger, made a documentary in which he apparently travelled around the CAR on a fraudulently-acquired Liberian passport, bought through a Dutch intermediary. In the documentary he assumed the identity of a dandy diamond merchant by the name of Mads Cortzen.

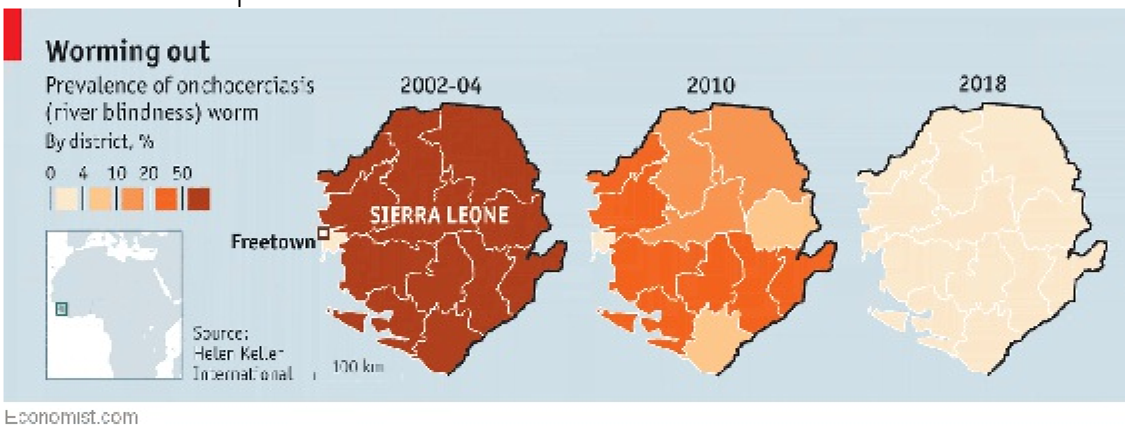
In 2016 Walid Juffali, a wealthy Saudi, claimed immunity from divorce proceedings in Britain on the basis that he was St Lucia's representative to the UN's International Maritime Organisation. Philip Hammond, then Britain's foreign secretary, supported his claim, arguing that overruling it might set a precedent that could later hurt British diplomats overseas. However, a court ruled that Juffali's diplomatic status was irrelevant to his divorce, and he had to pay his ex-wife a fortune.

De bodi fine

How Sierra Leone is beating tropical diseases

Common sense is part of the answer

Jun 21st 2018 | FREETOWN



SIXTEEN years ago Hannah Taylor woke up with a fever. Her legs began to swell to four times their normal size. They have been that way since. People shunned her because of their putrid smell. “For six years, I thought my big *fut* was caused by evil witchcraft,” she said outside her shack in Freetown, the capital of Sierra Leone.

The lymphatic filariasis (elephantiasis) ailing her was caused by a mosquito-born infection that could have been treated safely with a pill costing no more than $0.50 before it progressed. Instead, microscopic worms infested her body, causing catastrophic and irreversible damage.

Elephantiasis is one of 17 neglected tropical diseases (NTDs) that affect 1.5bn people, disabling children and keeping multitudes poor. Huge progress has been made against these diseases since an agreement in 2012 by pharmaceutical firms to donate billions of dollars’ worth of drugs. Even so, many African countries struggle to get the necessary pills to those in need.

Strangely Sierra Leone, one of the world’s poorest countries, is doing better at beating back such diseases than almost anywhere else in Africa. This is despite a devastating civil war from 1991 to 2002 that claimed 70,000 lives and wrecked the health system. What little remained of it was gutted by an Ebola outbreak in 2014 that killed lots of doctors and nurses. As a result the country has only some 400 doctors to treat its 7m people. Corruption also makes the nation sicker. Most people have to pay bribes to doctors and nurses for basic treatments.

Fifteen years ago as much as half the population was infected with the worm that causes onchocerciasis, or river blindness (see map). Many villagers in the southeast used to think it was perfectly normal for people to go blind after 30, says Mary Hodges, from Helen Keller International, a charity that works on blindness and malnutrition. Yet by 2017 only 2% of people carried the worm, and there had been no new cases recorded of people going blind from onchocerciasis in a decade. Elimination is expected by about 2022.

Other illnesses are also being beaten. Schistosomiasis, also known as snail fever and bilharzia, is a parasitic worm infection that slowly destroys the kidneys and liver. It, too, is in retreat among children. So are soil-transmitted helminths, infections caused by roundworms that can stunt mental and physical development. The worm that caused Hannah's elephantiasis was also once widespread. But there have been no new cases since 2011.

There are several reasons why Sierra Leone has pulled off this remarkable feat. Paradoxically, one of the reasons is the extraordinarily high prevalence of NTDs. Because the entire population was exposed to at least one NTD, the government made it a priority early on, says Dr Joseph Koroma, who managed its programme.

In the case of schistosomiasis, Sierra Leone has had a national control plan in place for almost a decade. That is in contrast to South Africa, a relatively wealthy state that still does not have a mass treatment programme for the illness—even though it suffers some 3m infections, says Thoko Elphick-Pooley, from Uniting to Combat NTDs, a coalition of aid agencies, companies and charities.

Common sense also helps. Instead of dealing with these diseases separately, which donors unwittingly encourage by giving different pots of money for each one, Sierra Leone tackles them all at once. Each year it provides drugs for four major diseases to everyone at risk. Treating people at roughly the same time reduces the chances of them reinfecting one another. It also saves money because health workers can visit each village only once instead of several times a year.

Ending the stigma is also important. Radio programmes where panels of experts, victims and local leaders answer calls from listeners about their concerns have helped to break down misconceptions and encourage people to get treatment. It is no good just lecturing villagers about how river blindness is caused by the black fly when they think it is witchcraft, says Dr Hodges. There has to be a conversation.

Hannah, who was depressed about her condition for years, later put on a brave face and campaigned to raise awareness about it and to break down taboos. “De bodi fine,” she said, slapping her swollen legs with a cheerful smile, “de bodi fine.” Hannah, who passed away last week, recently said she was pleased her children would not suffer as she had.

Suffocation in Gaza

The UN's refugee agency for Palestinians is running out of cash

America's withdrawal of aid is beginning to bite

Jun 21st 2018 | GAZA

YOU may think that after a dozen years of blockade by Israel, three devastating wars and the rule of a harsh Islamist government, life in Gaza could hardly get worse. But the prospect of another war and a dire shortage of cash to pay for the UN's Relief and Works Agency, better known as UNRWA, mean that it can. Last year President Donald Trump's administration said it would withhold $305m of the $365m that has annually serviced the agency, which has supported most of Gaza's 2m people for the past seven decades. Now the cash is running out.

Moreover, since the end of March a series of protests near the border fence with Israel has seen at least 120 Gazans shot dead by the Israeli army. Hamas, the Islamist movement that runs Gaza, has been sending a defiant wave of home-made rockets and mortars into Israel, plus makeshift kites laden with devices to set fire to Israeli farmland. Israel has responded with air raids. Gazans are terrified that Israel may be preparing for another fullblooded war to crush Hamas or even force it to make way for Fatah, the Palestinian movement's more amenable wing that runs the West Bank, the bigger chunk of a would-be Palestinian state.

UNRWA is in crisis. It has been begging rich Arab countries to make up some of the shortfall. The agency, which educates 270,000 children in Gaza and runs a score of clinics there, says that about $200m is needed to keep the show going. "We do not have enough money in the bank to open our schools when the academic year begins in August," says Chris Gunness, the agency's spokesman. "We feed a million food-insecure refugees in Gaza, where the situation has reached breaking point."

UNRWA's American and Israeli detractors say that many of its beneficiaries should not be counted as refugees at all, since most are second-or third-generation descendants of the 700,000 or so Palestinians who fled or were evicted from what became Israel in 1948. They accuse the agency of pandering to a false notion that the Palestinians will get back their old homes in Israel. Earlier this year America promised a sharp increase in aid to Jordan, which hosts 2m registered Palestinian refugees and is strapped for cash. Some Palestinians fear that this American largesse could depend on Jordan eventually revoking their status as refugees.

Some Israeli generals, however, fear the prospect of UNRWA's being gutted. They see it as a safety valve for keeping Palestinians more or less quiescent. Otherwise, they reckon, Gaza may blow up again.

Yo ho ho and a cup of sweet tea

Why Arabs are watching a pirated World Cup feed

How football fans exploit the year-old blockade of Qatar

Jun 21st 2018 | CAIRO

ARABS have little to cheer in this year’s World Cup. The four teams from the region lost all seven of their early matches. Russia and Uruguay beat both Egypt and Saudi Arabia. Morocco beat itself, scoring an own goal against Iran. Tunisia lost to England. The real competition is off the pitch: in the Middle East, even watching the game is fractious.

A Qatari network, beIN Sports, paid a small fortune for the broadcast rights. It had planned to recoup that by charging fees of up to $150 per subscriber. But last year four Arab countries imposed a blockade on Qatar. The embargo excluded beIN from its largest market, Saudi Arabia, where it had 900,000 customers. And it left Saudis wondering how they would watch their team, which had qualified for the first time since 2006.

The answer came from a mysterious group of hackers. In August someone launched a bootleg version of beIN, cheekily known as “beoutQ”. With a cheap decoder, Saudis (and other Arabs) can watch with only a slight delay.

Qatar is furious about the piracy. BeIN executives accuse Saudi Arabia of complicity, claiming the hackers are rebroadcasting using Arabsat, a satellite in which the kingdom is the largest shareholder. (Both the Saudis and Arabsat deny that they are helping the pirates.)

The controversy is a preview of 2022, when Qatar will host the tournament. It plans to welcome fans from the Gulf. But if the blockade continues, Saudis might be barred from attending. They might not want to, either. The kingdom has mooted turning part of the border into a nuclear waste dump.

Egyptians have a different problem. Although their government joined the blockade, it did not ban people from subscribing to beIN. Even so, many cannot afford a World Cup package that costs half a month's average pay. Instead they turn their satellite dishes in a surprising direction. On June 15th fans huddled in a café in Cairo to watch a free broadcast of the Pharaohs playing Uruguay. The commentary was in Arabic—but it came from Israel's public broadcaster, Kan.

The network denies that it is helping non-Israelis watch the cup free, but Israel's foreign ministry has enthusiastically promoted the broadcasts in Arabic on social media. Even Cairo taxi drivers can rattle off its satellite co-ordinates. "I'd watch it in Hebrew before I gave money to Qatar," jokes one fan. Though he might wish he hadn't watched at all. The Pharaohs lost their first two matches and will probably head home soon.

Europe

Ending the Erdoganate

Turkey’s President Erdogan may yet be defeated

Opposition leaders have a chance of ending, or at least crimping, his increasingly autocratic rule

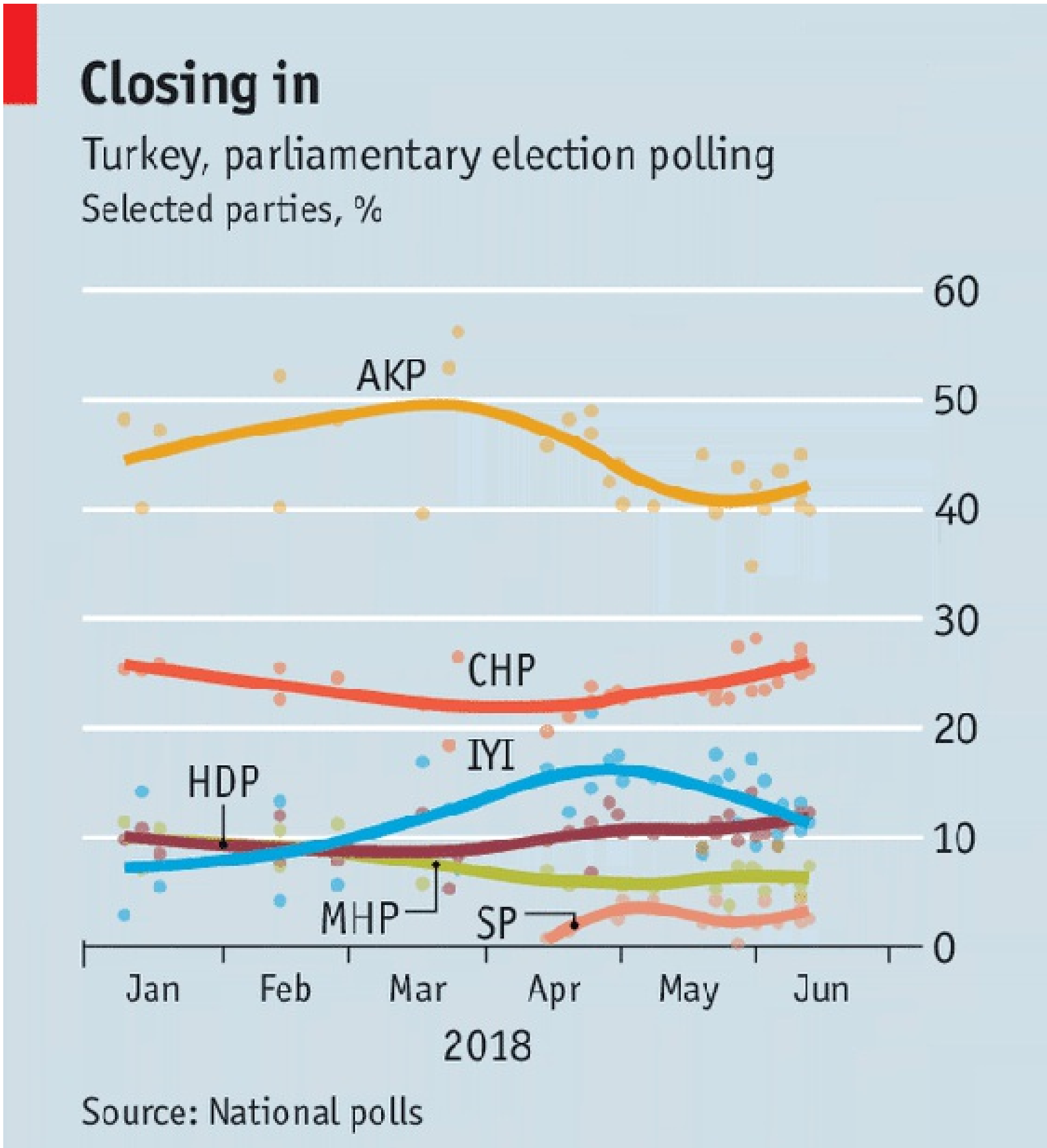
Jun 21st 2018 | BURSA

MUHAMMAD SHEIKHOUNI came to Turkey from Syria in 2006, long before his native country plunged into civil war, and fell in love with Recep Tayyip Erdogan. A decade later, after setting up a tourism and construction company in Bursa, the former seat of the Ottoman empire, the businessman joined the president’s ruling Justice and Development (AK) party. This year, after Mr Erdogan called early elections for June 24th, Mr Sheikhouni decided to run for a seat. In the meantime, he also changed his last name—to Erdogan.

Inside his election tent, pitched on one side of a large square in Bursa, Muhammad Erdogan can hardly peel his eyes from the president’s image, printed on one of the walls, as he delivers his talking points. “There’s no one else like our *reis*,” he says, using the Turkish word for chief. “He opened his doors to the people of Syria, he helped the Somalis and he stood up for

Palestine. He’s not only the leader of Turkey, but of the whole Muslim world.”

After 15 years in power—more than Kemal Ataturk, the founder of modern Turkey—Mr Erdogan has left an indelible mark on his country. To many of his supporters, he has turned into a father figure, the symbol of a return to Ottoman glory, the architect of Turkey’s boom years, and a beacon of hope for oppressed Muslims across the globe. Turks routinely complain about the problems posed by the 4m refugees who have poured into the country since the start of the Syrian war. But even Mr Erdogan’s critics acknowledge that he has done more for the displaced than practically any foreign government. Many of them also credit him with rescuing Turkey from the bloodiest coup attempt in its history, in 2016. An entire generation has already come of age under Mr Erdogan. Armed with constitutional changes that give him full control of the executive and up to three more terms as president, Mr Erdogan could rule the country well into the 2030s.



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There is just one problem. Close to half of the electorate views Mr Erdogan as an increasingly unscrupulous autocrat. Turkey's president already had a taste for hounding opponents long before the abortive putsch of 2016. Over the past couple of years, he has indulged it as never before. Out for revenge against the Gulen movement, a sect that colonised parts of the bureaucracy and spearheaded the coup, he has filled Turkey's prisons with tens of thousands of former officials, only a fraction of whom were involved in the violence; thousands of Kurdish activists; over a hundred journalists; and a dozen members of parliament, including one of his opponents in the presidential election, Selahattin Demirtas. His tolerance for dissent within his own party has reached zero.

Mr Erdogan has also made sure to stack the deck before the vote by forcing the media to march to his beat. Most Turkish newspapers now read like AK election leaflets. The state media have, in effect, placed two of the three main presidential contenders under embargo. According to a recent report, the main state broadcaster devoted a total of 13 minutes of coverage to Meral Aksener and her newly hatched Iyi (Good) party in the last two weeks of May, compared with 68 hours for Mr Erdogan and his allies. The imprisoned Mr Demirtas and his Peoples' Democratic Party (HDP) did not get even a single minute of airtime.

Turkey's president used to campaign as a leader who brought jobs, growth and services. Since 2013, after a wave of anti-government protests, a corruption scandal and a messy split with the Gulen movement, Mr Erdogan has reinvented himself as the commander of a country at war. In the universe he and many of his supporters inhabit, Turkey is under attack by Western powers jealous of its bridges and highways, by currency speculators and by their home-grown helpers (meaning the opposition). "Are we going to teach these terrorist consorts another lesson on June 24th?" the Turkish strongman asked at a recent rally. "We might die on this path," he added, "but we will never turn back."

There is reason to think that most Turks have no intention of dying or being forced to live in a country at war with itself and with the rest of the world. Mr Erdogan's strongest challenger, Muharrem Ince (pictured, on previous page), the candidate of the Republican People's Party (CHP), seems to have offered them a palatable alternative. Mr Ince has promised to end the state of emergency, dismantle the new constitution, restore the rule of law and convert Mr Erdogan's 1,150-room presidential palace into an educational centre.

He has also pledged to resume attempts to bring peace to the Kurdish south-east, ravaged by years of war between the army and separatist insurgents, and to reinstate hundreds of academics sacked for protesting about security operations in the region. By running a spirited campaign, and by pulling few punches, the former physics teacher has put Mr Erdogan on the defensive, emboldening many Turks who have felt afraid to speak up since the coup. Polls now suggest Mr Ince may have an outside shot at the presidency if the contest heads to a second round, which would take place on July 8th. However, Mr Erdogan is still close to winning the contest outright on June 24th.

The opposition has a much better chance of success in the parliamentary vote—though a lot will depend on whether the HDP achieves the 10% threshold it requires to be represented in parliament. Polls suggest it will do so. Exactly what this would imply under the new constitution remains unclear. CHP and Iyi party officials insist that an opposition-held parliament could rein in Mr Erdogan, assuming he wins the election. That may be difficult, though. Under the new changes, adopted last year in a referendum marred by fraud allegations, the president will have enhanced veto powers, as well as the right to issue decrees and to write the budget without input from parliament. He will also appoint his own ministers—the post of prime minister will go—and other senior officials.

Mr Erdogan has already faced the prospect of cohabitation, in 2015, when AK lost the majority it had held for more than 12 years. He responded by sabotaging coalition talks with the opposition, wooing nationalist voters with a brutal offensive against Kurdish militants and then calling a snap election, which his party won in a landslide. The president's aides have already suggested their boss might march voters to the polls once again if the opposition wins parliament. Mr Erdogan certainly knows how to amass power. But he no longer knows how to share it.

Merkel's moment of peril

The politics of migration in Germany

A Bavarian uprising threatens the chancellor's hold on power

Jun 21st 2018 | ZIRNDORF

GERMANY'S centre-right Christian Democratic Union (CDU) can move fast and brutally against a leader whose time is up. In 1999 Angela Merkel knifed Wolfgang Schäuble in a steely newspaper op-ed implicitly linking him to the corruption scandal that had consumed Helmut Kohl, his political mentor. Support for the then-leader dissolved and within weeks she had taken his place.

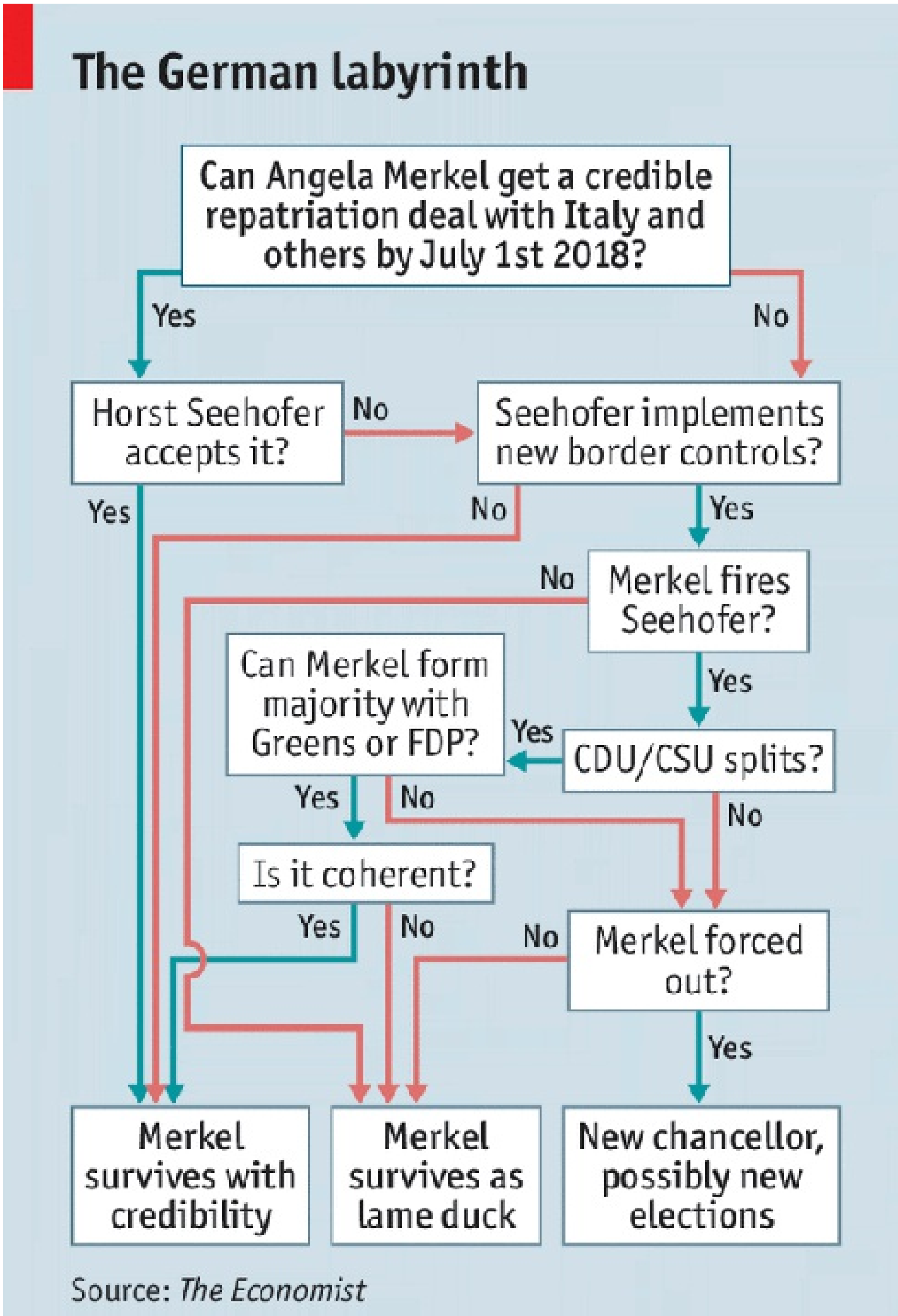
Ghosts of the past haunt the party. Now it is Mrs Merkel, twelve-and-a-half years into her chancellorship, who is wobbling. The Christian Social Union (CSU), the CDU's more conservative sister party, faces an election in its home state of Bavaria in October at which it fears the anti-immigrant Alternative for Germany will deny it its traditional majority. To dissociate themselves from the chancellor's decision to keep Germany's borders open during the refugee crisis, the Bavarians are pushing her to the brink. Whether she goes over it depends on the CDU.

The dispute concerns an immigration plan presented to Mrs Merkel in early June by Horst Seehofer, the CSU interior minister. At successive meetings the chancellor told him bluntly that she could not accept its proposal to turn back migrants registered in other EU countries at German borders. "I can't work with this woman any longer!" Mr Seehofer fumed to colleagues.

Monthly asylum-seeker arrivals in Germany have fallen from roughly 200,000 a month at the peak of the refugee crisis in 2015 to 13,000 now and (despite recent tweets to the contrary by Donald Trump) crime recently hit a 25-year low. Yet public angst remains high, thanks partly to high-profile cases like the recent murder of a Jewish teenager by an asylum-seeker. In Bavaria, a border state, voters bridle at what the CSU calls "asylum tourists": migrants who under the EU's Dublin regime should be processed in the countries where they first arrive, like Italy and Greece, but come to Germany and thanks to foot-dragging are not sent back within the six months allowed by the regulations.

As a long-term answer Mr Seehofer proposes nationwide "anchor centres" like those already operational in Bavaria. The facility at Zirndorf, near Nuremberg, is typical: a high fence topped with barbed wire surrounds barrack-like dormitories; newly built offices are stocked with the latest devices for taking fingerprints and detecting forged passports. New arrivals are brought here on their first contact with the authorities. Applications to stay are administered at the centre, with those denied asylum transported directly to the airport.

Mrs Merkel approves of the model, but cannot force it on federal states that prefer to house migrants in smaller, less formal hostels where they can better integrate into German society. Mr Seehofer considers this decentralised system unfit for purpose (an impression not helped by a recent bribes-for-visas scandal in Bremen), so he deems entry bans on migrants registered elsewhere the only stopgap. Almost 71% of Bavarians think the CSU should implement this measure or quit the government. Yet Mrs Merkel retorts that unilateral action by Germany could prompt a disastrous domino effect of unilateral immigration policies throughout the EU.



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The showdown came on June 14th when, in a rare step illustrating their mutual animosity, CDU and CSU MPs met separately. Both hardened their positions: Mrs Merkel's troops backing her request for two weeks to reach European agreements tackling the problems; CSUers pushing Mr Seehofer to stand his ground. Days later the CSU leadership gave him its blessing to implement the new border controls—though not before July 1st, when Mrs Merkel will present her European solution, if there is one, to colleagues in Berlin.

On June 24th the chancellor will attend an informal meeting of countries particularly affected by migration, ahead of an EU summit on June 28th. At best she might secure the outlines of a long-term reform to the Dublin rules, probably involving more resources for sealing the EU's external borders, and of bilateral deals with southern European states trading German cash for commitments to speedier repatriations of migrants. The CSU has already accused her of trying to "buy" solutions, suggesting it is preparing to dismiss her proposals.

If so, the mood in the CDU is all-important. The Bavarians are betting on a 1999 moment, when support for Mrs Merkel in her own ranks dissolves. Mr Seehofer may test this by implementing the new border controls against her will (his constitutional right to do so is questionable), leaving her little option but to fire him, ejecting the CSU from her coalition and forcing its remaining parts—the CDU and the centre-left Social Democrats—to seek the support of the centre-left Greens or centre-right Free Democrats to make up its majority or back it as a minority government. That would challenge the CDU to decide whether Mrs Merkel had become a greater force for instability than stability.

In a historical irony, Mr Schäuble, now the Speaker of the Bundestag, will be crucial. He commands respect across the CDU's factions and so far has rallied its MPs to Mrs Merkel's side. The deposed crown prince may yet turn kingmaker.

Innocence lost

Germany becomes the last big western power to buy killer robots

For now, the drones will not be armed

Jun 21st 2018 | BERLIN

TO THE relief of commanders and the dismay of pacifists, Germany's armed forces have crossed a threshold. On June 13th a Bundestag committee voted to approve the spending of nearly €1bn ($1.1bn) to lease from Israel five drones which can be equipped with deadly weapons. Hitherto Germany has been the only big Western country not to buy "killer robots". In part this reflects antipathy to America's use of remotely controlled missiles for "targeted killings" of terrorist suspects (and the people standing next to them) in places like Pakistan and Yemen.

The Israeli order does not instantly change that situation: the machines are described as "weaponisable" but not "weaponised". A new decision will be needed to endow them with destructive power. However, critics and supporters feel their eventual use in combat is almost certain. In the words of Ulrike Franke, a German expert on unmanned aircraft, "It would be absurd to pay for the use of these expensive drones and then not to arm them."

Combat in Afghanistan, where Germany has about 1,000 soldiers, has brought the drone debate to a head. German generals have felt frustrated in situations where they saw dangers facing their troops but could not react. However, German voters have dark memories of an air strike in Afghanistan in 2009, called in by their forces but executed by the Americans, in which civilians perished and their government had to compensate the bereaved.

The path to the Israeli deal has been tortuous. A year ago, Social Democratic partners in the ruling coalition abruptly withdrew their support; as a result of the delay, the price has risen.

In a few years, Germany may no longer have to turn to foreign suppliers for remote-controlled air power. It is the prime mover in the so-called Eurodrone project, working with France, Italy and Spain to construct a pilotless plane and boost the continent's aerospace skills. German governments can tell a squeamish electorate that the new machine's missile-firing feature is being included only in deference to more belligerent partners; they will retain the option of ordering a version that simply looks rather than shoots. Few people will believe that, but it may be a politically necessary fiction.

The man from Milan with an ominous plan

How Matteo Salvini is dominating Italian politics

The interior minister who wants to deport Roma is setting the agenda

Jun 21st 2018 | ROME

ANGELA MERKEL is not the only head of a European government with a disruptive interior minister. Since entering the Italian cabinet on June 1st Matteo Salvini has managed for different reasons to annoy the governments of Tunisia, Malta, France and Spain. And he can scarcely have endeared himself to Mrs Merkel by openly making common cause with his German counterpart, Horst Seehofer. On June 18th Mr Salvini even picked a fight with Cambodia. In the latest of several excursions outside his ministerial bailiwick, Mr Salvini, who is also a deputy prime minister and leader of the hard-right Northern League, threatened to ban ships carrying Cambodian rice from docking in Italian ports. He claimed the rice, which is exempt from EU tariffs, was competing unfairly with Italian produce.

With his bull-in-a-china-shop approach Mr Salvini has dominated the political agenda from the start, even though his party is the junior partner in a coalition with the anti-establishment Five Star Movement (M5S); polls now show his party in the lead. His cocktail of provocative sound-bites and radical action (notably his refusal on June 10th to grant entry to an NGO rescue vessel laden with migrants) has made it seem as if he is deciding Italian foreign policy. But Nathalie Tocci, director of the Istituto Affari Internazionali, a think-tank, is sceptical that he will make a lasting impact. “I struggle to see anything meaningful coming out of it all,” she says.

On migration, Italy’s populist government is hemmed in by constraints: the refusal of Italy’s EU partners to take an agreed quota of arriving migrants and the refusal of the countries of origin to have back those migrants who do not qualify for asylum. On June 15th the prime minister, Giuseppe Conte, agreed with France’s President Emmanuel Macron on setting up facilities outside the EU where migrants could have their asylum requests processed without exposing themselves to the perils of a clandestine Mediterranean crossing. But, as both men know, the main transit country is Libya, which is in violent disarray. Actually creating these facilities will be hard.

Nor does everyone in the government identify with the rumbustious Mr Salvini. The foreign minister, Enzo Moavero Milanesi, worked for 20 years at the European Commission. The M5S, led by Luigi Di Maio, the other deputy prime minister, is also more moderate than the League. It has already shelved a demand for a referendum on membership of the euro and a plan for withdrawing Italian forces from Afghanistan. This week saw the first open disagreement between the coalition partners, when Mr Di Maio criticised a proposal by Mr Salvini to make a special count of Roma people in Italy that would lead to non-citizens being deported (“a mass cleansing, street by street, neighbourhood by neighbourhood,” said Mr Salvini).

Mr Conte was sponsored by the M5S. But like his foreign minister, he is another technocrat without a power base, and the M5S is more interested in economic and social affairs than foreign policy. Mr Conte is painfully at sea in international affairs. At the G7 meeting this month he backed Donald Trump’s call for the readmission of Russia, only to be swiftly talked round by Italy’s EU partners. As for the 31-year-old Mr Di Maio, he is no match for the media-savvy leader of the League. Mr Salvini is still a man to watch. And, many feel, one who needs watching.

From solidarity to solitary

The incredible disappearing French Socialist Party

Squeezed between the far left and the radical centre, France’s socialists are in trouble

Jun 21st 2018 | PARIS

THE 19th-century mansion on the chic left bank of Paris, with its tiled floors and sweeping stone staircase, was for decades an iconic part of French Socialist history. François Mitterrand arrived there in 1981 to celebrate his victory as the first Socialist president of modern France. Ségolène Royal, the party’s presidential candidate in 2007, waved valiantly to crowds from the building’s balcony after her defeat. Late last year, however, the cash-strapped party had to sell its grand headquarters and find new premises in a modern office in an unfashionable suburb. The episode serves as a cruel metaphor for the ailing party.

Last year, a party that has supplied two Fifth Republic presidents and nine prime ministers was rudely rejected at the ballot box. Its presidential candidate, Benoît Hamon, came in a humiliating fifth place with just 6% of the vote. At the legislative elections that followed the party was almost wiped out, losing 90% of its deputies and ending up with just 30 seats out of 577. Supporters swung instead either to Emmanuel Macron's new centrist party, La République en Marche (LREM), or to Jean-Luc Mélenchon's far-left France Insoumise. Fully 47% of those who had supported the Socialist candidate, François Hollande, in 2012, voted for Mr Macron in 2017.

Since then, the party has bled talent. Manuel Valls, the (Spanish-born) prime minister under Mr Hollande, has quit the party and now sits with LREM in parliament. He is said to be considering a run for mayor of Barcelona, the town in which he was born. Mr Hamon, meanwhile, has left to set up his own political movement, Génération.s, whose use of the modish *point médian*, or middle full stop, is doubtless a nod to the young metropolitan types he hopes to attract.

Battered and financially fragile, the Socialist Party has tried to pick itself up. It is moving to new premises, in Ivry-sur-Seine, south-east of Paris. In March it held a leadership election, picking Olivier Faure, a 49-year-old longtime party hack, who has promised a Socialist "renaissance". He does have some interesting ideas, including backing a plan to introduce a pilot experiment for a universal basic income in 13 Socialist-run regional departments.

Mr Faure is hoping that the party can yet benefit from second thoughts on the left about Mr Macron, who served as a minister in Mr Hollande's government but was only briefly a member of the Socialist Party. This month the president's approval rating dropped by fully 12 points among those who have previously voted Socialist, according to a poll by Elabe, while it edged up by four points among those who backed the centre-right. Mr Macron has been tagged the "president of the rich" for his tax cuts for business and the wealthy, a perception he tried to counter on June 13th with a speech promising more generous health reimbursements to all. Mr Hollande, who has published a book reflecting on his spell in office and is suspected of planning a comeback, retorted on a French TV show recently that this epithet was not fair. Mr Macron, the former president quipped, visibly amused by his own joke, is the "president of the very rich".

Originally founded by Jean Jaurès as the French Section of the Workers' International (SFIO), in 1905, the Socialist Party has been behind some of France's landmark social legislation, from the first mandatory paid holidays in 1936 to the legalisation of gay marriage in 2013. Yet today it is crushed by Mr Macron's mighty LREM on one side, and Mr Mélenchon's firebrands on the other. The most vocal opposition to the government these days comes not from the traditional mainstream parties on the left or the right but, in line with European trends, from the populist extremes.

Mr Faure has struggled to breathe. His speeches and interviews seem to leave little impression. A mere 10% of those polled have a positive image of him, a figure that rises only to 15% among left-wing voters—a quarter of Mr Mélenchon's score. The Socialist Party is seen as tired and outdated. Trade unionists accuse it of "treason" for imposing a deregulation of the labour market in 2016. At a rally in Paris this spring Mr Faure, jeered by unionists, had to be escorted to safety. A party with a great history risks consigning itself to the past.

Charlemagne: save our Schengen

Europe’s passport-free zone faces a grim future

Governments routinely flout the EU’s Schengen rules

Jun 21st 2018

FIVE junior politicians, chuckling away on a pleasure boat. There is only one known photo of the day, in 1985, when Belgium, Luxembourg, France, Germany and the Netherlands agreed to end border controls between their countries. It was a low-key start for what was to become one of the European Union’s signature achievements. The Schengen accord, named after the Luxembourgish village nestled along the river on which it was signed, is the world’s only large passport-free zone. It now covers 26 countries, including four non-EU members.

The village itself, just yards from borders with France and Germany, took a while to cotton on to the potential that history had given it, but now offers tourists a museum, sculptures made from Luxembourgish steel and two slabs of the Berlin Wall. The most emotional reactions come from visitors outside the zone, says Martina Kneip, the museum’s director. In the 2000s eastern Europeans made pilgrimages to the village whose name had become synonymous with the freedom they were denied for decades. Today, Turkish visitors not yet ready to surrender the fading dream of EU membership leave heartfelt notes in the visitors' book.

Schengen embodies the dream of frictionless movement across the EU's single market. It eases transport of goods, boosts tourism and enables the cross-border commute of most of the EU's 1.7m "frontier" workers. Michel Gloden, Schengen's mayor, recalls the tiresome passport and customs checks of his youth. West German guards would sometimes wave you through; the French *gendarmes*, with their machineguns, were more threatening. Today's arrangements suit his village's multinational identity, and have put it on the map. "When you tell people you're from Luxembourg, they say, 'Whatever'," he chuckles. "But if you say you're from Schengen, everybody knows it. Even in Australia!"

Yet Schengen is in trouble. The officials who set it in motion were only dimly aware that eliminating internal borders required strengthening external ones. But the logic of the system has unfolded remorselessly as pressure from illegal migration has built against Europe's southern flanks. The first jolt came in 2011, as refugees fled the upheaval of the Arab spring. A few years later Schengen came close to buckling, as over 1m migrants exploited the borderless zone, testing the asylum systems of some countries to the limit. Greece, the Schengen landing-point for most refugees, was nearly expelled. Instead, countries began to impose their own checks.

This week new figures showed steep declines in both asylum applications and illegal border crossings. But numbers that leaders could once tolerate have become unacceptable. Six Schengen countries maintain some form of internal border checks. Some are tougher than others. The motorist between Belgium and France is less likely to be inconvenienced than the traveller crossing the Oresund bridge between Copenhagen and Malmo. But all have stretched the rules that allow temporary controls to breaking point, or beyond. When governments feel that they must choose between upholding national security and EU rules, they will always choose security, says Raphael Bossong of the SWP think-tank in Berlin. Few expect the six countries' supposedly temporary controls to be lifted when they expire in November.

That rankles with eastern European governments, like Hungary and Slovenia, who fear a Schengen collapse could relegate them to a new second tier of the EU. But Schengen has become a casualty of the EU's crisis of trust. Northern European states do not believe that Greece and Italy guard their borders properly, and recall how they would once wave through migrants in their thousands. Anti-migration political insurgencies at home make compromise harder, as Angela Merkel is learning in Germany.

Fixing this requires overcoming the EU's deadlocked asylum debate. It is pressure from asylum-seekers making, in the jargon, "secondary movements" from one Schengen state to another, that leads politicians to throw up the walls. Horst Seehofer, Germany's interior minister, has come close to exploding his country's coalition over a proposal to turn back from Germany's borders asylum-seekers registered elsewhere in the EU. His plan implies a closing of frontiers along migratory trails, including the Brenner Pass between Italy and Austria. Pressure could come from the other direction, too. There are half a million illegal immigrants in Italy. The new government, which has vowed to deport them, may instead find it easier to nudge them northward.

Building fences, not bridges

If today's checks are worrying rather than devastating, a gloomier future looms. Elizabeth Collett of the Migration Policy Institute Europe, a think-tank in Brussels, outlines three possibilities. First, the slow spread of border controls across Schengen, quietly tolerated by Brussels. Second, the expansion of controls via technology such as number-plate recognition and spot checks, including racial profiling (for years French police have been roaming trains crossing from Ventimiglia, an Italian border town, and returning illegal migrants). The third outcome is a regression to a smaller number of separate passport-free zones: Benelux, the Nordics, Iberia and so on.

The only way out is for Europe's leaders somehow to resolve their differences on managing illegal immigration. The call is now for complete control of the EU's external border; a laudable but ill-defined goal. Some want deals with north African countries to reduce departures; others seek to establish camps for failed asylum-seekers in the Balkans. Leaders will discuss these ideas at what is sure to be a fractious EU summit next week.

The sharp decline in immigrant arrivals ought to offer space to thrash out a deal. But instead the EU is struggling to get over its migration hangover. Ms Collett compares it to the muggy period before a thunderstorm, when the squirrels have scarpered and the air is pregnant with foreboding of trouble ahead.

Britain

The NHS at 70

Theresa May’s lacklustre plan for the NHS

Birthday celebrations for the health service belie the NHS’s serious problems

Jun 21st 2018

ON JULY 5th 1948 Sylvia Beckingham was admitted to Park Hospital in Greater Manchester. The 13-year-old was the inaugural patient of the National Health Service (NHS), the world’s first universal health system free at the point of use. At her bedside Aneurin Bevan, the health secretary, called the NHS the most civilised step any country had ever taken.

Elsewhere patients lined up at clinics with horrendous coughs, festering wounds and hernias spilling into trusses. Pregnant women queued, too; one in 350 mothers were dying in childbirth, about the same as in Gabon today. Bevan assumed that demand would eventually moderate. It did not. “We never shall have all we need,” he soon realised. “Expectation will always exceed capacity.”

Call it Bevan’s law. Seven decades on it is still true. In a speech on June 18th to mark the NHS’s 70th birthday, Theresa May acknowledged that rising demand and years of low growth in funding had put the service “under strain”. Promising that spending would rise more quickly from April 2019, the prime minister vowed to do more than apply “a sticking-plaster” to the NHS’s ailments. Yet that is all she has done.

In recent years the NHS has deteriorated. Five years ago more than 90% of patients waited less than 18 weeks from being referred by their family doctor to receiving treatment in hospital. Today less than 75% do so. The share of patients seen within four hours at accident and emergency (A&E;) departments—another key indicator—is the lowest since records began in 2003-04. This winter, hospitals from Northampton to Nottingham were cancelling all non-urgent operations.

Such grim symptoms need a dose of historical perspective. In 1987 average in-patient waiting time was 45 weeks. The NHS has not suddenly regressed to the 1940s. Yet the trend in its performance remains noticeably downwards. And the cause is that demand is outstripping the NHS’s ability to supply care. Not only are more patients turning up at hospital, but they are presenting with more complex cases. The number of patients at A&E; is up 26% on a decade ago. The number of emergency admissions has risen by 42%. One in three patients admitted as an emergency has at least five conditions, against one in ten nearly a decade ago.

The NHS has been spared cuts made to other public services. Since 2009-10 health spending has increased by 1.4% a year in real terms. But that is barely enough to keep pace with a growing and ageing population. And the reality is even worse than this suggests, for two reasons.

The first is that the cost of medical technology (drugs, scanners and so on) keeps rising faster than inflation. Between 2011-12 and 2016-17 the total bill for prescriptions from hospital pharmacies rose by about 70%. The second arises from cuts in adult social-care funding, which has shrunk by 1.5% a year in real terms since 2009-10. This has increased pressure on hospitals by making it harder for them to send mostly elderly patients home.

At times of poor performance, critics of the NHS always exhort the service to be more efficient. There are obvious areas for improvement. Primary care remains a cottage industry. It is also difficult for high-performing hospitals to take over laggards. Yet since 2010 productivity in the NHS seems to have grown faster than it has in the economy overall.

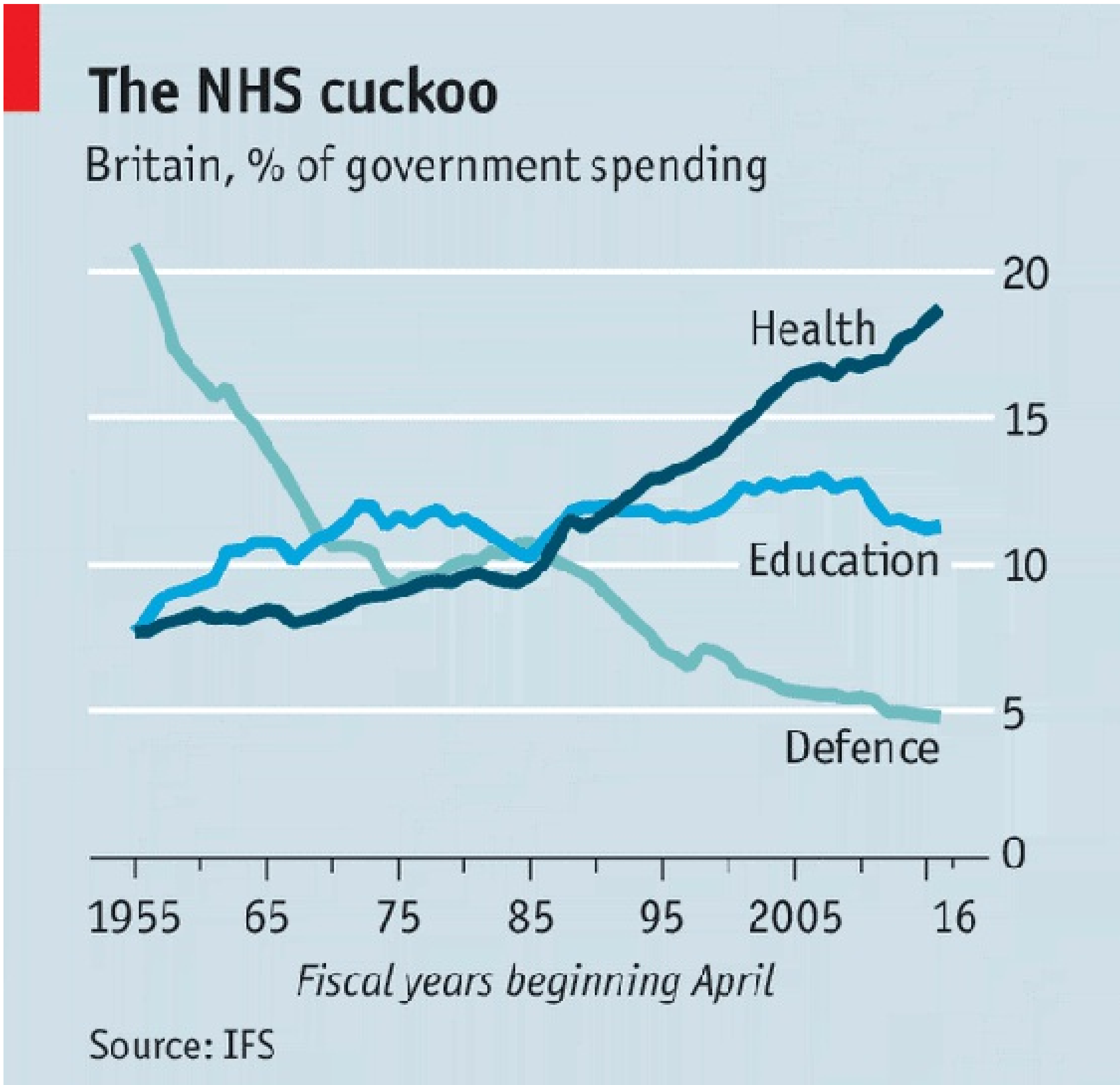
In a nod to reality, Mrs May has pledged to increase spending on the NHS in real terms by an average of 3.4% a year from 2019-20 to 2023-24. Breathless reports called the rise “massive” and “extraordinary”. The truth is more mundane. It is less than the annual average growth of 3.7% in spending since 1948. It falls short of the 4% a year that think-tanks like the Institute for Fiscal Studies (IFS) and the Health Foundation say is the minimum required to improve services. And important things are excluded from Mrs May’s pledge, such as training staff and building hospitals.

Nor is it clear where the extra money will come from. Mrs May says part is “a Brexit dividend”. But this is nonsense. Brexit will shrink the available cake for public spending, not expand it. The truth is that extra money for the NHS must come from lower spending elsewhere, higher taxes or more borrowing.

Mrs May has limited room for manoeuvre. Over the past 40 years public spending on health has, in effect, been paid for by spending less on other things, such as defence. Today public spending on health is 7.3% of GDP, similar to the average in other longstanding members of the EU, up from 4% four decades ago. Mrs May cannot now easily swap soldiers for surgeons. Moreover she has also promised to stick to her “fiscal rules”, meaning that a lot of extra borrowing is unlikely. That leaves tax rises. But rather than make the case for these now, the prime minister has postponed the inevitable until November.

Mrs May was equally cowardly in her approach to social care. Analysis by the IFS and the Health Foundation suggests that, given England’s ageing population, spending on such care will almost double, from £17.1bn ($25.7bn) in 2015-16 to £33.2bn in 2033-34. Several reviews have proposed reforms. Most come down to a choice between some form of social insurance, as in Japan and Germany, or getting more people to pay for care themselves. Yet Mrs May’s experience with a so-called “dementia tax” proposed in last year’s Tory election manifesto makes her nervous. All she is doing is promising a green paper.

Social care is not the only area where reform is problematic. In theory the framework for the NHS is the Health and Social Care Act, passed in 2012. But Jeremy Hunt, the health secretary, and Simon Stevens, the chief executive of NHS England, have ignored as much of it as possible. The law was meant to stop micromanagement by Whitehall. Yet the NHS is more reliant than ever on central control.



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Reforms made by Mr Hunt and Mr Stevens are also undoing the act's aim of getting 200 or so local teams of doctors to buy hospital services in a version of the "internal market" backed by every health secretary since the late 1980s. The current plans do the exact opposite, by encouraging money to be pooled across different parts of the service so that care can be more “integrated”. This might be a sensible approach, but it rests on shaky legal grounds and depends on keeping both Mr Hunt and Mr Stevens in their jobs. When one of them leaves his job, the momentum for reform will surely slow.

Mrs May’s lack of ambition means that the NHS still faces a difficult future. But it is symbolic of Britons’ approach to their cherished service. There is no shortage of sepia-tinged nostalgia about the NHS. For this anniversary NHS-themed tea parties are planned, Westminster Abbey is holding a special ceremony and the Royal Mint has struck a commemorative coin. Wallowing in the past has become an excuse to avoid the rigours of the future.

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An ache, not a sting

The economy has slowed to a standstill, largely because of Brexit

Surveys from the second quarter of the year have not been encouraging

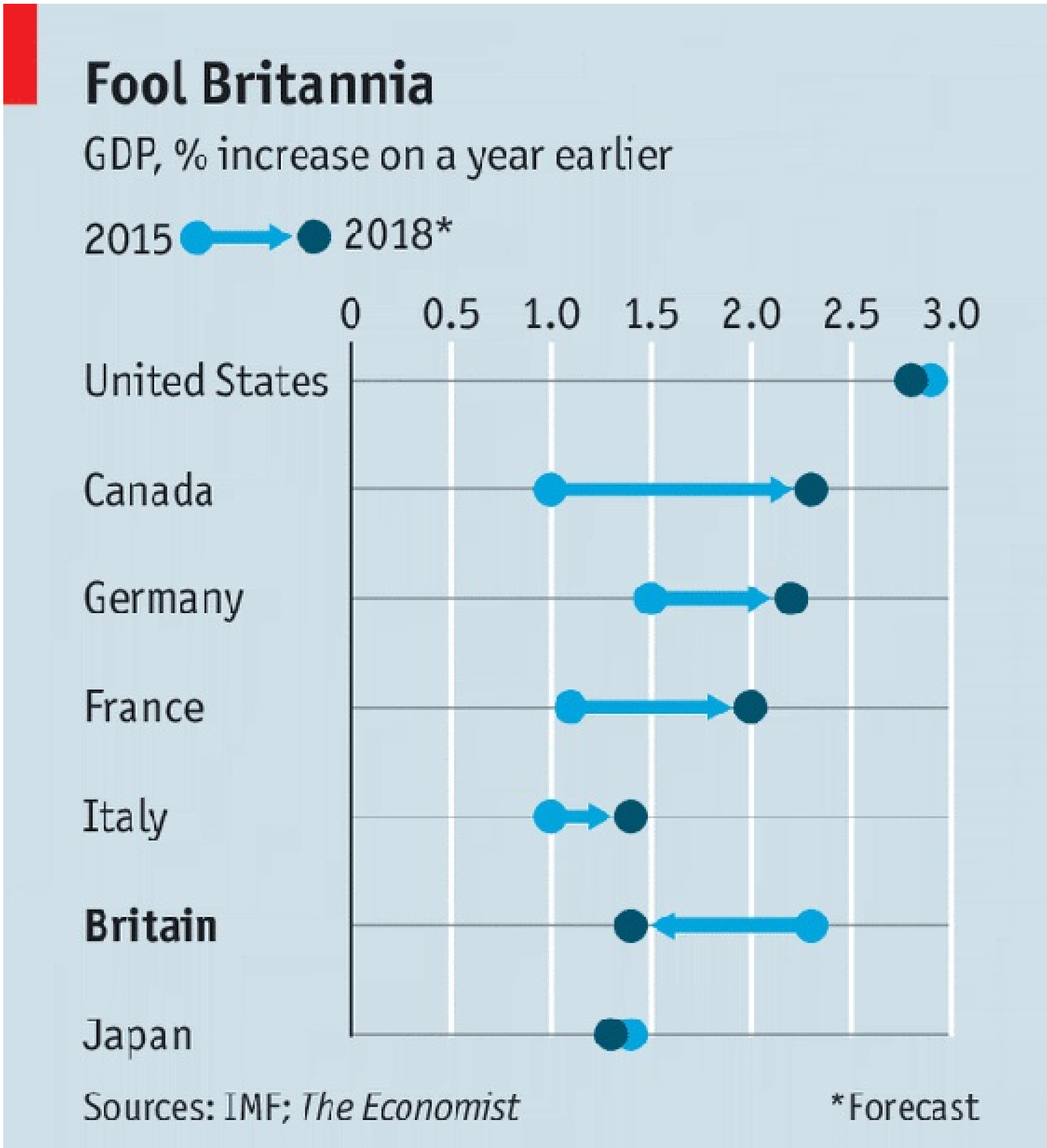
Jun 21st 2018

FOR some time Britain's vote in June 2016 to leave the European Union appeared to be having little economic impact. Sterling slumped but GDP growth in the second half of 2016 was faster than in the first. Unemployment fell, rather than jumping, as most economists had feared. Yet the notion that the economy would escape Brexit uncertainty was always fantastical.

Britain's economy has gone from a leader to a laggard internationally, as GDP growth has slowed sharply (see chart). As *The Economist* went to press, the monetary-policy committee (MPC) of the Bank of England was expected to leave its benchmark interest rate on hold at 0.5%. The economy is deemed too weak to cope with higher borrowing costs.

A few factors explained the economy's outperformance in the immediate aftermath of the referendum. The government eased fiscal austerity. In August 2016 the Bank of England cut interest rates to 0.25%. Happily, around the same time the world economy entered its first synchronised upswing since the global financial crisis. Britain is an open economy. Its exporters have benefited from strong foreign demand, especially from the European Union, by far the country's largest trading partner.

The economic impact of the vote for Brexit is turning out to be less of a sting and more of an ache. Sterling's referendum-induced decline has made imports pricier. Annual inflation exceeded wage growth for most of 2017. Although inflation has fallen from its recent peak of 3.1%, real wages are still barely growing. Today the average employee's pay packet is roughly 3% smaller than might reasonably have been expected in June 2016, when real wages were moving up. Brexiteers who emphasised how much Britain allegedly pays to the EU will be interested to learn that, across the whole economy, that adds up to around £350m a week in lost earnings. Growth in household spending, which accounts for some 60% of GDP, has slowed.



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That has duly made its mark on overall economic growth. In the first quarter of 2018 GDP rose by just 0.1%, the slowest rate since 2012. Poor weather at the start of the year hit the construction industry but overall had only a "limited" effect on the economy, according to the national statistics office. Perhaps more importantly, the world economy is slowing. Britain's exports have dropped for the past two quarters.

The MPC's decision in November to reverse its post-referendum rate cut, which was motivated by a desire to bring inflation back down to its 2% target, has not helped matters. The prospect of rising borrowing costs may have made the public more cautious. More than half of Britons believe that a further tightening of monetary policy is on the way, the biggest share since 2011. Some households seem inclined to pay down debt or save, rather than spend. Business investment has stagnated, which may also reflect the fact that the moment when Britain is actually due to leave the EU is fast approaching.

Many economists are now wondering whether Britain is heading for outright recession. Some recent surveys have not been encouraging. After a strong performance in 2017, manufacturing output appears to be falling. Retail sales have picked up—but they are poorly correlated with overall consumer spending. All told, it does not seem pessimistic to expect quarterly GDP growth of a meagre 0.1-0.2% in the second quarter of 2018.

There is little chance of the economy bouncing back soon. Consumer confidence remains low. Businesses have only modest plans for investment in the coming months. In 2018-19 the government appears to be ramping austerity up again as it seeks to close its budget deficit despite a new promise to spend more on the health service. Britain seems to be trapped in a period of low growth. And Brexit has not even happened yet.

Medicine

High and mighty

Britain is set to allow the medical use of cannabis


Luca D'Urbino

Jun 21st 2018

THE terrible suffering of Billy Caldwell, a 12-year-old boy with epilepsy, seems to have forced the government into a landmark concession over its drug laws. His seizures were controlled with a pharmaceutical-grade cannabis oil that is made in Canada. But when his mother tried to bring a supply into the country, it was seized by the Home Office. The law deems cannabis to have no medical value, and its possession has been illegal since 1971. When Billy was later hospitalised with a return of his seizures, Sajid Javid, the home secretary, relented and issued a 20-day licence for the product. Billy was then treated and released from hospital.

Despite the short length of the licence, Mr Javid's move set a clear precedent for the medical use of cannabis in Britain. On June 19th he duly announced a change of policy, on the grounds that it had become apparent that there was a pressing case for letting people who might benefit from cannabis treatments have them. Within a week, the Home Office will set up a panel of clinicians to review requests for access to cannabis for medical use. Hundreds or even thousands of applications can be expected, most of them from patients suffering from epilepsy, multiple sclerosis or chronic pain.

The Home Office has also started a review of how the law treats cannabis for medical purposes. Since Mr Javid says the government plans to permit the drug's use if it has significant medical benefits, and he has implicitly conceded that such benefits exist, a relaxation of the rules seems inevitable. When Sally Davies, the chief medical officer, reviews the evidence for the medical benefits of cannabis, she will find stacks of reports supporting its use in the management of pain, nausea and anxiety as well as epilepsy.

The way the law treats cannabis has become increasingly absurd. One component of cannabis, cannabidiol (sold as CBD oil) is available on the high street as a food supplement and has even been described as a medicine by the agency that regulates drugs. Another component, tetrahydrocannabinol (THC), is found in Sativex, a medicine prescribed to treat spasticity in multiple sclerosis—and made by a British company. A cannabis-based drug for epilepsy is also in the pipeline. Meanwhile, the medical use of cannabis is being legalised all over the world.

Crispin Blunt, a Tory MP and co-chair of a cross-party group on drug reform, thinks cannabis ought to become a schedule 4 drug. This category includes benzodiazepines, anti-anxiety medicines and steroids. Legalisation would mean that patients would not need to fear the law or be exposed to the illegal trade—along with strains of the plant that are used more for their mind-bending than their therapeutic potential. Patients would also be able to obtain pharmaceutical-grade products that are subject to strict quality control. And a change in the scheduling of cannabis would make research into its medical use far easier.

William Hague, a former Tory leader, suggested this week that cannabis ought to be legalised completely, as it has just been in Canada. He argued that the war against it had been lost. But Mr Javid insisted that his review should not be seen as a first step towards the legalisation of cannabis for recreational use. Even so, moves to legalise it for medical use will trigger discussions about the growing support for similar use of drugs such as LSD and MDMA in mental-health disorders.

There is little doubt that a change in the rules for cannabis will lead to more being used for recreational purposes. That has been the experience of other countries. However, drug diversion also happens with many other kinds of drugs, including ADHD medicines and opioids. Cannabis misuse by the young raises genuine concerns about links to schizophrenia. Yet the harm must be set against the medical benefits. And most forms of cannabis have a low potential for dependency—much lower than alcohol, for instance. The story of Billy Caldwell suggests that, unusually, a hard case will make good law.

A pantomime in ermine

Peers fight for a place in the House of Lords

Hereditary peers take part in the silliest tradition from Britain’s most farcical institution

Jun 21st 2018

IT IS the most exclusive of elections. Those standing are an array of earls, viscounts and even a duke. It is also one of the most surreal. One candidate’s manifesto suggests an analysis of whether his future colleagues are “right-brained” and creative or “left-brained” and analytical. (“I personally can only offer…my right-side of the brain.”) Another brief pitch ends: “Flexible working hours allowing attendance. Politically independent.” A third mentions his presidency of the Noblemen and Gentlemen’s Catch Club, a society for glee music. Welcome to the world of by-elections for hereditary peers in the House of Lords.

These by-elections are a modern quirk in a place of more ancient anachronisms. Tony Blair pledged to abolish hereditary peers, who pass on their titles, from Britain’s unelected second chamber. As a compromise to get the policy through the very body that he wanted to overhaul, 92 were kept.

Rather than dwindling as a result of death or retirement, their numbers are replenished in by-elections. This was supposed to be a stop-gap until further reform. But two decades on, that has yet to arrive.

Instead, whenever a hereditary peer hangs up his ermine, a pantomime of democracy follows. Only those with hereditary titles may register to stand. The electorate consists of hereditary peers from the same party as the departing member. This just about works for Conservative hereditaries, who number 48. In 2016, however, there was a by-election to replace a Liberal Democrat peer, which meant that an electorate of three chose from among seven candidates. This summer two by-elections are needed to replace Earl Baldwin of Bewdley, a former French and German teacher turned cross-bencher, and Lord Glentoran, a Tory peer who once won an Olympic gold medal in the bobsleigh.

Some peers are trying to end the pantomime. Lord Grocott, a Labour peer and former MP, has proposed a bill to scrap by-elections. The remaining peers would then die out and the House of Lords would become an entirely appointed chamber. "It is nothing personal, it's just a stupid system," says Lord Grocott. After all, the hereditary peers are not without merit, he adds. Earl Howe, for instance, has been a sharp and able Conservative minister. But even for an institution as anachronistic as the House of Lords, the by-elections jar.

Watching the Lords swings between the heartening and the depressing. Sometimes it resembles the letters page of the *Daily Telegraph* come to life. Crusty men in suits that once fitted rise slowly to their feet to make confused points. Yet it offers rigorous scrutiny of the sometimes ham-fisted laws that are thrown its way by MPs in the Commons. Its select committees do especially valuable work. During Brexit, the Lords have taken on outsized importance, demanding fundamental and worthwhile changes to the government's fitful efforts to negotiate Britain's departure from the EU. Farcical by-elections can only undermine an undemocratic yet still effective second chamber.

Brexit and Parliament

Theresa May heads off a rebellion

The prime minister fends off her Tory rebels to get the EU withdrawal bill through. But she still faces problems over Brexit in Parliament—and in Brussels

Jun 21st 2018

ATTEMPTS to defeat a government in the House of Commons rarely succeed, even when (as now) it lacks a clear majority. MPs' natural wish to support their prime minister, their own ambitions for preferment and the whips' cruel ways all make for a reluctance to rock the boat. So it proved again this week, when Theresa May saw off threats to amend the European Union withdrawal bill to give MPs, not the government, the decisive say over what should happen if a no-deal Brexit looms next year. She yielded on just enough points to lure most would-be rebels into the government lobby.

This produced the bizarre spectacle of Dominic Grieve, a former Tory attorney-general who had drafted the text under scrutiny, voting against his own amendment on June 20th. Shortly afterwards the Lords too acquiesced, and the EU withdrawal bill will now duly become law.

Mr Grieve claimed to have won last-minute concessions. David Davis, the Brexit secretary, promised that parliamentary time would be made available for debate. He also said the Speaker would decide if a motion in such a debate could be amended by MPs. The government had earlier tried to insist that a motion on a no-deal Brexit must be unamendable, depriving MPs of influence over what to do.

It is also true that, if Parliament rejects a Brexit deal this winter or the government fails to secure any deal at all, there will be a huge political crisis. Mrs May might have to resign, and there would be pressure for an election. Yet the rebels' failure to go to the wire leaves them weaker. They complained loudly that Mrs May had broken a promise to accommodate their wishes, and vowed not to be intimidated. They still threaten next month to require the government to join a customs union with the EU. But the suspicion must be that, unlike the implacable Brexiteers, they are willing to wound but not to strike.

This is all the clearer since the arguments Mr Davis used against the rebels were so thin. His complaint that they were improperly trying to take over the negotiations was unpersuasive. They merely wanted the Commons to have a meaningful vote on a Brexit deal, not to be told that the only alternative was leaving with no deal, which they see as disastrous. Nor would a defeat for Mrs May automatically weaken her hand in Brussels. The truth is usually the reverse: national leaders often win the day by explaining that they cannot accept EU proposals they dislike because of recalcitrant MPs at home.

The charge that Tory rebels are really seeking to overturn the referendum result is more telling. A campaign against Brexit is indeed under way. To mark this weekend's second anniversary of the vote, a march will call for a fresh referendum on any Brexit deal. Public opinion is slowly shifting towards the view that Brexit is not just being mismanaged but is also a mistake. Yet the main concern of the rebels is to block a no-deal Brexit that does not have parliamentary backing. Mrs May's government also has no appetite for it. Few preparations have been made for leaving with no deal, and the cost of doing so is increasingly clear. Indeed, as she makes ever more concessions to the EU, Mrs May's old mantra is being reversed. A bad deal, it now seems, is better than no deal.

That does not make no deal an impossibility. The clock is ticking inexorably towards Brexit day on March 29th 2019. Next week's EU summit was supposed to take a decisive step towards a settlement. Yet the draft conclusions of the summit express concern over slow progress in the talks and over the failure to reach final agreement on a way to avert a hard border in Ireland. They also call for greater preparation for all possible outcomes, implicitly including a no-deal Brexit.

EU leaders have no desire for a big row with Mrs May now, not least because they have much else to discuss besides Brexit. But they worry that her cabinet is still divided and her government has not yet faced up to the trade-offs needed for a deal. The fact that her promised Brexit white paper is not appearing until after the summit is another annoyance. The talk in Brussels now is of putting off the endgame until November or even December. That will leave precious little time for last-minute bargaining—and even less for securing approval, which is needed from the European Parliament in Strasbourg as well as from Parliament in Westminster.

Policing branches out

A blurred blue line for cops

DARLINGTONThe Old Bill is having to cope with far broader demands than it once did

Jun 21st 2018 | DARLINGTON

THE blue lights twinkle and the sirens cry out as Durham Constabulary's night-shift cops race to the 617th call of the day. Yet they do not pull up at the scene of a stabbing or a pub brawl, but outside a mental-health hospital. It is familiar turf: police were summoned earlier that day when a patient went missing. He was eventually found, popping to the gym. Now another patient has wandered off, a 20-something woman who lives 50 miles away but is staying here because of a lack of beds in her hometown. The police find her, on another ward, and coax her back to her room. How did she slip out? "To be honest with you," a nurse says, "it's because we're running on low."

The police have always had a wide remit. Egon Bittner, a sociologist, once defined policing as responding to "something that ought not to be happening and about which someone had better do something now". But there is evidence that demands on front-line cops are becoming broader. More than four-fifths of the calls they receive are not related to crime, according to a report in 2015. The Metropolitan Police responds to a mental-health call every 12 minutes, an increase of a third in five years. Over the five fiscal years to 2016, the national number of reports of missing people jumped by 16%.

Shifting expectations may partly explain rising demand. Cops must respond to changing public priorities to maintain their legitimacy, argues Rick Muir of the Police Foundation, a think-tank. They adapted to concern about antisocial behaviour in the 2000s. Now there is more awareness of mental health and greater concern about missing children, following a series of sexual-abuse scandals.

Another explanation is that budget cuts have shifted demand from other public services. The number of mentally ill adults has grown steadily over the past 25 years, but there are 12% fewer mental-health nurses than there were in 2010. Funds for ambulance services have risen, but not by enough to keep pace with demand. The police often pick up the slack. In one case, they spent 20 hours with a woman who had left a psychiatric hospital three times that week before medics could assess her. Calls spike at 5pm on Fridays, when social workers hand over their caseloads. “People don’t just get into crisis in office hours,” grumbles Sir Tom Winsor, the chief inspector of the constabulary, who wants other services to work in the evenings and at weekends.

Coppers tend to be poorly equipped for their new roles. Police budgets have also been chopped. There are 14% fewer police officers than there were in 2010. Those who remain are hardly mental-health specialists. Most on the Darlington night shift say that they spent half a day of their 13-week initial training on the topic (the College of Policing now recommends at least two days). “I was a mechanic,” says one. “They’re looking at me, saying ‘Help me’. It can be tough.”

Uniformed cops can also aggravate a mental-health crisis. And the gap between recruits’ expectations and the reality of what they end up doing risks damaging morale and breeding cynicism, says Sarah Charman of Porstmouth University. After five weeks in the job, three-quarters of recruits whom she studied said their primary purpose was fighting crime. After four years, only about 40% thought so. Recent reports that remarkably few crimes are solved will not help.

But some forces are adapting. Mental-health nurses have been working in some police call-centres since 2013; others travel to incidents with cops. They can obtain medical data and advise officers on how to respond. The scheme has led to significant falls in compulsory mental-health detentions by police in some areas. A handful of forces are taking an even more radical approach, attempting to tackle the causes as well as the consequences of the demand. Durham Constabulary finances a charity that organises football matches and litter-picking. It has restored a fishing boat for locals and turned a vacant allotment into a vegetable patch. Mike Barton, the chief constable, says he is happy to spend his budget improving neighbourhoods so that they look after their own needs. “If it is going to be our problem later on, we may as well deal with it.”

Glasgow School of Art fire

A burnt-out case

Charles Rennie Mackintosh's architectural masterpiece may never be rebuilt

Jun 21st 2018

JUNE 7th was the 150th anniversary of the birth of the architect and designer Charles Rennie Mackintosh. Glasgow has staged numerous events and exhibitions to mark the work of one of the city's favourite sons, and his impact on British and European art. Virtually unknown during his lifetime, Mackintosh and his buildings have become one of the city's biggest attractions.

Sadly the most famous, the Glasgow School of Art, finished in 1909, suffered a catastrophic fire on June 15th. The damage was so bad that it may be the end for this landmark building, an idiosyncratic melange of Scottish baronial, Japanese domestic and *art nouveau*. The art school was the most important example of the distinctive "Glasgow Style".

Four years ago a previous fire had destroyed about a third of the building, including the famous library, crafted entirely by Mackintosh, from the desks to the lights. The latest fire was more devastating. At its height about 120 firefighters were battling the flames. Once again the library, which had been painstakingly restored, even down to sourcing Mackintosh’s original nails from America, was gutted. But this time, the rest of the interior suffered the same fate. Early reports suggest that automatic fire sprinklers had not yet been fitted as part of the building’s restoration.

Billy Hare, a professor of construction management at Glasgow Caledonian University, says “if it was any other building it would be demolished”, such is the damage. The cost of restoring the building after the previous fire was £35m. Mr Hare estimates that this time it could be more than £100m. It would be possible to do. There is a detailed 3D digital record of the building that would allow restorers to copy most of the original exactly. Local politicians have already voiced hopes that the much-loved art school could rise again. But some argue that this is not what Mackintosh would have wanted. Attempts to recreate the building now would amount to a pastiche or replica, not a restoration, and Mackintosh was an innovator, not an antiquarian. Anyway, Mr Hare notes, if it were rebuilt the building would again incorporate all the features that made it such a fire hazard in the first place. And heart-broken Mackintosh fans certainly don’t want to go through it all over again.

Perhaps the best way to honour Mackintosh’s radical spirit would be to invite submissions for an equally bold new design on the same site.

Bagehot

Podsnappery and its reverse

A great divide in British politics is between Mr Podsnap and his alter ego

Jun 21st 2018

JOHN PODSNAP is a minor character in Dickens's last completed novel,"Our Mutual Friend", but he is impossible to forget. He is convinced that England is the best of all possible countries and the rest of the world is nothing more than "a mistake". His invariable verdict on the manners and morals of other countries is "Not English", delivered "with a flourish of the arm and a flush of the face". Encountering a Frenchman at dinner, he gives the "unfortunately born foreigner" a lecture on "le constitution Britannique". "We Englishmen are very proud of our constitution…it was bestowed upon us by providence. No other country is so favoured as this country."

The word Podsnappery has since found its way into the Oxford English Dictionary. But as E.P. Thompson, a Marxist historian, pointed out, many English people suffer from the opposite deformation: reverse Podsnappery. This proceeds from the premise that other countries are superior in every way (particularly when it comes to food and sex) and Britain is infinitely ghastly.

Reverse Posdnappery is particularly common among the better classes. There is something about an expensive education in private schools and Oxbridge that disposes people to despise their own country. A depressing amount of English literature is an extended version of Cyril Connolly's complaint that England is "a dying civilisation—decadent but in such a damned dull way".

The Brexit vote has similarly divided Britain into two camps. Podsnaps are delighted that England is breaking away from the continent, with its meddling bureaucrats and Napoleonic legal code (Podsnaps may say "Britain" but they really mean "England"). Reverse Podsnaps think Britain is rejecting cosmopolitan values in favour of a repulsive Little Englandism. What makes the argument frustrating is that both have truth on their side.

Thus Podsnaps start with good points. Britain does have a uniquely fortunate history. It never experienced revolutionary terror like France or eastern Europe or collective madness like Germany. It contrived ways of limiting the power of the state through parliament and the common law before any other big country. It played the pivotal role in saving the continent from Nazi Germany. This is a history to be proud of.

But this sense turns into nonsense when Podsnaps echo their hero's view that Britain possesses these virtues "to the direct exclusion of such other countries as there may happen to be", or when they think being proud of your country means looking down on others. It is an oddity of modern Britain that the leading practitioner of turning sense into nonsense—Mr Podsnap in modern dress—should be the foreign secretary. Boris Johnson seems to regard foreigners as figures of fun and likes to point out that all good things were invented in Britain. During the 2008 Olympics he claimed that, even though the Chinese might be champions at table tennis, the game was "invented on the dining tables of England in the 19th century…it was called 'wiff-waff'."

Reverse Podsnaps also start with good points. British history is marred by imperialism and exploitation. A great virtue of Britain has been its openness to foreign ideas and intellectuals. Some people voted for Brexit for discreditable reasons. But reverse Podsnaps take good insights to ridiculous lengths. Emily Thornberry, now the shadow foreign secretary, once posted a tweet mocking a "white-van man" who draped his house with flags of St George. Tom Gann, editor of *New Socialist*, maintains that "Britain has the most morally and intellectually degraded and degrading public sphere in the world". A YouGov poll last October found that 46% of Londoners named "Londoner" as their primary identity, 25% European, 17% British and only 12% English.

Reverse Podsnappery is defined by double-think when it comes to nationalism. Although English nationalism is the sum of all evils, other forms of nationalism (Irish, Scottish, Palestinian) are fervently embraced. It is also defined by parochialism. Reverse Podsnaps are less interested in other countries than in using them to attack their own. Once upon a time they would fixate on the Soviet Union as a way of criticising Britain. Now they are more likely to fixate on Germany.

Jeremy Corbyn is to reverse Podsnappery what Mr Johnson is to Podsnappery. Despite being brought up in a manor house in Shropshire, the Labour leader has spent his life in revolt against "Englishness". On leaving school he decamped to Jamaica (where he was known as "beardie") and Latin America. As a young MP he liked to relax in Irish bars singing Irish freedom songs. He supports an alphabet soup of national-liberation movements. He brought the same starry-eyed credulity to Venezuela that Sidney and Beatrice Webb did to the Soviet Union.

Podsnaps and reverse Podsnaps are both in the grip of the same mistake. They refuse to recognise that all advanced countries struggle with common problems such as low growth, pressure from refugees and rising inequality. They fail to see that economic decisions are about trade-offs, not discovering eternal solutions. The German emphasis on training and the British preference for flexibility both have costs and benefits. But rather than confronting this error they delight in egging each other on.

Time to scrap both Podsnaps

This is at its most dangerous in the Brexit negotiations. Podsnaps see the EU as a plot to destroy "le constitution Britannique". Jacob Rees-Mogg calls soft Brexit "the equivalent of a 'Norman Conquest' that would reduce Britain to the level of a 'vassal state'." Reverse Podsnaps see the European Commission as the embodiment of universal wisdom and EU negotiators as reasonable people negotiating with bigoted fools. Taking the country through the complexities of Brexit without splitting it down the middle will be hard even for rational people. It will be impossible if the British refuse to dump the twin bigotries of Podsnap and his alter ego in the dustbin of history.

International

- **Public transport: Missing the bus**

Missing the bus

Public transport is in decline in many wealthy cities

Blame remote working, Uber, cheap car loans and the internet

Jun 21st 2018 | LOS ANGELES

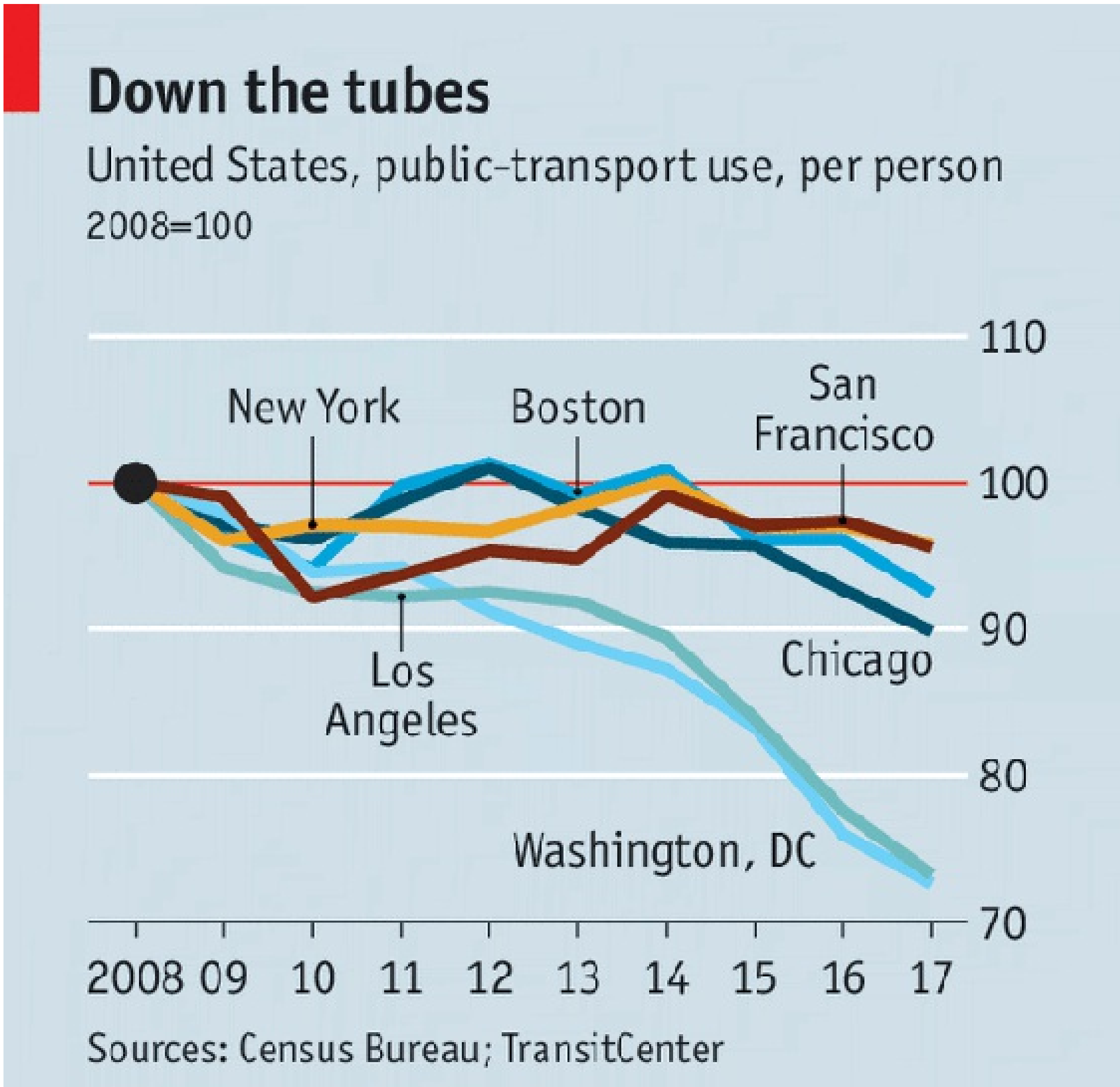
JUANA, who came to America from Guatemala, used to take the bus to and from cleaning jobs. It wore on her. Walking to the bus stop after a long day at work was exhausting, especially when it rained, as it occasionally does in Los Angeles. Now Juana drives everywhere, even to her local supermarket, a few blocks away. She had two aspirations: to learn English and to get a car. She has accomplished both.

Although Los Angeles has organised itself around the car since the second world war, it has tried harder than many other American cities to change this. Since 1990 voters have approved three tax rises to pay for public transport. A railway and rapid-bus network has been built quickly—by rich-world standards, if not Chinese ones. Public-transport users, however, are dwindling. In the past five years the number of trips taken in metropolitan Los Angeles has dropped by 19%.

The City of Angels is leading a broad decline. The American Public

Transportation Association's figures show that the number of journeys in the country as a whole has fallen in each of the past three years. In 2016-17 every kind of mass public transport became less busy: buses, subways, commuter trains and trams. New Yorkers took 2.8% fewer weekday trips on public transport and 4.2% fewer weekend trips in the 12 months to April 2018, compared with the previous year. In Chicago and Washington, DC, the decline in public-transport trips has been even steeper.

Public transport is holding up better in other rich countries, but not by much. In Toronto, adult trips have fallen every year since 2014 (the city made public transport free for young children, so their numbers are up). In London, bus journeys are down by 5% since the 2014-15 fiscal year. The London Underground has remained more popular, although in the year to March 2018 the number of Tube journeys fell by 19m, or 1.4%. That was despite annual population growth in London of about 1% and a 3.3% rise in employment in the past year. The Paris Metro carried only as many passengers in 2017 as it did in 2012. In Berlin, public transport journeys are growing about half as quickly as employment.



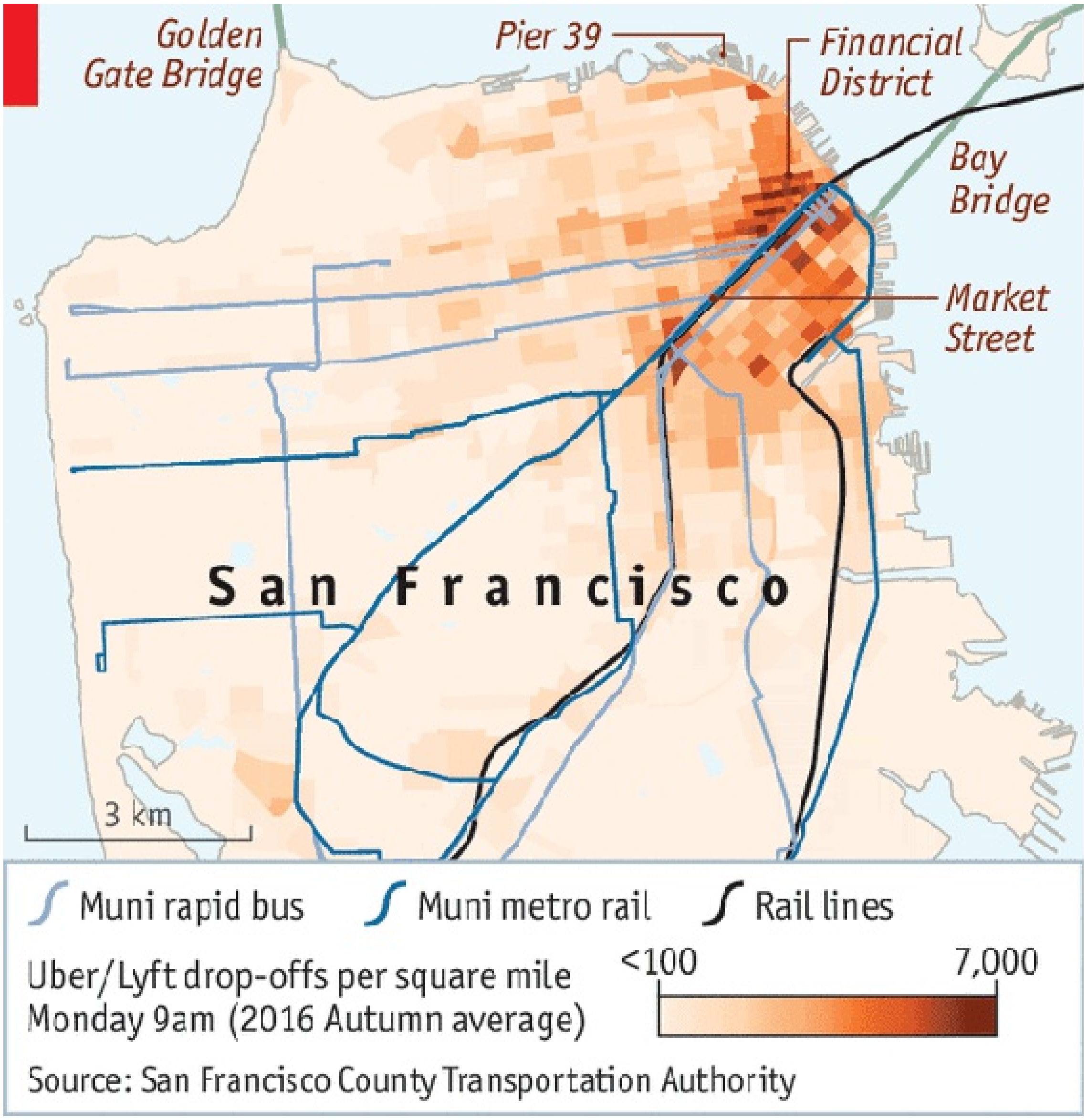
Economist.com

There are exceptions. More people are taking public transport in Sydney and Tokyo. And some transport agencies can point to specific reasons for their emptying buses and trains. London and Paris have suffered terrorist attacks. New York's subway is creaking—a consequence of prolonged underinvestment in repairs. Elsewhere, bad weather or roadworks are said to deter people from taking buses.

But demand for mass public transport has weakened in so many rich-world cities at the same time that one-off explanations seem inadequate. Not long ago annual passenger growth of more than 2% was normal, and transport-watchers mused that the private car was on its uppers. The recent decline, which is bad enough on a year-to-year basis, looks even worse when set next to transport agencies' forecasts. In New York, for example, bus trips in the first four months of this year were 7.6% lower than the transport agency expected. Something seems to be driving people off the trains and buses. But what?

One explanation, which is convincing in some cities, is that public transport has deteriorated. Look at Madrid, says Richard Anderson, a transport analyst at Imperial College London. Public-transport trips fell there beginning in 2008, as you would expect in a recession-hit country where unemployment was rising. In response to the downturn, the city cut services. People noticed, and stayed away. Between 2007 and 2013 the Madrid Metro lost 19% of its customers. Service levels, perceptions and demand have all improved since then, but the Metro remains quieter than it used to be before the financial crisis.

Elsewhere, though, customers are vanishing even though public transport is as good as it was, or better. Perhaps public transport has come to seem relatively dismal because people have acquired better options. Uber, Lyft and other "ride-hailing" car services are probably luring people away from trains and buses, just as they are demolishing the taxi trade. In San Francisco public transport accounts for 16% of all weekday trips, ride-hailing for 9%. People mostly seem to use Uber and Lyft to get to places well-served by mass transport (see map). One study of the city by five Californian academics asked ride-hailing customers how they would have made their most recent trip if the service did not exist. One-third replied that they would have taken public transport. In a study of Boston, 42% said the same thing.



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Self-driving taxis are likely to steal even more riders in future, because they will be so cheap. They can threaten public transport even before they appear on the roads. Last month voters in Nashville overwhelmingly rejected a plan to build several tram and rapid-bus lines. Opponents of the plan had argued that autonomous cars and buses would soon be a cheaper and better way of transporting people.

Two wheels good

Meanwhile, other technologies nibble at buses and trains. Many cities have tried to encourage cycling by creating bike lanes and allowing app-based bike-rental outfits (and, in some, scooter-rental outfits) to set up on pavements (see article). In Berlin, the network of cycle paths has grown from 856km to 1,433km since 2002. App-based rental schemes—the largest of which is run by Lidl, a discount supermarket—have grown from 2,000 to 16,000 bikes in two years. Cycling, although still uncommon, is proportionally the fastest-growing commuting mode in America.

The consequences of the rise in two-wheeled travel are not entirely clear. Cycling could boost public transport by helping people get to stations; or it could undermine public transport by providing a cheap alternative to buses and trains. Susan Shaheen, a researcher at the University of California, Berkeley, suggests that both of these can happen at once. In Washington, DC, bicycle-sharing seems to bring more people to public transport in the suburbs but draw them away in the city centre.

Another possibility is that city-dwellers are simply travelling less. Footfall in London's shops was 1.5% lower in May than a year earlier—a slump that the British Retail Consortium blames on the growth of online shopping and weak consumer confidence. It means fewer travellers, especially to West End stations such as Oxford Circus. "When the retail sector suffers, we suffer as well," says Shashi Verma, the chief technology officer at Transport for London. In several cities, including Paris and San Francisco, weekday trips have held up better than weekend trips, hinting that people are dropping unnecessary outings.

Working habits are changing, too. Gallup, a pollster, found in 2016 that 43% of American workers spend at least some of their time working remotely, up from 39% in 2012. Remote working also intensified—ie, telecommuters spent more of their time telecommuting. In Britain, the numbers working exclusively at home grew from 2.9m in 1998 to 4.2m in 2014, according to official statistics.

"Most people who I know work at least one day a week at home," says Sandra Jones, an expert on London property at Dataloft, a consultancy. She points to two other changes that may have kept people off buses and trains. Even when workers do get out of the house, many travel to flexible "co-working" offices, which might be close to home. The second change is a rash of office development around railway stations. The Office Group, a fast-growing outfit, actually rents offices inside stations. The company says these are popular among commuters from outside London, who can take a train to work and no longer have to transfer to a Tube train or a bus.

In almost every city in the rich world, the fiercest competition for public transport comes not from Uber, cycling or the appeal of working from one's back garden. Rather, it comes from driving. In America 76% of commuters drive to work alone, and the share has risen fractionally in the past decade. The final explanation for the emptying buses and trains is that the lonely car journey has become more appealing.

It is certainly cheaper. The oil price began to fall in the summer of 2014. It has since rebounded, but not to its elevated levels of five years ago. Meanwhile, car engines have become more frugal. Cheaper oil greatly cuts the cost of driving around America, where fuel is only lightly taxed. Even in Britain, data from the RAC Foundation, a research group, suggest that driving-cost inflation (which includes fuel as well as insurance and so forth) has been lower than bus-or train-ticket inflation over the past ten years.

Despite a loudly trumpeted urban revival, America's suburbs and more distant "exurbs" are growing faster than its central cities. Many of these places have poor public transport and plenty of room for cars, thanks to rules that oblige developers to provide a minimum number of parking spaces. Some European cities are sprawling, too. Berlin, long a cheap city (and an artists' haven as a result) is turning costly. Knight Frank, an estate agent, says that home prices in the city have risen by 21% in the past year. Those who leave Berlin in search of cheaper housing find an impoverished railway network, with only one train an hour on some lines. So they drive.

Four wheels better

In southern California, public transport is heavily used by poor immigrants, particularly immigrants from Mexico and Central America. But research by Michael Manville and others at the University of California, Los Angeles, finds that this group are rushing onto the roads behind their own steering-wheels. Between 2000 and 2015 the proportion of Mexican immigrant households without a car fell from 16% to 5%. Meanwhile, the immigrant population of Los Angeles and its environs is becoming a little less Hispanic and a little more Asian. “The countries that were most likely to send us transit riders are sending us a smaller proportion of immigrants,” says Mr Manville.

Along with other working-class Americans, Mexican immigrants find it easier to buy their own cars these days because loans have become so much cheaper and easier to obtain. Since 2015 some of them have also benefited from a Californian law that allows illegal immigrants to have driving licences. Perhaps more of them are arriving in America knowing how to drive, too. Car ownership is rising quickly in Mexico, as it is in other countries, such as the Philippines, that send lots of immigrants to America.

However, even in the cities where public transport is faring worst, it seems unlikely to disappear. People will keep using it when it is convenient, when they are feeling pinched, or when it is raining. But the days when commuters and shoppers followed regular tracks around cities, like migrating birds, appear to be over. Tony Travers, an urbanist at the London School of Economics (and a convert from the Tube to cycling) calls it: “a fragmentation of the world as we knew it”.

Special report

Special report

A wild ride

Radical reforms in Saudi Arabia are changing the Gulf and the Arab world

The crown prince is liberalising social norms and the economy, but clamping down on political dissent

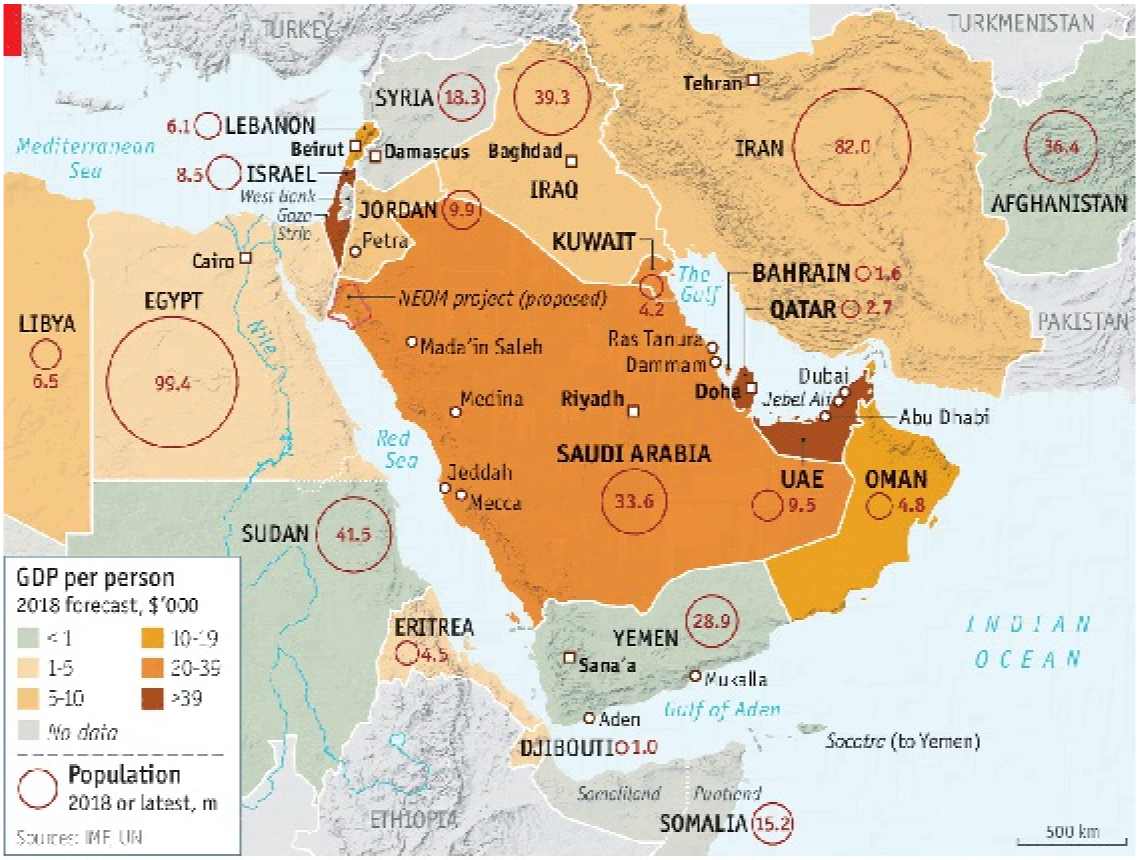
Jun 21st 2018

YEAR AFTER YEAR Arwa Alneami's pictures of women at an amusement park captured the obsessions of Saudi Arabia's killjoy religious police. On "the ship", a wild-swinging ride, black-clad women and white-robed men were made to sit at opposite ends. When they started throwing telephone numbers to each other, men and women had to take turns (pictured). The ship then sprouted opaque plastic sides to prevent men from looking at the women, and bright lights to dazzle the gawpers.

Then suddenly last year the *mutawaeen* disappeared. The Committee for the Prevention of Vice and the Promotion of Virtue, to give them their formal title, no longer have the power to enforce public morality. These days the Saudi state is all about promoting fun: concerts, fashion, art, sport. The ratchet of social rules has gone into reverse. Along with the muezzin's call to prayer the unfamiliar sound of laughter can be heard.

Ms Alneami's pictures also capture the pathos, humour and defiance of women riding bumper-cars at funfairs, the closest most could come to driving real cars. But on June 24th they will, at last, be allowed to take the wheel on Saudi roads. The artist says she and her four sisters are torn. One thinks it is too dangerous to drive. Another will dispense with a driver and pick up her children from school herself. Ms Alneami and the others will be patient. She has driven in the desert but will wait until the rush of women applying for driving lessons slows and the cost falls.

Saudi women have a long way to go—they are still subject to legal guardianship by husbands or male relatives who must, for instance, give them permission to travel. But Saudi Arabia is becoming less exceptional. The quest for normality is part of a remarkable revolution; an attempt to refashion Saudi society away from ultra-strict Islamic codes and diversify its economy away from dependence on oil. The kingdom is the world's biggest oil exporter and home to Islam's two holiest places, so the success or failure of the reforms will affect the rest of the world, starting with the Gulf Co-operation Council (GCC), a regional body that also includes Bahrain, Kuwait, Oman, Qatar and the United Arab Emirates. As one Saudi official put it: "Where Saudi Arabia goes, the GCC follows. Where the GCC goes, the Arab world follows. Where the Arab world goes, the Muslim world follows."



Economist.com

The country's first new public cinema since 1979 opened in April to enthusiastic audiences in a never-opened metro station in Riyadh, designed by the late Zaha Hadid, an Iraqi-born architect. The initial screenings were of superhero spectaculars: "Black Panther" and "The Avengers: Infinity War". But the most eye-popping aspect was the fact that men and women were allowed to sit together.

Saudis might think they are in a fantasy film of their own. The superhero is Muhammad bin Salman, the powerful crown prince, still just 32. "He has astonished people by breaking the rules of religious extremism and pushing for moderate Islam," says Ms Alneami. Many people worry God will be angry because so much is *haram* (forbidden), she says. "Some ladies struggle to breathe when they talk about the changes. I tell them 'You go to the cinema in Dubai. Is God only in Saudi Arabia and not in Dubai?' "

Most young Saudi men are delighted, too. A group of friends in their 20s, sitting at a coffee-shop in a mall, stand out in their T-shirts and baseball caps.

A year ago, they say, the *mutawaeen* would not have let them in. “They treated us as though we might be wolves,” says Fahad. His friend, Ahmad, chips in: “Previously, minds were closed. Now they are open.” But, for some in this group, not so open as to allow their own sisters to work in mixed offices. As one put it: “Our families and tribes would ask us: ‘Are you not men?’ ”

Two years ago, when he set out his reforms, known as “Vision 2030”, Prince Muhammad’s focus was almost entirely on reviving the economy, as oil prices were dropping sharply. Women’s right to drive would be left for society to decide, he declared. These days, social habits are changing so fast that some wonder whether the prince is, in fact, pursuing a social and religious transformation under the guise of an economic one.

Unlike many of his peers, the crown prince has not been educated in the West. He sees himself as the champion of the young (under-30s form a majority of the population). His changes amount to a youth revolution directed from the top down, by a prince in his palace, rather than from the bottom up, by angry demonstrators on the streets. The GCC states mostly avoided the uprisings of the Arab spring in 2011, and the chaos that ensued (unrest was quelled in Bahrain). Gulf leaders have long known that they could not rely on oil forever, but feared change. The motto of the late King Abdullah was *yawash, yawash* (slowly, slowly). Prince Muhammad, by contrast, “is flying high and fast”, says Abdulrahman al-Rashed, a columnist. “I have not yet recovered from shock after shock after shock.”

Although he is seen as the superhero, the crown prince also has much of the villain about him. The country has become more authoritarian. Critics of all stripes have been jailed; several women’s-rights activists were arrested in May. The number of executions has risen sharply. Hundreds of princes, officials and businessmen were hauled into the Ritz-Carlton hotel last year and made to hand over part of their wealth in a surreal “anti-corruption campaign”. “We have the right to dance,” notes one Saudi businessman. “But we do not have the right to speak.”

Still, there is new energy in the Gulf. For Abdulkhaleq Abdulla, a political scientist in the UAE, the Arab world is living what he calls “the Gulf moment”. The oil monarchies of the Arabian (or Persian) Gulf have moved to the centre of the Arab world. In an audio recording leaked in 2015, Egypt's President Abdel-Fattah al-Sisi and his advisers are heard to dismiss the monarchies as mere "half-states" with so much money that they treat it "like rice". But for all of their contempt, Egyptian rulers have become mendicants at the feet of the kings, emirs and sultans of the Gulf. Never before have Gulf states wielded such power. "The smallest Gulf state has more influence than the biggest Arab state," declares Mr Abdulla. The GCC accounts for about 60% of the Arab world's GDP but only 12% of its population (or half that, excluding foreign workers). It produces 24% of the world's crude oil. Dubai in the UAE has become a global city.

Riyadh is the centre of regional diplomacy. Donald Trump's first trip as America's president was to an Islamic-world summit hosted by King Salman. Gulf states have become even bigger buyers of weapons, and have been more willing to use them—most controversially in Yemen. Culture is blossoming, too. Gulf states have bought up much of the Arabic-language media, and launched several satellite-news channels, the most famous and controversial of which is Al Jazeera, based in Qatar. A branch of the Louvre museum is housed in a sumptuously latticed dome on Abu Dhabi's seafront; and Doha boasts one of the finest museums of Islamic art. Some of the world's best-known universities are establishing outposts in the region.

Shifting sands

This special report will examine how Gulf monarchies achieved all this, and the consequences of their new prominence. In part, they stand tall because so many of the old bastions of Arab power have toppled. Cairo is stagnant after the uprising of 2011 that ejected Egypt's strongman, Hosni Mubarak, and the coup of 2013 that brought another, Mr Sisi, to power. Damascus is contending with Syria's appalling civil war. Baghdad is only just recovering from Iraq's succession of conflicts. Beirut never regained its place after the Lebanese civil war of 1975-90.

Yet Gulf states can boast achievements of their own. In many countries there was poverty in living memory. "The water was yellow and my father used to filter it with his headscarf," says Sara al-Amiri, a minister in the United Arab Emirates. Now the UAE is a model of success. According to the annual Arab Youth Survey, issued by ASDA'A Burson-Marsteller, a public-relations firm, the UAE is the country where 18-to 24-year-old Arabs would most like to live, ranking well ahead of countries such as America, Germany or Canada.

Yet there is much uncertainty. Social transformation requires Saudi Arabia, in particular, to grapple with Islamic ultra-puritanism. In abandoning its past caution, it has waded into an unwinnable war in Yemen and split the GCC in a feud with Qatar. It hopes America will do more to push back Iran. Above all, Gulf states have to overcome their dependence on volatile oil and coax their pampered people into productive work. They must do all this without a destabilising backlash.

Much will depend on the impulses of three headstrong young men: Muhammad bin Salman of Saudi Arabia; Muhammad bin Zayed, the crown prince of Abu Dhabi and the real power of the UAE; and Sheikh Tamim bin Hamad, the emir of Qatar.These royals are less constrained by the traditions and obsessions of the past, notably the question of Palestine. Neither Qatar nor the UAE existed as independent states when Israel humiliated Arab armies in 1967. Given the fear of Iran, many Gulf leaders these days regard Israel as an ally rather than a foe.

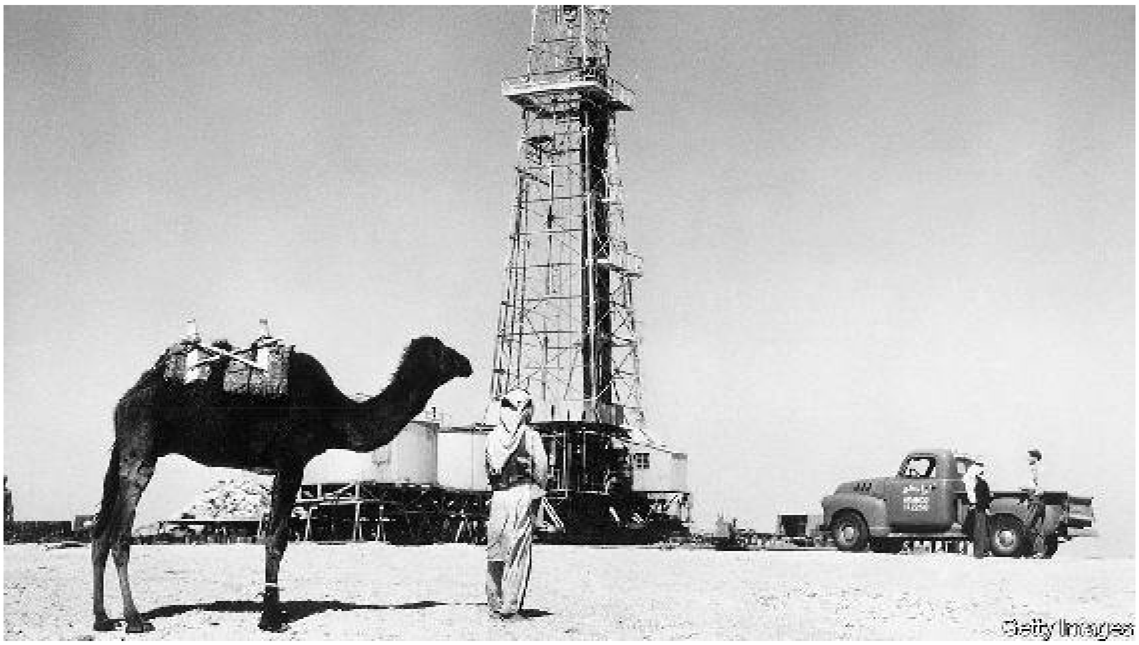
Rich, ambitious, unconstrained by democratic institutions and too often untempered by experience, the three royals have the daring to lead their countries to a post-oil future, and to promote more moderate forms of Islam. But they also betray a rashness, especially in foreign policy, that could just as easily lead to the next round of chaos and war in the Arab world.

Special report

From pearls to black gold

How oil transformed the Gulf

It turned poor Arab tribes into some of the world's wealthiest states



Jun 21st 2018

NATURE GAVE THE Gulf two bounties. Above, in the shallow waters of the sea, oyster beds have yielded pearls since antiquity. In the 19th century they were sold across the world through merchants in Mumbai. Below ground, in ripples of rock where the Arabian plate pushes under the Eurasian one, some of the world's richest oil deposits were discovered in the early 20th century—in Iran in 1908, Iraq in 1927, Bahrain in 1932 and, above all, in Saudi Arabia in 1938.

Until then the Gulf had mostly been of marginal importance to surrounding empires. Notions of sovereignty were vague and applied to people more than land. Nomadic, tribal lifestyles meant that rulers had limited means to enforce their will, since dissenters could move elsewhere.

The Al Khalifas who settled in Bahrain split from the Al Sabahs of Kuwait;

both trace their origins to a migration from central Arabia in the 17th century. The Al Thanis of Qatar, in turn, rebelled against the Al Khalifas. The Al Maktoums of Dubai split away from the Al Nahyans of Abu Dhabi. Tribes straddle modern borders, and many of the Gulf's ruling clans intermarried.

Starting in the 18th century, the Gulf emirs came under the protection of the British empire, which sought to keep rivals away from the approaches to India. The British imposed truces on the internecine fights of the emirs (hence the region's name, "the trucial coast").

In the Arabian interior, meanwhile, the Al Sauds in the Nejd struck a pact in the 18th century with a puritanical cleric, Muhammad ibn Abdel-Wahhab, and his followers. Together they conquered much of the peninsula and the alliance persisted through the ebb and flow of the Al Sauds' rule.

The first Saudi state of 1744-1818 was crushed by the Ottomans. The weak second Saudi state of 1824-91 collapsed from internal turmoil. The third and current one was reconstituted by Abdel Aziz Al Saud and named Saudi Arabia in 1932. He received some help from Britain. It acquiesced when he defeated the Hashemites, Britain's ally in the first world war, and took the holy cities of Mecca and Medina. But Britain prevented him from overwhelming, among other places, the trucial coast and Oman.

President Franklin Roosevelt met King Abdel Aziz in Egypt in 1945 after the Yalta summit, laying the foundation for an enduring, if troubled, alliance. The British withdrew from east of Suez in 1971 and were replaced by America as the region's protector from 1979, after the Iranian revolution and the Soviet intervention in Afghanistan.

Oil turned the poor and loosely organised tribes of the Arabian peninsula into some of the world's wealthiest states. In contrast with most countries, which must tax citizens to raise the money needed to provide services and security, Gulf rulers collected rents from oil and distributed some of the bounty to citizens. These "rentier states" provided cradle-to-grave benefits in return for obedience. In Saudi Arabia, the rulers gave Wahhabi clerics leeway to impose social norms and in return received religious legitimacy for their rule.

Gulf citizens were propelled from poverty to a life of comfort. Standards of health and education improved quickly. The thinly populated Gulf states hired Western experts to help them build their countries and an army of Asians to do the menial labour. Foreigners make up about half the population of Gulf states, ranging from 90% in the UAE and Qatar to 30% in Saudi Arabia.

For all the benefits of oil, however, some lamented the passing of the hardy desert life. Bandar bin Surur, a 20th-century Saudi poet, wrote: “The chiefs of Nejd’s tribes who uprooted mighty armies/have become docile and content to feed, like chickens, on grain thrown to them on dirt.”

Because benefits for citizens are so generous, rentier states define citizenship narrowly, even cruelly, excluding hundreds of thousands of Arabs known as *bidoon,* who are not deemed to qualify. Foreign workers, too, are largely kept in a state of bondage through the *kefala* system, whereby local sponsors of expatriates must give consent for them to change jobs or leave the country. As with much else, citizenship in the Gulf is a gift from the ruler, not a right.

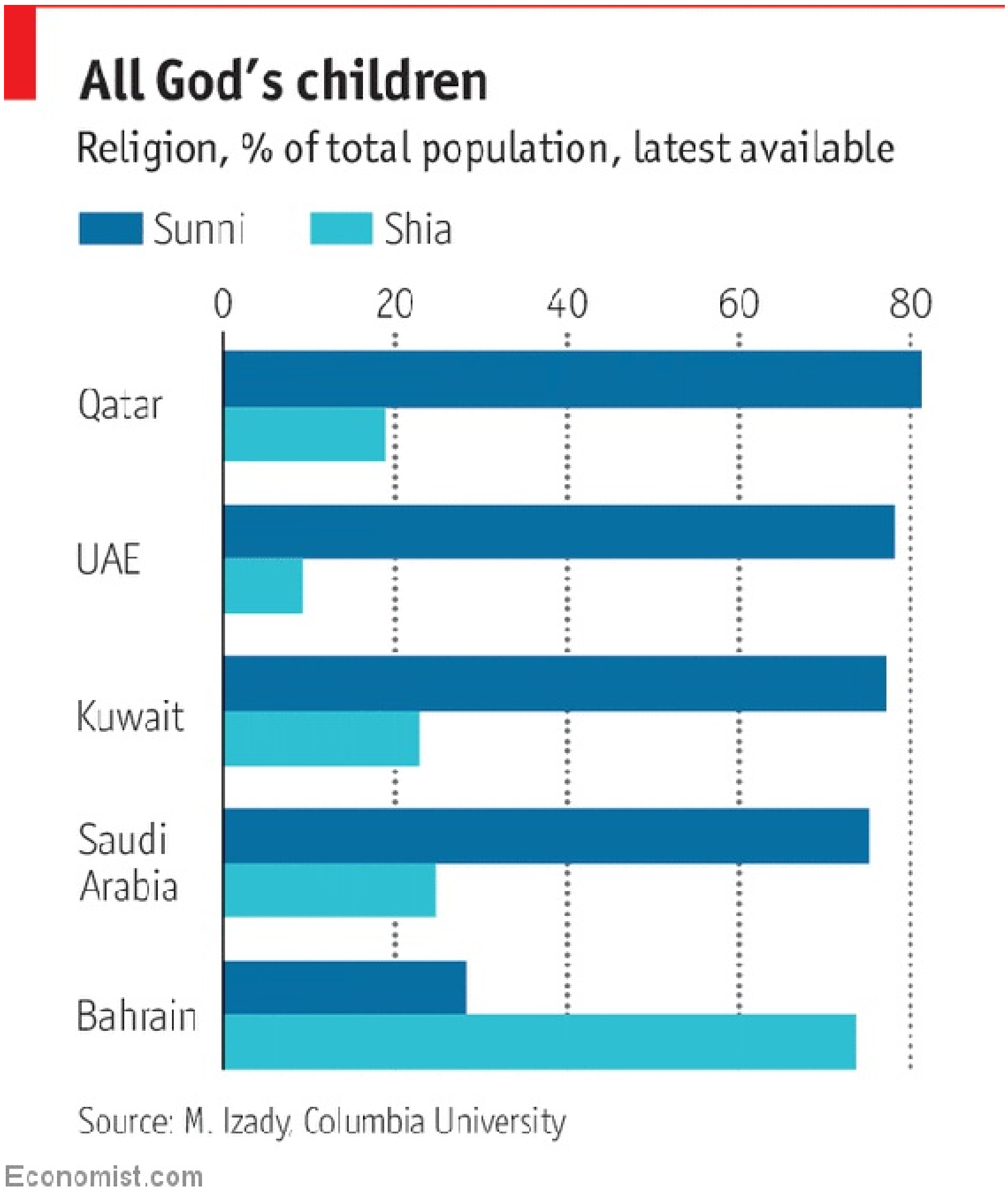
Special report

Muslims but not brothers

Saudi Arabia turns against political Islam

The crown prince tries to reform Wahhabism and isolate the Muslim Brotherhood

Jun 21st 2018



HOW TO OVERTURN God's law? Or, rather, how to change what you had previously said was God's law? This is the question facing Muhammad bin Salman as he loosens social restrictions. His conclusion? Blame it all on Iran. The crown prince says his country took a wrong turn in 1979. That was the year when Shia Islamists overthrew the Shah of Iran, Sunni extremists opposed to the Saudi monarchy stormed the Grand Mosque in Mecca and the Soviet army marched into Afghanistan.

Before that, so the story goes, Saudis could enjoy cinemas and concerts. Even in the time of Abdel Aziz Al Saud, the founder of the modern Saudi state, women worked in the fields and rode camels alone. But after 1979 Saudi kings, who call themselves custodians of the two holy mosques, resolved to outdo their foes, both Shia and Sunni, in Islamic piety.

The more relaxed social rules now being introduced are thus no heresy, says the crown prince; they are simply a return to a pre-existing normality. "Islam is moderate in its ways. It is unfortunate that extremism has hijacked this religion," says Sheikh Mohammad Alissa, head of the Muslim World League, a body that has long spread ultra-puritanical ideology. It is a sign of the new times that, these days, it is busy making ecumenical contacts with Christians, Jews and others.

For Stephane Lacroix of the Sciences-Po university in Paris, the crown prince is building a myth: "Saudi Arabia's religious authorities were extreme even before Ayatollah Khomeini ruled over Iran." The difference, he says, is that after 1979 they were given free rein to impose their rules in corners of the kingdom from which they had previously been kept out, such as wealthy neighbourhoods of Riyadh. With the emergence of global *jihad*, Saudi rulers have struggled to avoid association with extremist groups such as al-Qaeda, the Taliban and Islamic State (IS), whose religious practices and doctrines resemble those of Saudi clerics except in when and where to resort to political violence.

How can Saudi authorities distance Wahhabism from jihadism? One argument is semantic. They deny that there is any such thing as Wahhabism; what they practice, they say, is plain Islam as it existed among the *salaf*, the generation of the Prophet and his companions (thus they accept "salafism"). A second defence is doctrinal. Real salafism is quiet and non-political, they say. "It dictates that we should obey and hear the ruler," says Sheikh Mohammad. A third contention is that, if salafists have become rebellious, that is because they have been infected by the ideas of the Muslim Brotherhood. Founded in Egypt in 1928 during the agitation against British rule, the Brotherhood has inspired political Islam across the Arab world under different names, and with various degrees of militancy—from Ennahdha, the "Muslim democrats" of Tunisia, to Hamas, the armed

Palestinian movement that rules Gaza.

Brothers are often less puritanical in Islamic practices than salafists but, because they permit rebellion against impious rulers, they are regarded as more subversive. Still, early on the Brothers enjoyed good relations with Gulf rulers, who thought them useful against nationalists and leftists. But after the Iraqi invasion of Kuwait in 1990, when part of the Brotherhood supported Saddam Hussein, the Islamists were regarded with greater suspicion. In many Arab countries the Brothers established themselves by providing social services for the poor. In the rich Gulf, the Brotherhood developed a form of "rentier Islamism" in which opposition was based on religious issues, says Courtney Freer of the London School of Economics. "Islamists have not tended to focus on economic policy," she argues. "Theirs is a moralising agenda. For them, governments have to prove that they are guardians of the morality of the nation."

Muhammad bin Zayed of Abu Dhabi, the main power in the United Arab Emirates, regards the Brothers as a menace. The UAE has arrested scores of their activists. Sheikh Tamim bin Hamad of Qatar, by contrast, has been a principal sponsor of the Brotherhood (see next article). Under Muhammad bin Salman, the hitherto ambiguous Saudis now side with the Emiratis. He speaks of a "triangle of evil" encompassing Iran, IS and the Muslim Brotherhood. As such he seems to be drawing a dividing line between Arab states (and tame salafists) on one side, and all forms of Islamism on the other—be they non-violent Brothers or jihadists. "It is a crazy analysis about the threat of a pan-Islamic empire," says Jamal Khashoggi, a former editor of *al-Watan*, a Saudi-owned newspaper, who now works as a columnist in exile in America. "He treats IS and the Brotherhood as the same thing—the only difference being that IS tried to create the caliphate immediately by violence while the Brotherhood wants to create the caliphate slowly, through democracy."

Although the Brotherhood never seemed very strong in the Gulf, its election victory in Egypt in 2012 unnerved Gulf rulers. Saudi Arabia and the UAE enthusiastically supported the coup that overthrew President Muhammad Morsi of the Brotherhood, not least because he was moving closer to Iran. For Mr Khashoggi, the campaign against the Brothers is an attempt to extinguish the last embers of the Arab spring: “Democracy and political Islam go together.”

The Saudi push for “moderate Islam” may have one paradoxical boon. Many Shias hope it will quieten the worst anti-Shia utterances of Wahhabi clerics. Shias form substantial minorities across the Gulf (see chart). Many of them live over the richest oilfields. So episodes of Shia rebelliousness carry not just the fear of separatism, or of Iranian interference, but of economic disaster, too.

To varying degrees, Shias feel discriminated against across the GCC. They are often the downtrodden “other”, regarded as a fifth column for Iran if not as outright infidels. During the Arab spring in 2011, many Shias took to the streets to demand greater freedom. The worst unrest took place in Bahrain, where Sunni rulers crushed protests by the majority-Shia population.

In Saudi Arabia, protests broke out in the Qatif region. Repression set off a spiral of bloodshed, and armed clashes in Awamiyah, home to a radical preacher, Nimr al-Nimr, who was executed in 2016. The unrest has been quelled and the town centre bulldozed. Prince Muhammad now seeks to distinguish between Shias and Iran. But resentment runs deep. “The people who took up arms were criminal,” says one local Shia activist, “but the Saudi government is even more criminal.”

Special report

Cold war in the heat

Why Gulf countries are feuding with Qatar

The Qataris championed the Arab spring; their neighbours are trying to bury it

Jun 21st 2018

"AT FIRST EVERYBODY thought it was a sort of joke. But after four or five days we got a call saying we had to go back to Bahrain or our passports would be withdrawn. We would have to leave our mother. We would lose everything." Alanoud Aljalahma, a 22-year-old premedical student, recounts how the rift between the Gulf's royal clans threatened to sunder her own family. Her mother, a Qatari doctor, is divorced from her father, a Bahraini general. Under the Gulf's patriarchal rules, she and her two siblings have their father's nationality. But they live with their mother in Doha, the capital of Qatar, and consider themselves to be Qataris.

None of this mattered much when Gulf citizens could travel freely within the Gulf Co-operation Council (GCC). "Physical borders did not exist for us; our countries shared a lot of tribes in common," explains Ms Aljalahma. But in

June 2017 four countries—Saudi Arabia, the UAE, Bahrain and Egypt—suddenly ostracised Qatar. They cut all land, air and sea links, and some told their nationals to return home. The dispute is the most serious rift in the GCC since its creation in 1981. America is worried that the enmity among its allies is damaging its effort to increase economic and political pressure on Iran.

The feud is being waged through social media, television channels, newspapers and lobbyists in the West. The Qatari emir is "the reckless prince"; Qataris in turn call the Saudi crown prince "the boy". The UAE has threatened anyone expressing sympathy for Qatar with up to 15 years in jail. As the Gulf's cold war spreads, conflicts from Libya to the Horn of Africa often feature Qatar and the UAE backing rival groups. At home, the dispute has stirred ostentatious nationalism. In Doha bumper-stickers on cars and posters, even on skyscrapers, display the emir in heroic pose over the words: "Tamim the Glorious". In the UAE the ubiquitous image is of Sheikh Zayed, the late founder of the federation, to commemorate the 100th year of his birth.

Qatar has been contrarian since the 1990s. With perhaps 300,000 nationals—the smallest indigenous population in the GCC—it is the richest emirate per head because of its vast gasfields. In its quixotic foreign policy it hosts both America's largest air base in the region and many Islamists. Its dynastic politics have been poisonous. In 1972 the founding emir was deposed by his cousin, who was then toppled in 1995 by his own son, Hamad bin Khalifa. The deposed emir mounted a failed counter-coup in 1996, amid suspicions of Emirati and Saudi help. Sheikh Hamad abdicated in 2013 in favour of his son, Tamim bin Hamad.

The Saudis and Emiratis say Sheikh Hamad still calls the shots and has never forgiven them for trying to unseat him. In a leaked recording of a supposed telephone conversation around 2008 with Muammar Qaddafi, the Libyan dictator later killed during the Arab spring, Sheikh Hamad is heard to predict that the "corrupt" Saudi leadership would be swept away, and to boast about supporting Saudi opposition groups. Saudi officials talk of Qataris giving suitcases of cash to clients ranging from Saudi dissidents to Syrian jihadists.

Over the years, Qatar has sought influence by promoting Islamist groups. The UAE has tried to magnify its role by binding itself closely to Saudi Arabia;

this month the two allies signed 20 economic and military accords, vowing to create an “exceptional” partnership that may well supplant the GCC.

Sheikhly politics require gentle manners. A similar row was patched up in 2014. Why the bust-up now? One reason is the rise of Muhammad bin Salman in Saudi Arabia. Another may be the election of Donald Trump. The Emiratis and the Saudis have close ties with Jared Kushner, Mr Trump’s son-in-law. Perhaps, think some, Mr Trump gave the anti-Qatar “quartet” the nod at a summit in Riyadh a fortnight before the crisis. Mr Trump later tweeted: “During my recent trip to the Middle East I stated that there can no longer be funding of Radical Ideology. Leaders pointed to Qatar—look!”

Since then Mr Trump has demanded that Gulf leaders settle their dispute quickly. Iran has gleefully stepped in to help relieve the blockade of Qatar. With all sides lobbying the Trump administration, American officials have been working with Qatar to halt the flow of money to terrorist groups, and say it complies more fully than some Gulf states. Anwar Gargash, the UAE’s deputy foreign minister, retorts: “It is not enough for Qatar to discuss concerns with America and Europe. It has to discuss them with us. It cannot be part of a club when it undermines the club.”

The quartet has issued 13 demands, which include cutting ties with Iran and the “terrorist” Muslim Brotherhood. The most prominent is that Qatar should close Al Jazeera, whose gritty reporting broke the conventions of supine, regime-directed Arab journalism. When Hosni Mubarak visited the network in 1999, barely two years after it was launched, he exclaimed. “All this noise is coming out of this matchbox?” Twelve years later the matchbox would help light the revolution that consumed him.

Over the years Al Jazeera has been seen as both a force for free speech and a mouthpiece for terrorism. American officials hated its reporting of the wars in Afghanistan and Iraq; Arab autocrats detested the voice it gave to their opponents. Mostefa Souag, its acting director-general, dismisses claims that it was responsible for the Arab spring: “That is disrespectful to the Arab people. People were fed up with the situation in their countries.”

Critics think Al Jazeera, especially its Arabic-language channel, has become the mouthpiece of the Qatari government. It was fawning in its coverage of

Syrian jihadist groups linked to al-Qaeda, and largely ignored the humanitarian cost of the war in Yemen until the intra-Gulf bust-up. It fails to subject Qatar to the same hard reporting it applies to other countries. That may explain why the annual Arab Youth Survey, issued by ASDA'A Burson-Marsteller, a public-relations firm, finds that Al Jazeera has become one of the least trusted news sources.

There is much hypocrisy in the charges against Qatar. Too close to Iran? Kuwait and Oman have good relations with the mullahs. Supports the Muslim Brotherhood? Islamists are prominent in the Kuwaiti and Bahraini parliaments. Interferes in other countries? The UAE is close to separatists in Yemen and Somalia. But Qatar is hardly consistent. It struts as the patron of Arab democracy, but does not allow it at home. The feud could go on indefinitely, if only because the main protagonists are rich enough to take the hits. Qatar has suffered some economic pain, but is developing new industries and is undergoing an infrastructure boom ahead of the football World Cup it will host in 2022.

Other Gulf states are worried. The GCC, created to counterbalance larger neighbours and promote economic integration, is split, perhaps irreparably. "If they can do this to Qatar, why not to Kuwait and Oman?" asks Shafeeq Ghabra of Kuwait University. He points to the danger of countries run as "one-man shows". The late Saddam Hussein was fascinated by technology and education, yet invaded both Iran and Kuwait, he notes, "and nobody could tell him he was leading Iraq to disaster."

Special report

Insecurity complex

Gulf states fear being encircled by Iran and abandoned by America

Alliances are shifting and Gulf leaders are even making up with Israel

Jun 21st 2018

EVERY FEW DAYS fiery rockets and explosions in the night sky remind Saudis of the war in Yemen. Missiles fired by the Houthi militia, a Shia group that overthrew the Yemeni government in 2015, are usually intercepted or fall harmlessly in the Saudi desert. But the volleys are evidence that, after three years of war and relentless air bombardment, the Houthis are undefeated. The range of their missiles has increased to reach Riyadh.

The detritus of the missile war is on display at the Officers Club in Riyadh, where the Saudis hold military briefings. The centrepiece is the wreckage of a Qiam missile. It bears rough weld-marks showing where it had been cut into more transportable pieces and later reattached. Parts bear the stamp of the Shahid Bagheri Industrial Group, an Iranian firm that is blacklisted by the UN. Such evidence of Iran's missile-smuggling strengthens Saudi Arabia's claim that the Houthis are an arm of Iran; it is also used as justification for the blockade of Houthi ports.

The war highlights the fear the Saudis and their allies have of encirclement by Iran and its allies, who sometimes boast of controlling four Arab capitals—Baghdad, Damascus, Beirut and Sana'a. Above all, Gulf states fear being abandoned by America.

For the Saudis, the Houthis are akin to Hizbullah, the Iranian-backed militia that dominates Lebanon, alarms Israel and props up the Syrian regime. Against the Houthis, the Saudis have mustered a coalition with the UAE, and smaller contributions from Egypt, the GCC and other Sunni states—and a variety of Yemeni militias. But the campaign has dragged on for longer than they expected, and talk of seeking a political deal is growing. "There is no military solution," says one Gulf minister, "but we still need military pressure on the Houthis."

The allies this month assaulted Hodeida, the last major Houthi port, despite the UN's call to avert an attack that, it fears, could worsen what it says is already the world's worst humanitarian crisis. Western officials fear that the longer the war goes on, the more Iran can entangle the Saudis at low cost to itself, and the more the Houthis become a fully-fledged Iranian proxy.

The war in Yemen was perhaps the first instance of Muhammad bin Salman's instinct for forceful, if not reckless, behaviour. Another is the fortnight-long detention in Riyadh of the Lebanese prime minister, Saad Hariri, a longtime client of Saudi Arabia's, who displeased the crown prince. He was eventually released as a result of international pressure.

Gulf leaders feel a profound frustration. They are richer than Iran, and have stronger alliances, yet they cannot beat Iran in the game of proxies. "The Iranian dollar is elastic—it stretches so far. Why do our dollars not do the same?" asks the Gulf minister. There are several answers. It is easier to undermine a fragile status quo than to keep it. Iran is focused, whereas Gulf states scatter their money among different groups. Iran has a foreign legion, in the form of the Revolutionary Guards' Quds Force, that is good at building effective sub-state militias such as Hizbullah.

Worse, in the view of Gulf states, America is no longer a reliable protector.

Relations with Barack Obama were particularly testy. His “pivot to Asia” was a shift away from the Middle East and its endless wars. In the view of Gulf leaders (and Israel) he forsook Hosni Mubarak in Egypt during the Arab spring, then tried to cosy up to Iran by signing a nuclear deal with the mullahs. The reality was more complicated, not least because the advance of Islamic State (IS) kept America fighting in Iraq and Syria.

Although Mr Trump had campaigned with anti-Muslim rhetoric, Arab leaders such as King Salman and Mr Sisi embraced him at a summit in Riyadh, where they clasped a glowing orb together (pictured). “Donald Trump is 100 times better than Obama,” declares the Gulf minister. Mr Trump does not have qualms about befriending strongmen. He sees Iran as a foe to be confronted, not a power to be accommodated. Gulf leaders hailed his move to abandon Mr Obama’s nuclear deal with Iran. Still, they worry about his commitment to confronting Iran. With IS weakened, Mr Trump said in March, “We’ll be coming out of Syria very soon. Let the other people take care of it now.”

Gulf leaders were scarcely charmed by his remark that “they wouldn’t last a week” without American protection. His covetous attention to their wealth, though useful, can be awkward. Pitching American weaponry to the Saudi crown prince at the White House in March, Mr Trump commented about one item costing $525m, “That’s peanuts for you.”

In 2017 Saudi Arabia became the highest military spender in the world after America and China. Even so, the Saudis’ military capabilities are questionable. They appear to have scored a coup in April with an air strike in Yemen that killed the Houthis’ second-in-command. More often, though, the air operations make the headlines because they prove inaccurate. Apart from a few advisers, the Saudi army has not deployed to Yemen.

By contrast, the small but hardened armed forces of the UAE have been honed with the NATO-led coalition in Afghanistan and are the speartip of the Saudi coalition in Yemen. The Emiratis have retaken Aden from the Houthis and Mukalla from al-Qaeda’s branch in Yemen. Like Qatar, the UAE has introduced military conscription. James Mattis, the American defence secretary, calls the UAE “little Sparta”. For Anwar Gargash, the Emirati deputy foreign minister, America’s strategy in the region is “in flux”. Gulf states, he says, understand they are living in an era of “multiple polarity”. They must act to defend their interests, and they must show America that they can be capable allies.

Increasingly, the Emiratis are pursuing their own war aims. They seem to be acquiescing in the break-up of Yemen, if not pushing for it, by forming an alliance with southern separatists. Their military deployment on the Yemeni island of Socotra, in the Gulf of Aden, infuriated the exiled Yemeni government that the coalition is supposed to be restoring to power. In Somalia, meanwhile, the Emiratis are building ports in the breakaway regions of Puntland and Somaliland.

Their objectives are murky. As a shipping hub for trade between Asia, Europe and Africa, the UAE has an interest in the safety of shipping lanes such as the Bab al-Mandab strait. And DPWorld, which runs the Jebel Ali port outside Dubai, has been diversifying by buying ports across the world. But, given the poverty and strife in Yemen and Somalia, investing in harbours there seems strange. Perhaps the UAE is gambling that harbours around the Horn of Africa may one day provide access to Africa’s interior. And ports on Yemen’s shore might become alternative hubs to Jebel Ali, shortening journeys and avoiding the narrow Strait of Hormuz—especially if war breaks out with Iran.

As they hedge their bets, Gulf states have kept quiet about Russia’s intervention in Syria even though, by supporting Bashar al-Assad, Russia is acting as the air force of the Shia axis that the Gulf leaders so fear. Moreover, Saudi Arabia has sought to woo Russia, buying weapons, signing defence-industrial agreements and striking an unprecedented deal in 2016 to cut oil output to drive up the price of crude. Perhaps the most intriguing diplomatic signals have been directed at the old enemy, Israel. Saudi Arabia now says Jews have a right to their own state. Bahrain says Israel has a right to defend itself against Iran. How long before Israeli and Gulf ministers start to meet openly?

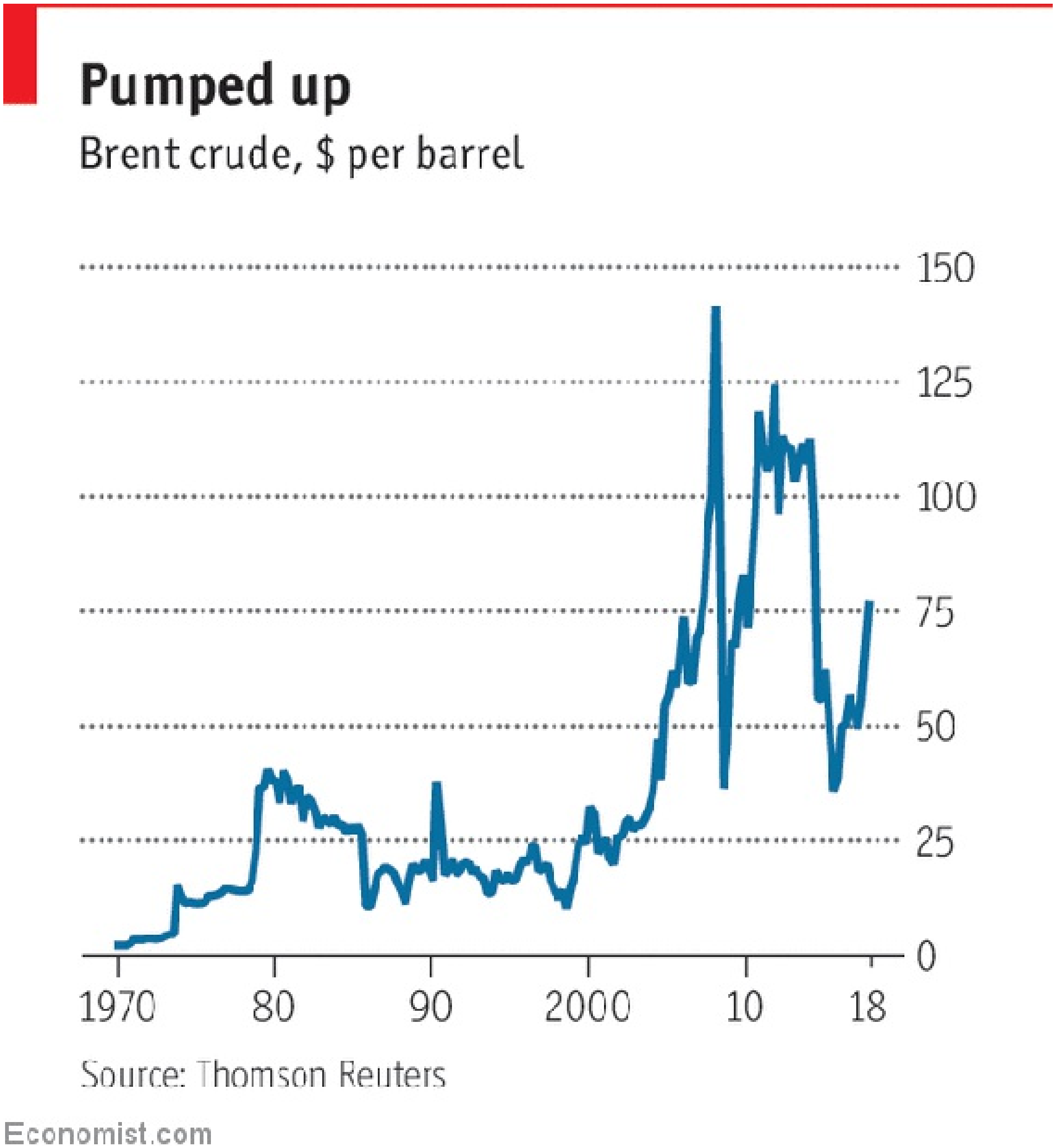
Special report

Breaking the curse

Why Gulf economies struggle to wean themselves off oil

Crude still accounts, on average, for 80% of government revenues in the region

Jun 21st 2018



CALL IT THE world's most important filling station. The complex of piers, artificial islands and offshore moorings on the finger of land curling into the Gulf at Ras Tanura is the biggest oil-export terminal of the world's biggest oil exporter. Tankers appear out of the haze to suck up the crude oil and refined fuels that, these days, mostly power Asian economies. For decades pumping oil and gas was all Gulf states had to do to build skyscrapers and shopping malls, and provide citizens with enough benefits to keep them quiet. Every bust in the oil cycle brought calls for diversification; with every boom, the talk faded.

Might the same happen again? Crude prices have more than doubled since their low point in 2016, touching $80 a barrel, though they are still far below the peak of $146 a decade ago (see chart). Global economic growth has pushed the price recovery, as have the loss of production in Venezuela, the pact between Russia and Saudi Arabia to curb production and, above all, the prospect of sanctions on Iran and perhaps war with it.

For now, Saudi Arabia seems determined to keep propping up prices in the hope of maximising the earnings from its planned sale of a 5% stake in Saudi Aramco, the national oil company. Given its budget deficit of 9% of GDP last year, and plans for record expenditure this year, Saudi Arabia needs oil to rise to $87 a barrel to break even, the IMF reckons. This despite the fact that it has imposed a new 5% value-added tax, taxes on tobacco and sweetened drinks, cuts to fuel and electricity subsidies and higher charges on foreign workers. It plans to sell parts of several state-owned firms. By the end of the year, the IMF thinks, it will have burned through nearly 40% of its huge foreign-currency reserves, worth more than $700bn (96% of GDP) in 2014.

Saudi Arabia has lots of oil left, and the world's dependence on the Gulf is likely to increase as production in other parts of the world falls away. But short of a war in the region, prices still seem unlikely to return to the boom of 2001-14. The world, particularly China, is moving towards low-carbon and renewable sources of energy. A sustained rise in oil prices will prompt more investment by Saudi Arabia's competitors—not least shale-oil firms that have helped make America the world's biggest oil producer.

Steven Wright of Hamad bin Khalifa University in Qatar argues that, if the Gulf faces a prolonged period of low prices, some countries may be forced to abandon their currency pegs to the dollar. That would cause turmoil in foreign-exchange and bond markets, and create an inflation shock. Bahrain, with a budget deficit and public debt of 15% and 90% of GDP respectively last year, and reserves to cover barely a month's worth of imports, looks vulnerable. It will be hoping that a recent large oil find generates revenues soon—or that Gulf neighbours bail it out if necessary.

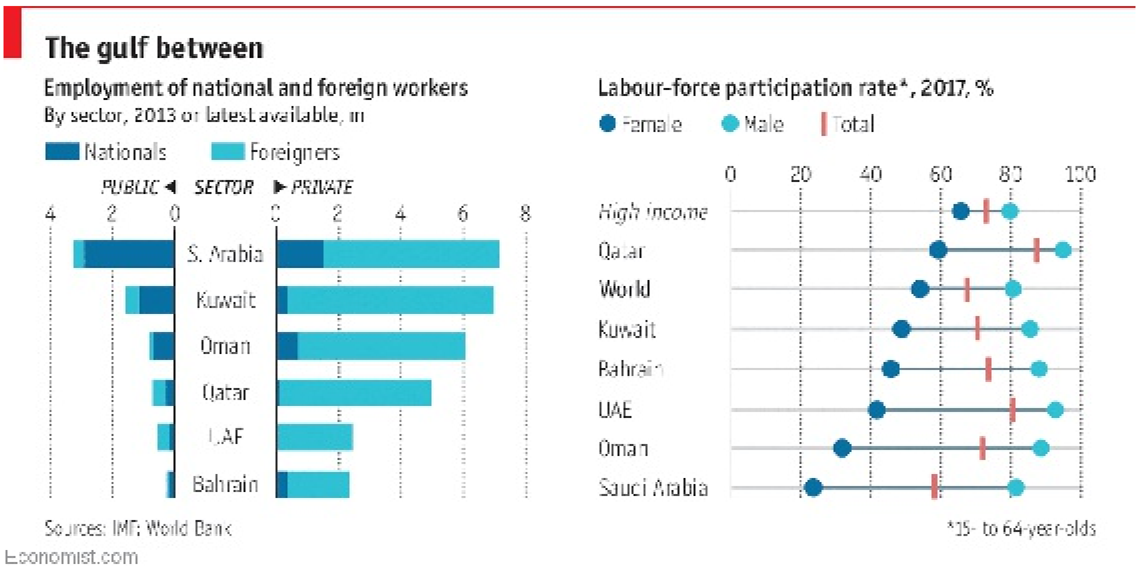
With higher oil prices than forecast helping Gulf states balance the books, some in the IMF worry that complacency about reform will set in. Yet the need to diversify economies is undiminished. Oil accounts for about 30% of GDP and 80% of government revenues in Gulf states on average. Much non-oil output is dependent on petroleum revenues through government spending on capital projects and salaries. And much of that public spending leaks out, through imports of materials for firms and consumer goods, or because wages are spent on foreign travel.

Given high rates of population growth, real GDP per person in most countries of the Gulf Co-operation Council (GCC) has been flat or in decline for decades. Qataris may be among the richest people in the world, but Saudis rank about 40th, alongside the Portuguese. Productivity, the underlying source of long-term growth, has been stagnant. In an IMF paper in 2014, Reda Cherif and Fuad Hasanov argued that Gulf states suffer from an acute form of "Dutch disease", in which oil revenues crowd out other activity in the tradable sector. To improve their productivity, Gulf states have to diversify their exports as, say, Indonesia, Mexico and Malaysia have done.

The biggest problem, says Steffen Hertog of the London School of Economics, is the Gulf's distorted labour market. The rentier model is exceptionally generous, but it is unproductive. Gulf states give their citizens subsidised fuel, electricity and water, as well as loans or grants for marriage and scholarships to expensive foreign universities. Saudi Arabia spends more than most comparable countries on education, yet achieves results that are markedly inferior.

Public-sector jobs in the GCC pay about three times more than private-sector ones, where foreigners predominate (see chart). With two-thirds of Saudi workers already hired by the government, the state cannot afford to create more do-nothing jobs. Just to steady the current rate of unemployment—

nearly 13%, not counting the majority of women who are excluded from the labour market—Saudi Arabia must create 1m private-sector jobs over the next five years, double the number it managed in 2007-16.



For Mr Hertog, Gulf countries face “a unique development trap” with a mix of expensive but low-skilled national workers, cheap (but not cheap enough) imported labourers, and protected domestic markets. As a result, they struggle to make competitive exports. In other words, Saudi Arabia is too rich for mass industrialisation, yet lacks the skills to make high-value goods.

> Mr Zamil has discovered, to his delight, that Saudi women make better workers: “more disciplined, more punctual and higher-quality work,” he says.

One place to start diversifying might be to extract more value from oil. Saudi Arabia is already a leading refiner of crude and has long made basic petrochemicals. But at Sadara, near the port of Jubail, a joint venture between Aramco and the Dow Chemical Company came on stream last year to make more advanced petrochemicals that used to be imported. An industrial park is being set up alongside the giant plant for others to make finished products. Dow, for instance, is making reverse-osmosis membranes for water desalination. But such schemes rely on feedstock at below-market prices, so divert resources that might be better used elsewhere. Such capital-intensive projects also create few jobs for Saudis, and are ultimately dependent on oil.

A more promising idea is to coax more business from the 20m annual foreign visitors, most of them Muslim pilgrims to Mecca and Medina, particularly outside the peak *haj* season. Meanwhile, the new focus on entertainment and culture is aimed in part at ensuring that some of the $20bn that Saudis spend each year on foreign travel remains in the country.

A third policy is to increase the number of Saudis in jobs—particularly women (see chart)—by squeezing out foreign workers. The government is raising the cost of hiring foreigners from 200 riyals ($50) a month per worker to 400 riyals this year and 800 in 2020. It is also excluding foreigners from a growing list of jobs, such as selling mobile phones, receiving guests in hotels and selling gold. The gig economy may also be helping. Though many Saudis think driving a taxi demeaning, a growing number use their cars to work part-time for Uber, a ride-hailing firm, or Careem, its regional rival.

In the eastern city of Dammam, Abdullah Zamil, boss of Zamil Industrial, whose companies make everything from construction materials to air-conditioners, says that the cuts to public spending, as well as the new taxes and levies, have squeezed his profits by about 30%. Hiring Saudis simply to meet quotas for indigenous labour no longer makes sense, he says. Getting Saudi men to be productive requires them to undergo extensive on-the-job training. Their work ethic is often poor, and they tend to leave quickly in search of a better job. However, Mr Zamil has discovered, to his delight, that Saudi women make better workers: "more disciplined, more punctual and higher-quality work," he says. He has put up a wall in his air-conditioner factory to make a separate space for women, and has moved it several times as their numbers have grown. "I keep telling the boys: 'In the past your competitors were foreign workers. Now it's your sisters.' "

Many of Muhammad bin Salman's reforms are overdue. But in one respect—his love of "giga-projects"—the crown prince's vision is more questionable. One plan is to build a vast "entertainment city" outside Riyadh more than twice as large as Disney World. Another is to turn a 200km stretch of pristine Red Sea coast into a destination for upscale tourists. (No drunken revellers, please—reform has its limits.) It will include the archaeological remains of Mada'in Saleh, a Nabataean site related to the rock-carved monuments of Petra in Jordan.

His most ambitious project is NEOM, a futuristic city in a special economic zone nearly the size of Belgium, which will extend to bits of Jordan and Egypt. It will be run under a separate legal system with international judges. Details are sketchy, but the aim is to plug into the internet cables beneath the Red Sea and create a hub for innovation, powered by renewable energy.

In pushing such grandiose schemes, the crown prince may want to create the sense of a bright future, and a testing-ground for new ideas. But giga-projects are risky at a time of austerity. And they betray a central-planning mindset that has already produced white elephants. The King Abdullah Financial City in Riyadh lies almost empty. In a world full of failed special economic zones, reform must ultimately focus on the country itself, not just Dubai-like bits carved out of it. Saudi Arabia ranks a poor 92nd in the World Bank's ease-of-doing-business index. Big projects risk distracting attention from the hard work of, say, improving legal standards. Foreign direct investment fell sharply last year; the anti-corruption campaign does nothing to reassure would-be partners, "What is the law in Saudi Arabia?" asks one diplomat. "The law is the last thing the king said."

Special report

Do buy

How Dubai became a model for free trade, openness and ambition

And now the desert emirate wants to help colonise Mars

Jun 21st 2018

DUBAI HAS THE world's tallest building, its busiest airport by international passengers and the busiest container port between Singapore and Rotterdam. It is building the world's largest concentrated solar power plant. It is the Arab world's most important financial centre and, as the world's fourth-most-visited city, an exuberant playground.

No ambition is too outlandish. The United Arab Emirates, of which Dubai is a part, wants to help colonise Mars. It is building a space probe, to be launched in 2020, to find out how the planet lost its water. And, fittingly for a city-state built in the desert, Dubai is building a "Mars City" to study how humans might live on the red planet. It is experimenting with driverless pods as well as a "hyperloop" to transport people and goods in pods at high speed through the region (artist's impression pictured).

The desire to do business has long been present, its history visible along the creek in old Dubai where the souk boasts frankincense from Oman and saffron from Iran. Gold chains hang like curtains. Older merchants still remember trading in rupees, so closely was business linked with India.

Free trade, openness, security and predictable rules have turned the pearl-fishing village into one of the world's great entrepots. It is also a haven for money in a troubled region. Somewhat like Hong Kong in relation to China, Dubai acts as the point of access for trade with Saudi Arabia and the rest of the Gulf. Just as Hong Kong benefited from the British legal system, so Dubai has imported British-style common law for the Dubai International Finance Centre, a city within a city where foreign lawyers adjudicate on business matters within its confines.

Lacking much oil, Dubai sought to establish itself as a trading port even before independence in 1971. Its then ruler, Sheikh Rashid, took a loan from Kuwait to dredge the creek and create a port. It later built a large port and special economic zone at Jebel Ali, south of the city, creating a hub to serve the Gulf, Africa and Asia.

Similar thinking applied to aviation, with the creation of the Emirates airline and the establishment of Dubai as the world's leading hub for international flights. Tourism followed close behind. Through iconic projects, such as its palm-shaped beach-front development, Dubai found the knack for turning dull desert into prime property.

Others in the region try to copy Dubai with ports, airports and airlines, as well as artificial islands and financial districts. But none has matched the original. In part that is because rivals embark on top-down projects, whereas Dubai has tended to develop ideas in close co-operation with businesses.

Dubai has benefited from the unique federal structure of the UAE in which each of the seven emirates can experiment with economic and governance models, says Abdulkhaleq Abdulla, a political scientist: "The UAE is a bird that flies with two wings, Dubai and Abu Dhabi." Dubai has focused on growth through private enterprise, while Abu Dhabi provides much of the country's oil wealth and geopolitical heft. Thanks to Dubai, the UAE is the Gulf's most diversified economy. But the IMF says the country still compares poorly with other states that have moved away from commodity exports.

Many complain that the city-state is being run, in effect, as the personal holding company of the Al Maktoums. One cost of its success is that local citizens form just 8% of Dubai's population. Another is that it has incurred large debts. Dubai had to be bailed out by Abu Dhabi in 2009. The soaring Burj Dubai tower was renamed Burj Khalifa in honour of the ruler of Abu Dhabi—a reminder that Abu Dhabi now calls the shots.

Special report

Waiting for the backlash

Can Muhammad bin Salman's gamble work?

The Saudi crown prince has antagonised clerics, princes and businessmen

Jun 21st 2018

MUHAMMAD BIN SALMAN has accumulated power like no other Saudi royal. He has taken control of the economy, the armed forces, the national guard and the intelligence services. Yet, in the process, the crown prince has undermined all the pillars of the Saudi state. He has antagonised Al Saud princes by taking their fiefs. He has broken with Wahhabi clerics by denying them the power to enforce public morality. He has upset businessmen by raising their costs and forcing some of them to hand over part of their wealth. And he is undoing parts of the rentier system that served to buy the loyalty of the people.

Perhaps the crown prince is moving so fast on social reform to keep his opponents off-balance. But it makes for erratic government: austerity measures are imposed and then removed; appointments are made and unmade. A backlash would surprise nobody. Rumours of coups may be false, but say much about the mood. Many remember the assassination of King Faisal in 1975 in a family dispute that was ultimately about the introduction of television. The current silence of clerics leads some officials to think that the worst danger is past. Others feel unnerved. “I support the change, but I am afraid of the speed of change,” says one ex-official, “The religious people are quiet for now. Will they continue to be quiet, or will they react violently?”

A Saudi businessman says royal rulers, in their volte-face on puritanism, “have been exposed as hypocrites”. He thinks social liberalisation “will cause debates in every family”; the anti-corruption measures were arbitrary; and despite talk of promoting the private sector, Saudi Arabia remains “a family business”. Right now the crown prince acts with the authority of the king and controls the coercive powers of state. Beyond that, he casts himself as the champion of women and the young against the corrupt old elites. But in the absence of political parties, or real consultation, it will be hard for him to turn popularity into a political force. And popularity may prove fickle.

“He has many enemies. If they see he is weak they will pounce on him,” says one Gulf minister. His advice to the West? “Support Saudi Arabia. Support Saudi Arabia. Support Saudi Arabia.” The crown prince has created an unexpected opportunity to change the discourse about Islam, he says. “If it can be more moderate then we will all reap the benefits.” Some diplomats think King Salman, now 82, will step down to ensure that his son ascends the throne.

In many ways, Saudi Arabia and other Gulf states are grappling with an old question: why has Arab civilisation fallen into such an abject state? Arabs give one of two contradictory answers: “because we have strayed from the path of our righteous forebears” or “because we have failed to embrace Western modernity”.

For decades Saudi leaders embraced the first answer, imposing religiosity in an attempt to recapture ancient Islamic glories. The bounty of oil made the model appear workable; Saudis could have both the good life and piety (those who disliked religiosity could always go abroad). But oil rents alone are no longer enough. And the notion that Islam can provide all the answers has hit a dead end, whether in the form of strict but obedient Saudi salafism, the political Islam of the Muslim Brotherhood or the murderous jihadism of al-Qaeda and Islamic State.

Successive Saudi leaders might have looked out of their palaces and marvelled at how far their country has come. The young crown prince instead appears to notice how far it has been left behind: the Israelis are richer and know how to fight; the Emiratis live better and have more fun; the perfidious Iranian riyal seems to buy more friends than the Saudi one; and the West is less of a guardian than it used to be. “What has Saudi Arabia contributed to the world?” asks the Saudi businessman. “Mecca and Medina? They were made by God. We have not contributed one thing. If the oil goes, we will not even have water.”

So Muhammad bin Salman is pursuing a form of modernisation, albeit of a strange, upside-down sort. Diversification and liberalisation are directed from the royal palace; even simple entertainment requires central planning and a “giga-project”. And more social freedom is accompanied by greater political repression. “Muhammad bin Salman is doing many of the things I have been fighting for: empowering women, fighting radicalism and purging corruption,” says Jamal Khashoggi, a Saudi columnist exiled in America. “That’s great news. But why intimidate people? Why arrest people? This is the model of Arab dictators like Gamal Abdel Nasser.”

The crown prince is thus repeating one tragedy of the Arab world—liberalisation by illiberal means. In doing so he may be heeding Niccolò Machiavelli’s advice that it is better for a prince to be feared than loved. But there is an all-important rider to the dictum: “A prince ought to inspire fear in such a way that, if he does not win love, he avoids hatred.”

Business

Electric invasion

How two-wheelers are weaving their way into urban transport

Electric bikes and e-scooters are flummoxing regulators while exciting consumers and venture capitalists

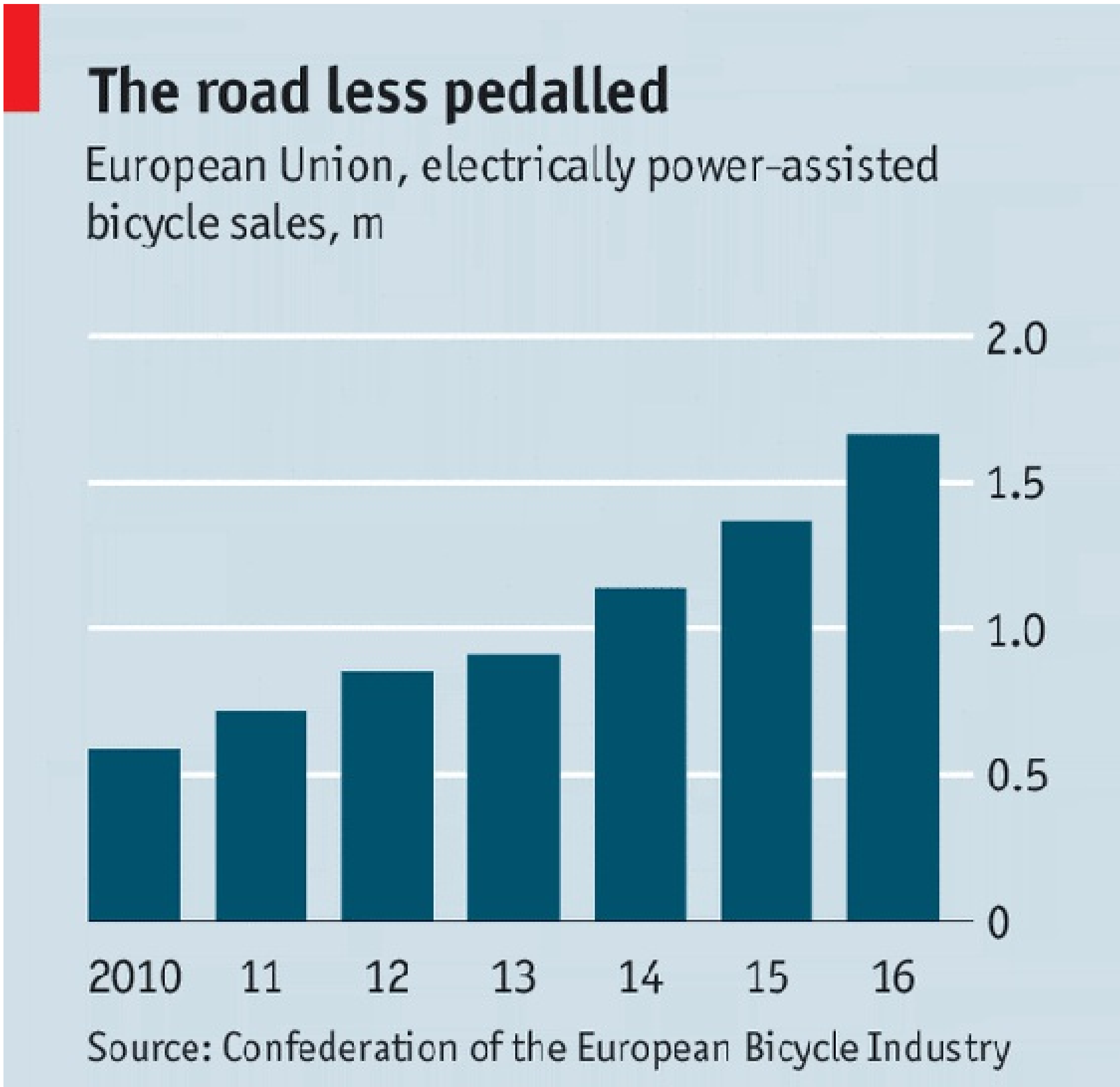
Jun 21st 2018 | AMSTERDAM AND BEIJING

THE streets of Beijing are thronged with two-wheeled contraptions. Some appear to be conventional petrol mopeds but as they zoom through red lights at pedestrian crossings their eerie silence and lack of exhaust reveals them as electric. Executives in suits cruise by on electric kick-scooters, looking like big kids on their way to school, though travelling much more enthusiastically. Electric bicycles, hacked together with a battery strapped to the frame and wired to a back-wheel hub containing a motor, crowd the edges of roads.

China's cities are at the forefront of a quiet swarm of electric two-wheeled vehicles. Millions now roam their centres. This transformation of urban mobility is also happening in the West, albeit with a notable addition that has yet to take off in China: firms that rent out electric kick-scooters. These are taking many American cities by storm and are arriving in Europe.

In the bike-mad Netherlands nearly one in three newly bought bikes last year was electric, up from one in 20 a decade earlier. Commuters, from the sweat-averse to the environmentally conscious, are keen. Some 40% of Dutch e-cyclists use them to replace car journeys. Riding for fun is on the rise, too: a best-selling model in Europe last year was the e-mountain-bike.

In Germany, 15% of new bikes sold in 2016 were electric, with sales up by 13% and exports by 66% compared with 2015. Belgium and France are big markets too. Whereas exports of regular bikes from China, Taiwan and Vietnam to the European Union fell by 15% between 2014 and 2016, e-bike exports more than doubled. Businesses are also joining the ride. One of Germany's largest electric fleets is owned by Deutsche Post DHL, a logistics giant, and includes around 12,000 e-bikes and e-trikes (three-wheeled ones).



Economist.com

For consumers the vehicles do not come cheap. They typically cost a couple of thousand euros—more once you add bells and whistles. Hence new businesses are popping up to rent or lease them out. Some of these serve couriers working in the gig economy. Others go after hipster leisure riders. Bike-sharing services are rushing to include them. Nearly a third of Paris's Vélib fleet, for example, is electric, though the roll-out has been tricky.

For riders in American cities, however, e-scooters may steal the show. Their characteristics fit even more neatly into rental models than e-bikes do. Powered not just by electricity, but by volleys of venture money, e-scooters are the latest craze coming out of California. Revenue for some of the firms renting them is increasing so fast as to surprise even seasoned Silicon Valley venture capitalists. Bird Rides, a pioneer of the business, and not yet a year old, has become a "unicorn" faster than any other American startup before it. Its valuation has now reportedly reached $2bn.

In some places, such as Santa Monica, one of the first places where Bird introduced e-scooters, using them to get around has already become a habit. With a few taps on an app riders can unlock them and off they go. Once they have reached their destination they park the scooter at a spot where it can be picked up by another rider. Each ride costs $1 plus 15 cents per minute.

Another aspect of the model is that people can make money by charging them. Freelance "bird hunters" pick up scooters with empty batteries and plug them in at home. The startup pays between $5 and $25 per vehicle charged, depending on how hard they are to find (the locations of "dead" scooters are shown in another app). Charging mostly happens at night and the vehicles must be back on the street in specified locations before 7am the next day. That Bird and other firms can outsource this activity explains why they have been able to launch their services so quickly in so many cities. Hot on Bird's wheels is Lime, co-founded by Toby Sun, a Chinese entrepreneur, which boasts a similar growth rate and valuation (its chargers are called "juicers"). Launching in Paris this week, Lime will beat Bird to Europe.

The spread of e-bikes and e-scooters is in future likely to be further accelerated by ride-hailing giants keen to offer the full range of urban e-mobility options. Uber in April bought Jump, an e-bike-sharing startup. And Lyft is said to be on the verge of taking over Motivate, another e-bike firm. Both firms are reportedly also interested in renting out e-scooters—as is Ofo, the Chinese pioneer of dockless bike rentals.

On both sides of the Atlantic two-wheeled e-vehicles raise three big questions: how to regulate them; whether their economics work over time; and what happens to the data they generate.

A need for regulation is certainly evident in Amsterdam's Vondelpark: the morning rush looks like chaos. Cyclists ride in every direction, some ambling slowly, others pedalling furiously. Since e-bikes have been added to the mix the term "granny-pace" has a whole new meaning as riders—often the elderly or parents ferrying children—overtake young racers without breaking a sweat. Crashes are still rare, but their number has been rising. In the Netherlands last year a quarter of bike deaths happened on e-bikes, and most of the deceased were over 65.

Regulators have started to react. Since July 2017 Dutch law distinguishes between e-bikes whose motor allows riders to go slower or faster than 25 kilometres per hour. The faster ones now need a licence plate and riders have to follow the same rules as those of mopeds, such has wearing a helmet and having insurance. Other European countries have introduced similar limits. The city council of Santa Monica decided on June 12th to require firms renting e-scooters to text customers if they have been riding unsafely.

How to deal with e-vehicle rental firms more generally is another pressing matter. In summer last year dockless bikes suddenly littered Amsterdam. In September the city council had thousands removed from the streets and announced a temporary ban on bike-share schemes. It has since promised that it will lift the ban, but in a controlled way. The number of shared bikes will probably be limited to 9,000.

Several American cities have reacted to the invasion of e-scooters by throttling their introduction, although they reduce car traffic and pollution. San Francisco banned the vehicles in early June and is now introducing a 24-month pilot programme: the city will only issue permits to up to five companies and they will be allowed to operate a maximum of 2,500 scooters in total. Santa Monica has opted for more flexibility: a “dynamic” cap on the number of scooters each firm is allowed to deploy, which will depend on how much use its vehicles get. Its approach could become a model, hopes David Sacks of Craft Ventures, an investor in Bird.

As regulatory problems are worked out, the second big question is coming to the fore: who will make money with e-vehicles and how much? They are certainly good business for their makers. Many e-bikes are powered by gear from Bosch, a German conglomerate. It only started tinkering with the technology in 2009. Today the firm provides drive units, displays and battery packs—the highest-margin component—to more than 70 e-bike brands.

The Bosch of e-scooters is Ninebot, a Chinese firm, which also owns

Segway, the maker of self-balancing “personal transporters”. Most rental firms started by buying off-the-shelf scooters from the firm, which cost between $300 and $400. But Lime, in particular, is increasingly deploying more customised vehicles that are more robust and have a longer battery life.

Yet even e-vehicles with a shorter battery life can bring in good money, particularly scooters—which helps to explain the sky-high valuations of Bird and Lime. Both have claimed in pitches to investors that they are able to pay off each scooter within just ten to 14 days: they bring in more than $20 per day on average. The revenues they generate across America alone could be huge. If 2m get deployed (a low forecast), they could earn nearly $15bn a year.

The firms that have the broadest offering—those able to provide access to all kinds of modes of transport—are most likely to win. As well as e-scooters, Lime also rents out e-bikes and the normal kind of cycle. Some predict that the likes of Uber and Lyft will emerge victorious by subsuming e-vehicle rentals. That raises the question of who will control the data they generate.

Bird, Lime and others are rarely using such information other than to improve their services, for instance by ensuring that their vehicles are well distributed across a city. But data could become a side product. Ofo, a Chinese dockless rental-bike pioneer, is collecting a lot of data and has plans to sell them to property developers and local retailers. Mr Sun of Lime thinks that its scooters could one day become mobile sensors, collecting data on everything from pollution levels to street conditions.

Many companies and organisations will have designs on such data. In Santa Monica, Bird and other firms have already agreed to provide the city with information so it can see how often scooters are used and whether poor areas are underserved. In the future cities may require data to be fed into municipal mobility platforms to allow citizens to switch easily between different modes of transport. Vehicle makers, too, are hoping to get their piece of the digital pie. Bosch encourages customers to install an app with extra features, such as navigation.

It is possible that e-scooters could turn out to be a fad and e-bikes prove to be better for many trips. But e-vehicles are sure to become a permanent part of the urban-mobility mix. And, who knows, e-bikes and e-scooters may both evolve further. Work is already under way to make them self-driving (think of a Segway on steroids). That may eventually bring method to the madness on the streets of Amsterdam, Beijing and beyond.

Bartleby

How an algorithm may decide your career

Getting a job means getting past the computer

Jun 21st 2018

WANT a job with a successful multinational? You will face lots of competition. Two years ago Goldman Sachs received a quarter of a million applications from students and graduates. Those are not just daunting odds for jobhunters; they are a practical problem for companies. If a team of five Goldman human-resources staff, working 12 hours every day, including weekends, spent five minutes on each application, they would take nearly a year to complete the task of sifting through the pile.

Little wonder that most large firms use a computer program, or algorithm, when it comes to screening candidates seeking junior jobs. And that means applicants would benefit from knowing exactly what the algorithms are looking for.

Victoria McLean is a former banking headhunter and recruitment manager who set up a business called City CV, which helps job candidates with applications. She says the applicant-tracking systems (ATS) reject up to 75%

of CVs, or résumés, before a human sees them. Such systems are hunting for keywords that meet the employer's criteria. One tip is to study the language used in the job advertisement; if the initials PM are used for project management, then make sure PM appears in your CV.

This means that a generic CV may fall at the first hurdle. Ms McLean had a client who had been a senior member of the armed forces. His experience pointed to potential jobs in training and education, procurement or defence sales. The best strategy was to create three different CVs using different sets of keywords. And jobhunters also need to make sure that their LinkedIn profile and their CV reinforce each other; the vast majority of recruiters will use the website to check the qualifications of candidates, she says.

Passing the ATS stage may not be the jobhunter's only technological barrier. Many companies, including Vodafone and Intel, use a video-interview service called HireVue. Candidates are quizzed while an artificial-intelligence (AI) program analyses their facial expressions (maintaining eye contact with the camera is advisable) and language patterns (sounding confident is the trick). People who wave their arms about or slouch in their seat are likely to fail. Only if they pass that test will the applicants meet some humans.

You might expect AI programs to be able to avoid some of the biases of conventional recruitment methods—particularly the tendency for interviewers to favour candidates who resemble the interviewer. Yet discrimination can show up in unexpected ways. Anja Lambrecht and Catherine Tucker, two economists, placed adverts promoting jobs in science, technology, engineering and maths on Facebook. They found that the ads were less likely to be shown to women than to men.

This was not due to a conscious bias on the part of the Facebook algorithm. Rather, young women are a more valuable demographic group on Facebook (because they control a high share of household spending) and thus ads targeting them are more expensive. The algorithms naturally targeted pages where the return on investment is highest: for men, not women.

In their book* on artificial intelligence, Ajay Agrawal, Joshua Gans and Avi Goldfarb of Toronto's Rotman School of Management say that companies cannot simply dismiss such results as an unfortunate side-effect of the “black box” nature of algorithms. If they discover that the output of an AI system is discriminatory, they need to work out why, and then adjust the algorithm until the effect disappears.

Worries about potential bias in AI systems have emerged in a wide range of areas, from criminal justice to insurance. In recruitment, too, companies will face a legal and reputational risk if their hiring methods turn out to be unfair. But they also need to consider whether the programs do more than just simplify the process. For instance, do successful candidates have long and productive careers? Staff churn, after all, is one of the biggest recruitment costs that firms face.

There may also be an arms race as candidates learn how to adjust their CVs to pass the initial AI test, and algorithms adapt to screen out more candidates. This creates scope for another potential bias: candidates from better-off households (and from particular groups) may be quicker to update their CVs. In turn, this may require companies to adjust their algorithms again to avoid discrimination. The price of artificial intelligence seems likely to be eternal vigilance.

*Prediction Machines: The Simple Economics of Artificial Intelligence

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Battle ready

A maverick French telecoms firm attempts Italian conquest

Xavier Niel’s style may suit Italy’s anti-establishment mood

Jun 21st 2018 | MILAN

“CHOOSE truth. Choose Iliad,” entreats the voice-over of a television advertisement after images of President Donald Trump speechifying and footballers feigning injuries flash across the screen. That may seem pretentious for a mobile provider, but the advert is part of Iliad’s entry into Italy, which began on May 29th. The group, led by one of France’s most prominent businessmen, Xavier Niel (pictured), is credited with having shaken up the telecoms industry at home. He wants to have a similar impact in Italy.

Mr Niel started out with a porn-chat service for Minitel, a French antecedent to the internet. In 2002 he launched his Freebox, which combined cheap web access, TV and fixed-line telephony, and in 2012 started selling low-cost mobile telephony. Growth came easily for years, allowing Mr Niel to spend time on other things, such as launching Station F, the world’s largest startup incubator, in Paris, and free coding schools in Paris and Silicon Valley.

In France, Iliad, the third-largest mobile operator, is looking rather mature. In the first quarter it lost broadband customers for the first time, and missed revenue forecasts. Its share price is down by 32% this year. Nicolas Didio of Berenberg, a private bank, says Iliad had become like “a teenager who grew quickly and became too lanky”. Its lean cost structure—eschewing high ad spending and a heavy physical retail presence in favour of online sales—had been its competitive advantage. But it expected customers to run to it, says Mr Didio, and forgot they can be couch potatoes.

To its credit Iliad has reacted swiftly, by shuffling management, bringing in new talent and adjusting its broadband offer and its promotional activities. It is to launch a new Freebox in September. “The market is more mature and competitive,” says Thomas Reynaud, its boss, “so we’re adapting our commercial strategy.”

Yet the timing of its recent troubles, just as it ventures abroad, is undeniably awkward. A report by Macquarie, a bank, envisages a scenario in which Iliad could end up being one of the smallest operators in both France and Italy.

Iliad’s Italian venture is the upshot of a merger between Wind of VimpelCom, a Russian firm, and Tre, of Hong Kong-based CK Hutchison, which was approved by the European Commission in 2016 on the condition that space be made for a fourth operator. Iliad was able to buy frequencies, and use the Wind-Tre network (which will take another year or so to fully merge), while it builds its own.

Yet gaining traction will be challenging. Market conditions are unlike those when Iliad launched its low-cost offer in France in 2012: prices are already low. In a pre-emptive move last year, TIM, a former state monopoly, launched Kena Mobile, a low-cost brand. David Marcus of Evermore Global, a shareholder in TIM, argues that “if [TIM] didn’t lose to other players, it won’t lose to Iliad.” By now all the large operators including Vodafone, one of the world’s largest, have launched lower-cost offers. Italy also differs in that pre-paid SIM cards dominate, so there is little novelty in being without a contract. And the law stipulates that providers identify their clients before activation, an added cost given Iliad’s sparse retail network and online focus.

Another hurdle will be building a consumer brand. When Iliad launched its mobile service in France, it was an established broadband provider with millions of clients, but it is unknown in Italy. Launching at a time of political and stockmarket volatility may have limited the press coverage it received, suggests Mr Didio, though he quips that Mr Niel’s maverick persona may fit with the anti-establishment mood. He expects Iliad to grab around a tenth of the market within a few years. If successful, it may expand into broadband. Italy’s entrepreneurs doubtless hope Mr Niel imports startup camps and coding schools, too.

Evasive action

Glencore dodges American sanctions rather than spurn its friends

The world’s largest commodities trader is resuming payments to Dan Gertler in Congo

Jun 21st 2018 | NAIROBI

AMONG Africa’s many foreign fixers and mining tycoons, few are more colourful than Dan Gertler, an Israeli diamond trader. Just over 20 years ago at the age of 23 he took a punt on Laurent Kabila, the rebel who in 1997 had just seized the Democratic Republic of Congo (then Zaire) from Mobutu Sese Seko, its dictator for the previous 32 years. Having met him through his son, Joseph, he lent the president $20m to buy weapons. He could have lost everything, but instead made it back a hundredfold. By the time Joseph Kabila took over from his father, after the latter’s murder in 2001, he had become the man largely in charge of distributing Congo’s mining licences to international mining companies.

Two decades on, Mr Gertler’s clout in Congo is undiminished. That was proved on June 15th when Glencore, the world’s largest commodities trader, decided it would rather evade sanctions than not pay the billionaire the royalties he was owed from a Glencore-owned mine. The American government imposed sanctions on Mr Gertler in December for using his friendship with Mr Kabila to siphon off Congo's mineral wealth, a charge he has denied. The sanctions had left Glencore in a hole: Mr Gertler had sued it in Congo, and had won a freezing order on its assets. Now Glencore says it will pay the royalties—but in euros rather than dollars, and using an undisclosed non-American bank.

That was Glencore's second bold move in a week in Congo. A few days before, the firm solved a different problem by agreeing to recapitalise another of its indirectly-owned mines which Gécamines, the Congolese state mining firm, had threatened to close. The mine had such high debts that it would not make a profit (on which to pay taxes) or pay dividends to shareholders (which include Gécamines). To resolve the dispute, Glencore paid $150m directly to Gécamines and converted a large part of the mine's debt to equity.

The moves seem to have bought Glencore a reprieve in the country. A month ago, some people in Kinshasa wondered if the firm had a future there at all. It says it spoke to American officials before making its decision to pay Mr Gertler. Congo provides over half of the world's cobalt, a by-product of copper used in electric cars, and if Glencore cannot mine it, Chinese firms could corner the market, they argue. (Inaccurately—Indian and Kazakhstani firms also mine cobalt in Congo.)

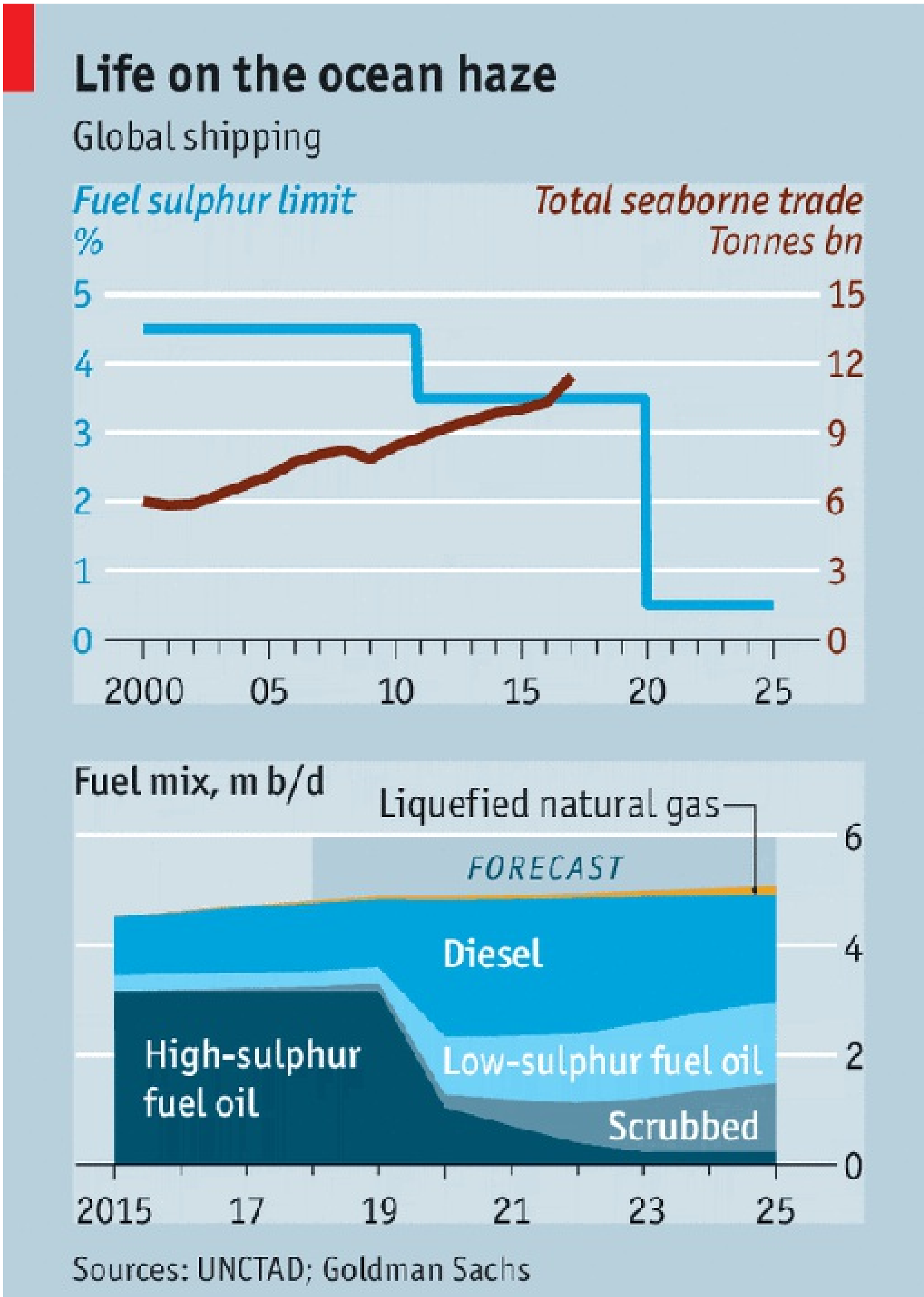
But will it work? Though paying in euros and using non-American banks may avoid breaking the rules in theory, in practice it may not be so easy, says Elisabeth Caesens, director of Resource Matters, a Brussels-based NGO. It will be difficult to keep American employees out of transactions. "They're exposing their people," she says. And the firm itself could be hit with sanctions for its connections to Mr Gertler. Nor is America the only risk. Though no probe has officially been launched, Britain's Serious Fraud Office is looking into Glencore's relationships in Congo. If Glencore gets away with it, it will show that America's sanctions can easily be sidestepped.

Feeling green

A wave of new environmental laws is scaring shipowners

A cap on sulphur in marine fuel could cost the industry $60bn

Jun 21st 2018



Economist.com

THE shipping industry has encountered rough seas over the past decade. Between 1985 and 2007 trade volumes shot up at around twice the rate of global GDP but since 2012 their rate of growth has barely kept pace, leaving the industry with overcapacity. Freight rates for containers have plunged by a third since 2008. Worse may be to come. The industry does not regard as good news President Donald Trump's announcement on June 15th of tariffs of 25% on up to $50bn of Chinese goods, which will slow trade growth further. Now a veritable hurricane of new environmental laws is about to hit.

Shipping accounts for only around 2% of global carbon emissions, but is quite dirty. Burning heavy fuel oil, the industry produces 13% of the world's sulphur emissions and 15% of its nitrogen oxides. And by 2050 ships will be producing 17% of all carbon emissions if left unregulated, according to research by the European Union.

The International Maritime Organisation (IMO), the United Nations agency for shipping, last September brought in rules forcing owners to install equipment by 2024 to clean the dirty ballast water their ships suck in and discharge. That may cost the industry as much as $50bn. In April the IMO agreed to halve the industry's carbon emissions from 2008 levels by 2050. The biggest worries are new rules that cut the global limit on sulphur content of marine fuel from 3.5% to 0.5% from January 1st 2020 to slash emissions from sulphur, which cause air pollution and acid rain. If everyone complies by buying dearer low-sulphur fuels, the bill could hit $60bn, says Suresh Sivanandam of Wood Mackenzie, a research firm—roughly equivalent to the entire industry's fuel bill in 2016.

Given that either 2020 or 2025 had been agreed as possible dates for bringing in the sulphur cap, firms have had time to prepare, but have gone into panic mode in recent months. In part this is because 2020 was only recently chosen after a study by Finland found that without it there could be 570,000 more deaths from air pollution worldwide in the five years after 2020. Many firms have belatedly realised the huge sums involved. If they cannot pass them on in higher freight rates, "we're all going to go bust," Junichiro Ikeda, boss of Mitsui OSK Lines of Japan, has warned.

Neither are the technological choices in adjusting to the new rules easy, says Stephen Gordon of Clarksons, a shipbroker. Shipowners will have to switch to pricier low-sulphur fuels, invest in "scrubbers" which remove it from the smoke of dirtier fuels, or use greener alternatives such as liquefied natural gas (LNG). Although there are suggestions for how the 50% cut in carbon emissions can be achieved by 2050, such as batteries and hydrogen fuel cells, none has been tried on big ships yet.

For neither goal is it clear which option makes most sense financially. On meeting the sulphur cap, there is no consensus. Maersk, the largest container line, thinks low-sulphur fuel is the best choice, but France’s CMA-CGM has opted for LNG and Mediterranean Shipping Company (MSC) for scrubbers. Shipowners worry that the rules will not be uniformly enforced, says David Vernon of Bernstein, a research firm. They fear being the only buyers of scrubbers and the like in an industry with tight margins, or losing money by picking a bad solution. So the industry is holding fire. Demand for low-sulphur fuel oil and marine diesel is expected to double overnight in 2020, sending prices soaring (see chart).

Eventually more shipowners will invest in scrubbers and LNG. Bigger lines such as Maersk and CMA-CGM, will not find this a problem. But smaller, more indebted shipowners will not be able to raise finance to pay for the conversions, says Basil Karatzas, a shipping consultant in New York. They may have to scrap their ships, which could help address the overcapacity that has crippled industry profits since the financial crisis. “Even this dark cloud has a silver lining,” he says—if only for some.

Seabnb

Yacht-sharing startups vie to rule the waves

Two firms, Boatsetter and Click&Boat;, would like most privately owned boats to be shareable

Jun 21st 2018 | ARZAL

ONE of the busiest times of the year at Arzal marina on the coast of western France is a wooden sailing-boat festival in early summer. Hundreds of enthusiasts join Breton dances on the quayside, but as usual most of the 1,000-or so yachts, catamarans, day-sailers and motor-cruisers remain tied to the pontoons.

Few boat-owners make regular use of their expensive assets. By one estimate, a French yacht slips its moorings on average for just ten days a year, and for America’s 12m recreational boats, typical annual usage is two weeks. Meanwhile, would-be sailors have had few options, beyond pricey short charters.

Marine versions of property-sharer Airbnb or ride-sharer BlaBlaCar are trying to match the two. In Europe a French firm founded in 2013 by Jeremy Bismuth and Edouard Gorioux sets the pace. Click&Boat; has 70 staff crammed onto a barge, its headquarters, on the Seine in Paris. They manage bookings for a fleet of 22,000 private craft, mostly in Europe. Rental costs vary widely but can be remarkably cheap—one eight-berth yacht in Arzal is advertised for just €40 a day, for example. The firm takes a 15% commission and is profitable. Last year bookings were worth €15m.

America's leader is six-year-old Boatsetter, based near Miami. Founded by a sailing enthusiast, Jackie Baumgarten, it has raised $17m of venture-capital funding and notched up over 26,000 rentals. Ms Baumgarten sees three broad categories of customer: aspirational types who want to pose on a luxury yacht; fishing enthusiasts who opt for less glitzy craft; and families.

The business is not all smooth sailing—regulation, for one thing, varies widely. French law allows boatsharing, but in Greece, a tempting market, private owners face more difficulties. Renters usually need a boating licence, or must hire skippers. Demand to get on the water is seasonal. Building up a big fleet of boats takes time. Owners tend to be middle-aged and are reachable mainly by word of mouth or at boat shows.

Undeterred, both firms are trying to scale up, partly by pursuing a flotilla of potential rivals. Click&Boat; bought one, Sailsharing, in 2016, to access more craft. Boatsetter has gobbled up American startups including one last year, Boatbound, that Click&Boat; also eyed. In April the American company added Smart Charter Ibiza, a conventional charter firm, in Spain, part of a move into the Mediterranean.

Boatsetter has also developed an insurance product, with a third party, for peer-to-peer rentals, and has partnered with Airbnb to offer experiences such as wakeboarding in Miami or eating paella on a boat near Barcelona. Click&Boat; has started a separate site, Click&Yacht;, for chartering luxury craft for thousands of euros a day in places like the Côte d'Azur, for which there is plenty of international demand. It is one thing to stay in someone else's flat. It's another to captain a superyacht—especially when it looks like you own it.

Schumpeter

Michel Foucault's lessons for business

Forget McKinsey. A Gallic intellectual is the key to controlling how companies are perceived

Brett Ryder

Jun 21st 2018

NOT many businesspeople study post-war French philosophy, but they could certainly learn from it. Michel Foucault, who died in 1984, argued that how you structure information is a source of power. A few of America's most celebrated bosses, including Jeff Bezos and Warren Buffett, understand this implicitly, adroitly manipulating how outsiders see their firms. It is one of the most important but least understood skills in business.

Foucault was obsessed with taxonomies, or how humans split the world into arbitrary mental categories in order "to tame the wild profusion of existing things". When we flip these around, "we apprehend in one great leap…the exotic charm of another system of thought". Imagine, for example, a supermarket organised by products' vintage. Lettuces, haddock, custard and the *New York Times* would be grouped in an aisle called "items produced yesterday". Scotch, string, cans of dog food and the discounted Celine Dion

DVDs would be in the “made in 2008” aisle.

Most industries have established taxonomies that hide their flaws. Wall Street firms disguise their risky proprietary-trading profits by lumping them together with the more stable fees paid by clients. India’s IT outsourcing giants split their sales into bland categories such as “solutions” and “application development”, which sound better than “work outsourced by American clients to our lowly paid staff in Mumbai and Bangalore”. Mining firms are organised by commodity type—copper, say, or iron ore. A geographic taxonomy would reveal that their production is often in unstable countries and that they rely on one big customer: China.

A few astute bosses know how to remould taxonomies, bending the perceptions of investors, counterparties and staff. A dazzling case is Mr Bezos at Amazon. In early 2015 investors were worrying that it was a low low-margin retail business and were losing their nerve. Mr Bezos changed its taxonomy by “breaking out” AWS, its cloud-hosting business, which was producing the holy grail of high, consistent and fast-growing cashflow. This move has been central to Amazon’s resurgent stock price.

The AWS technique is being adopted by younger, loss-making, tech firms that want to go public. Uber, for example, encourages outsiders to split it up by cities and vintage. In the places where it has brokered rides for longest its margins are positive, suggesting that it is just a matter of time before the entire firm makes money. WeWork, a trendy office-rental firm, revealed in April a new profit measure, “community-adjusted-Ebitda”. The label was moronic, but not the concept, meaning “the gross profits of offices that have been open for a while”. Like Uber, WeWork wants to show that it has a profitable core that can be scaled up.

Some firms have the opposite problem and need to show that, as well as being steady cash cows, they have new thrills up their sleeve. For instance, Google still relies on search ads for its profits. But in 2015 it changed its name to Alphabet, which became a holding firm split into two divisions, Google and “other bets”, which contains its new projects such as driverless cars. It hired Ruth Porat from Morgan Stanley to become its finance chief. The changes were meant to show that it has a serious framework for investing in new ventures. Investors have lapped it up.

Stodgy Western banks keen to prove they can do fintech would be well advised to study DBS, a Singaporean bank with a market value of $51bn. Piyush Gupta, its boss, wanted to showcase the digital initiatives taking place at the firm. DBS tagged each customer as “digital” or “traditional” based on whether they primarily used digital products or not, and allocated costs to both groups. The bank can now divide itself into two businesses and show that the digital one is more profitable and is a rising share of the total. The exercise helps explain a soaring share price.

The most accomplished corporate taxonomists play a still grander game; controlling not only how the firm is subdivided, but also whether it is viewed as a company at all. This is at the heart of Warren Buffett’s accomplishment at Berkshire Hathaway, which he insists is neither a conglomerate nor an investment vehicle, but a one-off that can only be analysed using a special set of rules that he has provided in an “owners’ manual”. This has shielded Berkshire from scrutiny and criticism over the past decade, even as it has underperformed the stockmarket.

Masayoshi Son, the boss of SoftBank, a Japanese telecoms and tech conglomerate, has just executed a similarly mind-bending classification leap. The firm has long been criticised for its weak cashflow and high debt, so starting in 2017 Mr Son began to describe it as a venture-capital (VC) operation, to be assessed using the VC measure of internal-rate-of-return, which is both flattering and unverifiable. He has since completed the shift by setting up the Vision Fund, a giant $100bn affiliated investment vehicle.

But it is Elon Musk who has taken recategorisation to its logical end point. Tesla, his car firm, he infers, cannot be judged in the present, but only the future, which he predicts using long-term production and market-value targets. So far it has worked. Even as Tesla has struggled to produce a modest volume of cars, Wall Street forecasts of its sales in 2023—a total guess—have been eerily stable at $60bn, supported only by the intensity of his vision.

Is it a bird? Is it a plane?

Taxonomies are not alchemy. If firms do not succeed, eventually there is nowhere to hide, as Tesla may discover. General Electric (GE) and IBM have tried to classify parts of their empires as especially “high tech”, but since overall profits have been falling investors are not fooled—indeed, GE has just lost its spot in the elite Dow Jones index. Nonetheless, by controlling how their firms are classified and subdivided, managers can often change perceptions, and in turn reality, lowering the cost of capital and intimidating competitors. Foucault had no interest in business. But if he had he might have split companies into two categories: those that understand the power of taxonomies and those that don't.

Finance and economics

Battle-lines drawn

A full-blown trade war between America and China looks likely

As Donald Trump threatens further tariffs on Chinese imports, the prospect of a deal is receding

Jun 21st 2018 | WASHINGTON, DC

IT IS becoming increasingly likely that the phoney trade war between America and China will develop into the real thing. On June 15th the Trump administration published two lists of Chinese products it plans to hit with tariffs of 25%, worth $50bn in 2018. The first will come into force on July 6th. The Chinese snapped back with their own list, laying out a retaliation of equal size. Then on June 18th President Donald Trump directed Robert Lighthizer, the United States Trade Representative (USTR), to draw up a further list of products worth $200bn that would face tariffs of 10%, and threatened yet another, covering an additional $200bn of goods, if the Chinese retaliated again. At least some of these tough words will probably turn into deeds. Both sides can expect to take casualties.

China regards the first round of American tariffs as a unilateral violation of global trading rules. It has lodged a complaint at the World Trade

Organisation (WTO). But Mr Trump's team maintains that China started the conflict, by stealing America's intellectual property and engaging in unfair industrial policy. Once tariffs have been imposed, the rights and wrongs—and even the role of the WTO itself in the dispute—could be forgotten.

There is still a faint hope that July 6th will pass without the tariffs coming into force. The fact that the tariffs were not imposed immediately could allow time for further negotiation. But the prospects for peace are dimming. On June 19th Peter Navarro, Mr Trump's adviser, said there were no immediate plans for talks. The delay between announcing the tariffs and imposing them was to give American customs authorities time to prepare.

The office of the USTR has also taken its time to decide which products should be subject to tariffs. It wants to inflict as little pain as possible on American consumers, and as much as possible on Chinese exporters. Of the products announced on June 15th, 95% by the value of American imports were capital or intermediate goods. That should lessen the immediate effect on consumer prices in America, as only a fraction of production costs will rise because of tariffs. The USTR has also sought to ensure that American importers would be able to find alternative suppliers. According to the International Trade Centre, a multilateral agency, China accounts for just 8% of America's total imports of the affected products.

Still, tariffs will hurt American companies by imposing costs their competitors do not face. Even for products where China accounts for a small share of imports, rebuilding supply chains may be easier said than done. In public testimony GE, an industrial conglomerate, pointed out that its specialised components go through all sorts of quality-control processes and regulatory approval. But of the 34 products the firm asked to be removed from the list, not a single one was.

Inflicting pain on China could also be easier said than done. The Trump administration wants to stymie China's ambitions in the strategic sectors it has identified as part of its "Made in China 2025" policy. But according to Yang Liang of Syracuse University and Mary Lovely of the Peterson Institute for International Economics, a think-tank in Washington, DC, 55% of high-tech Chinese exports to America in 2013 came from wholly foreign-owned enterprises. The $3.6bn of semiconductor imports from China in the firing line are mostly from subsidiaries of American companies, contain chips designed and made in America, and are in China only for labour-intensive assembly and testing.

Collateral damage

China's opening blows will hit agricultural products that largely come from states which voted for Mr Trump. But as a trade war escalates, the pain becomes more indiscriminate. In 2017 America imported $505bn of goods from China. If tariffs are expanded to cover Chinese imports worth $250bn, let alone $450bn, avoiding consumer products such as clothes and electronics will become impossible. Products with few alternative suppliers will be hit. American importers will find it harder to avoid passing on rising costs to consumers. A trade war, says Dmitry Grozoubinski of the International Centre for Trade and Sustainable Development, a think-tank, involves "blowing up your own cities and wafting the resulting smoke across the border in the hopes it will sting their eyes."

China's room to charge tariffs has a lower ceiling: in 2017 it imported just $130bn of goods from America. But it has other options. It could stop Chinese students and tourists going to America. It could find regulatory pretexts to disrupt the Chinese operations of American firms. According to the US-China Business Council, the Chinese government has discussed with Chinese firms finding replacements for the American products they use.

In normal times, that would give China leverage, as American businesses clamoured for relief. But these are not normal times. For some within the administration, making investment in China less attractive is not an unfortunate side-effect of a trade war, but one of its aims. Whatever form this conflict takes, and however long it lasts, there will be no winner.

Planning manoeuvres

As China mulls its response to Donald Trump's tariffs, cool heads are prevailing, for now

YANTAIThough America has more firepower, China can still do it a lot of damage—at a cost to itself

Jun 21st 2018

FOR now, at least, when speaking of the trade dispute with America, China's government is taking a more-in-sorrow-than-in-anger tone. That helps explain the Chinese public's surprisingly measured views of Donald Trump, and gives the Chinese government some breathing room to consider its options.

The state media have so far taken the high ground. True, the *Global Times*, a chest-thumping tabloid, accused the American president of "gambling" that China will be cowed by his "capricious and obstinate attitude". No country can isolate itself from globalisation, said the Xinhua news agency: "The wise man builds bridges, the fool builds walls." A new Xinhua web page popped up on June 20th, tracking multilateral deals that Mr Trump has quit, including on trade, climate change and Iranian nuclear arms.

But China has yet to debate, publicly, how to handle an American president who is an avowed populist and won office by playing on the fears and grievances of workers in such places as the midwestern rustbelt, handing him an America First mandate to reshape global trade. China is uncomfortable with discussions of democratic mandates, voter grievances or elections that overthrow establishments.

The results can be heard in a straw poll of factory workers in the eastern city of Yantai, who will be among the first to suffer from the American tariffs planned for July 6th. Yantai is home to a car factory owned by SAIC-General Motors, a joint venture that makes the only Chinese-built car to be sold in America in significant numbers. The Dong Yue car plant produces the Buick Envision, a faintly dowdy four-wheel drive exported to America since 2016, and which will cost about $8,000 more once tariffs bite. American drivers bought 41,000 Envisions last year.

On a muggy morning this week, the news had reached workers wheeling mopeds and electric bicycles through a side gate as they headed home. Kong Xiangbao, a machinery repairman, fretted that his salary could suffer if fewer cars are made for export. Li Tongxiao admitted to rather liking Mr Trump, citing his "charisma", wealth and success before entering politics. Mr Li takes comfort in the domestic success of Buick in China, where drivers looking for a practical, upper-middle-range car last year snapped up more than 200,000 Envisions. GM sells more cars in China than in America, and this—along with years of watching news broadcasts that present world affairs as formulaic meetings between powerful men—has engendered fatalism. "The American market, though it isn't small, isn't big either. Besides, this is an issue between two countries. Even if I were worried, there is nothing I can do about it," Mr Li shrugged.

Qu Yang, a salesman at a Buick showroom in Yantai, is puzzled by the very idea that an unusual, outsider president might be the cause of tensions. "The American president and the American government, for Chinese people it's one and the same," he says. Sales of Japanese cars suffered in previous spats. He hopes a trade dispute with America will have less impact than the "historical feud" with Japan.

In 2012 jingoistic reports and online debates about islands claimed by both

Japan and China prompted nationalists to attack Japanese noodle shops, rip flags and damage Japanese cars before authorities clamped down. More recently, a South Korean supermarket chain was, in effect, kicked out by official harassment and a consumer boycott, because of a row over American anti-missile defences in South Korea. But so far state media and official spokesmen have avoided the slogans that often prefigure outbreaks of public rage—the charge, say, that a foreign power has hurt the feelings of the Chinese people.

One reason is the need to preserve the prestige of Communist leaders. State media presents President Xi Jinping as a confident and hospitable patriarch, more than capable of handling men like Mr Trump. And, notes William Zarit, the chairman of the American Chamber of Commerce (AmCham) in Beijing, signs of softening in the Chinese economy mean “this is not a good time for a trade war.” He sympathises with American officials’ loss of patience with Chinese moves to skew markets in their favour, notably through unfair enforcement of regulations. The most recent AmCham survey of business sentiment found most of its members reporting rising revenues and healthy profits, but 75% also saying that foreign companies have become less welcome in China. Mr Zarit voices concerns that America “could paint China into a corner, and not adequately consider Chinese domestic politics”.

Western businesses and diplomats in China long to see the country reach a new grand bargain between its model of assertive state capitalism and the more market-driven Western model. Team Trump’s attacks on forced technology transfers and state subsidies are broadly welcomed. But businesses and allied governments want Mr Trump to pick the right fights. It is one thing to ask China to behave differently. It is another to ask it to stop climbing up the industrial value chain, with such policies as the “Made in China 2025” plan.

That would smack of containment, which does stir Chinese public opinion, even at the gates of a plant making American cars on the shores of the Yellow Sea, 6,700 miles from Detroit. Americans are “fearful of China’s development”, says Mr Kong, the machinery repairman. “They worry it will affect America’s dominant status.” Plenty of Trump voters would agree. Therein lies trouble.

Fed and Federico

Why countries like Argentina and Turkey fret about exchange rates

Weak currencies boost exports. But they also increase inflation and the burden of foreign-denominated debt

Jun 21st 2018

IMAGINE if Milton Friedman had been put in charge of a central bank, only to lose his job for expanding the money supply too quickly. Or if Robert Shiller, the Nobel-prizewinning author of “Irrational Exuberance”, were given a similar post, only to depart having allowed a stockmarket bubble to inflate. That is the kind of irony that attended the resignation under pressure of Federico Sturzenegger as governor of Argentina’s central bank on June 14th, a casualty of deepening turmoil in emerging markets.

Mr Sturzenegger was a former professor at Universidad Torcuato Di Tella in Buenos Aires. His most-cited paper showed that stated currency policy was often a poor guide to actual policy. Many countries claim to let their currencies float freely but in fact “intervene recurrently to stabilise their exchange rates”. Their deeds often belie their words.

Mr Sturzenegger lost his job for much the same thing. Financial markets struggled to reconcile his statements on the currency with his management of it, eroding his credibility. After Argentina agreed on a $50bn loan from the IMF, he said he would intervene in the foreign-exchange market only in “disruptive situations”. But when the peso soon came under renewed pressure, he resumed selling foreign-exchange reserves, which fell by $665m on June 12th-13th. He gave up the fight on June 14th, allowing the currency to drop by 5.3% against the dollar on a day that ended with his departure.

Why do policymakers in emerging markets fret so much over exchange rates? A weak currency, after all, makes a country’s exports and assets more competitive. And when capital flees, it can be better to let the currency fall than to put up interest rates (and throttle growth) in an effort to keep the exchange rate stable.

One reason to worry is inflation. Weaker currencies push up import costs, jeopardising price stability. The plummeting Turkish lira, for example, has hampered the fight against inflation in a country where prices respond quickly to currency weakness. In response, Turkey’s central bank, like Argentina’s, has been forced to raise interest rates dramatically, despite the opposition of Recep Tayyip Erdogan, who is seeking re-election as president.

According to Capital Economics, financial conditions in both countries have tightened by more this year than they did in the same period of 2013, the year of the “taper tantrum”, when America’s Federal Reserve said it would eventually slow its pace of quantitative easing. In many other countries, however, this year’s tantrum is not yet as bad as its forerunner. Brazil’s currency has fallen by 9% since mid-April. But the central bank has refrained from raising interest rates, insisting that there is no “mechanical relationship” between recent shocks and monetary policy.

Another reason to worry about exchange rates is debt: a weaker currency makes dollar or euro liabilities harder to repay. According to the Institute of International Finance, the combined foreign-currency debt of Argentina’s government and non-financial companies exceeds 50% of GDP. In Turkey, it is 47%. But the burden elsewhere is modest. It is less than 25% of GDP in Mexico and South Africa, less than 20% in Brazil and Malaysia, and closer to 10% in India, China and Thailand.

In Indonesia, both inflation (3.2%) and foreign-currency debt (19% of GDP) are low. Its central bank nonetheless raised rates twice in May to stabilise the rupiah. The country, still haunted by the Asian financial crisis, associates a falling currency with a faltering economy. And like other emerging markets, it fears that currency weakness can feed on itself, as declines fuel speculation about further declines.

This is presumably the kind of "disruptive situation" that Mr Sturzenegger had in mind when positing exceptions to his rule of non-intervention. He was perhaps unfortunate that such a situation arose so shortly after he had promised to step back: the sharp drop in Argentina's peso on June 11th was exacerbated by the Federal Reserve's hawkish signals after its meeting on June 12th-13th. In emerging markets, currency policy can be complicated—not least because of the financial markets' demand for simplicity.

A modest proposal

France and Germany finally have a common position on euro-zone reform

Emmanuel Macron convinces Angela Merkel to sign up for a euro budget. But banking reform will be halting

Jun 21st 2018 | BRUSSELS

THE president of the European Commission, Jean-Claude Juncker, likes to compare the euro zone to a house in need of repair. Fix the roof, he counsels, while the economic weather is favourable. Leaders from across the European Union will have the opportunity to take that advice when the European Council meets in Brussels on June 28th-29th.

In preparation Emmanuel Macron, France's president, and Angela Merkel, Germany's chancellor, laid out joint proposals for reforms on June 19th. The result of weeks of ministerial negotiation, they reconciled long-standing differences on the future of the currency bloc and set the scene for discussion at the wider summit. In a victory for Mr Macron, the Germans have consented to a euro-zone budget. In other areas, notably banking reform, progress is likely to be halting.

The reforms aspire to mend the institutional weaknesses revealed during the years following the financial crisis. Lacking control over interest rates and the ability to devalue their currencies, some countries struggled to cope with violent economic shocks. Some, like Greece, were stuck in a "doom loop" where wobbly banks destabilised the governments supporting them, which in turn weakened the banks holding government bonds.

To be fair, the bloc has already done quite a lot. At the height of the crisis, a bail-out fund was cobbled together for emergency lending to countries that lost access to capital markets. In 2012 the euro zone agreed to establish a banking union to contain risks and break the doom loop. The European Central Bank now supervises all the euro zone's systemically important banks. If a bank needs winding down, the Single Resolution Board provides short-term funding and imposes losses on creditors, limiting the cost to the taxpayer.

But more than five years on, banking union remains incomplete. Mr Macron is keen both to push through those remaining reforms, and to go further. His proposal for a euro-zone budget aims to ensure members' economies continue to converge and to help those buffeted by external events. New prime ministers in Italy and Spain appear to agree.

The Germans, Dutch and Nordics, however, resist the pooling of risks across the bloc. They worry that fiscally prudent countries would end up subsidising profligate ones. Italy, where an earlier version of the new governing coalition seemed to scorn the euro zone's spending rules, will not have reassured them.

The Franco-German compromise gives the nod to various proposals from the European Commission. The first involves reforms to the euro zone's sovereign bail-out fund, the European Stability Mechanism (ESM). It would act as a backstop to its bank-resolution board, beefing up banking union. And countries that have been prudent, but suffer an economic shock, would be given access on relatively lenient terms to a precautionary line of funding, so they could seek money before they lose access to the markets. So far most ESM lending has been to countries already cut off from markets, and conditional on implementing tough structural reforms.

All this would be a step forward, says Guntram Wolff of Bruegel, a think-tank. But he thinks the reforms should go further. The French and Germans agreed to keep the governance of the bail-out fund unchanged. But it is too complicated. In order for it to be tapped, finance ministers must reach unanimous agreement. National laws mean that parliaments in some countries, notably Germany, must grant their approval. That could stop the fund winding down a failed bank swiftly over a weekend, as it may need to.

But the Germans insisted on national control, saying that it has not held up decision-making so far. Their reservations also stymied immediate progress towards a common deposit-insurance scheme. Mr Juncker had hoped to soothe northerners' fears with a gradual implementation during which the common fund would lend to national schemes in times of trouble. His hope that banking union would be complete by 2019 now seems unrealistic. A proposal from the commission to create securities backed by a pool of sovereign bonds has been nixed. Without it, banks will have little incentive to diversify sovereign risk.

Mr Macron's prize is a concession from Germany on the euro-zone budget. For the first time, the French point out, Germany has acknowledged that macroeconomic stabilisation is not a matter for national governments only, but a common concern. Though Mr Macron envisions a budget in the region of several percent of GDP, Mrs Merkel is known to want something much stingier. Nevertheless, as Mr Macron says, it would be a "real budget with annual revenues". He would like to see it raise revenues directly, possibly from a financial-transactions tax, though that would be contentious.

Most of the money would be invested in innovation, helping economic convergence. There is a mention, too, of an unemployment-stabilisation fund to act as an emergency credit line for national unemployment-insurance schemes. But such a design, which accords with German nervousness about fiscal transfers, might not be enough in deep downturns.

Mr Macron and Mrs Merkel may finally agree on the merits of a central budget. But others must now be convinced. Mrs Merkel's coalition partner, the Christian Social Union, has expressed scepticism. The Dutch prime minister, Mark Rutte, has said he sees little point in it if countries keep their public finances in order. Yet even a well-maintained roof may spring a leak.

Keep the roof on

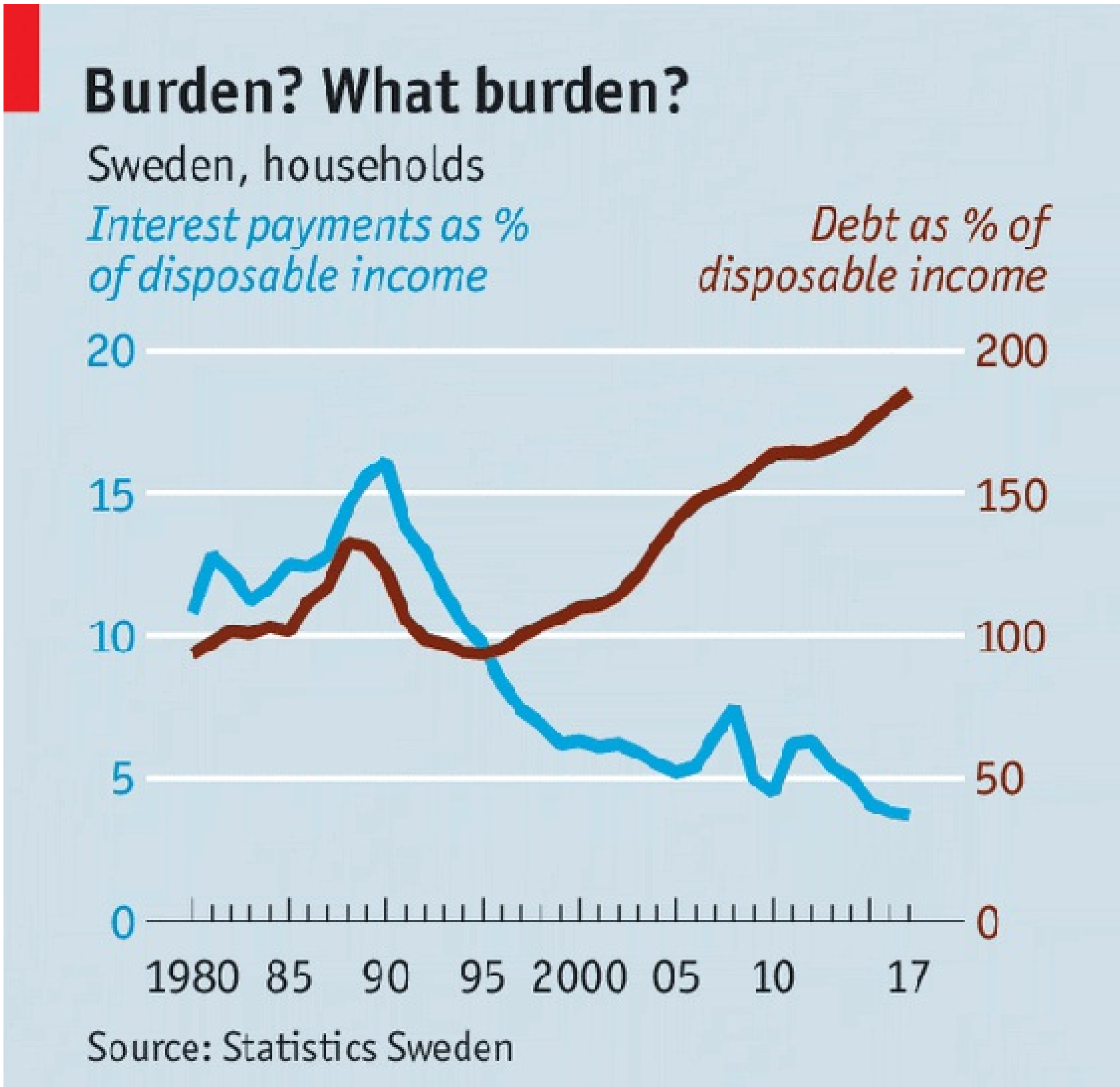
Giddy property prices are a test for Swedish policymakers

How big a worry is the build-up of households' debts?

Jun 21st 2018 | STOCKHOLM

ULF DANIELSSON is thinking of buying a holiday home—or even a new house, so that he, his wife and two children can have a garden and more space than in their flat in Uppsala. He can afford either, he says, and as a professor of astrophysics is surely able to work that out. But he is hesitating, lest the giddy rise in Swedish property prices end in an ugly crash. "You risk having a big loan that's worth more than the house," he says.

The property market has fallen a little closer to Earth: prices dropped by 9% between September and January, largely because of a surfeit of pricey new flats. They then steadied, and are around 5% below the peak—and 50% higher than at the start of 2013, calculates Valueguard, a data provider. As Swedes have borrowed to buy, their debts have risen. Finansinspektionen (FI), the financial-stability supervisor, estimates that borrowers' debts rose by 36% between 2012 and 2017, while disposable incomes went up by 13%. Almost a fifth of households with new mortgages owe more than six times net income.



Economist.com

Low interest rates—the central bank's benchmark is -0.5% and banks charge around 1.5% annually on home loans—have both helped fuel the boom and kept mortgages affordable. The share of incomes going on interest has tumbled even as the debt ratio has climbed (see chart). Swedes also save plenty: 9% of disposable income, and 16% including pensions, according to Swedbank, a leading lender. But Anna Breman, Swedbank's chief economist, notes that although households in aggregate are in "fantastic" shape, it is hard to know how many would be vulnerable to higher rates. The abolition of a wealth tax in 2007 deprived economists of valuable data on individual households' finances.

Indebtedness worries both FI and the central bank, the Riksbank, which fears that a sharp fall in house prices could lead debt-laden households to spend less, knocking back growth and employment. It worries that banks, of which just four account for 75% of mortgages, could find loans harder to fund. They do this by selling bonds, some in foreign currency, with the loans as collateral.

Prudential regulation, however, is the domain of FI—even though the Riksbank's governor, Stefan Ingves, heads the Basel committee, which sets international prudential standards. As long ago as 2010 FI capped mortgages at 85% of property values (some Swedes top up with unsecured loans). Since 2016 it has obliged borrowers to repay 1% of new mortgages each year if they exceed 50% of the value of the home, and 2% if above 70%. Since March they have had to repay a further 1% if the mortgage is more than 4.5 times gross income. In addition, banks typically lend only to those who can bear interest rates of 7%.

Loan-to-value ratios have levelled off. Erik Thedéen, FI's director-general, hopes the repayment obligations will make people "think once or twice" about taking on debt and foster an "amortisation culture" in a country where mortgages can take many decades to be repaid. He would have tightened them sooner, too, but had to await a change in the law. In a "severe crisis", he says, the rules could be eased.

FI has also bolstered banks' capital requirements for mortgages, despite low default rates on home loans. Even so, the Riksbank is urging FI to do more to insulate lenders from possible trouble. It thinks banks should face more stringent rules for both leverage and liquid assets in kronor. Mr Thedéen is resisting both calls.

Lars Svensson of the Stockholm School of Economics, a former deputy governor of the Riksbank, thinks FI has already done too much. There is no evidence that debt is excessive, he says in a recent paper; the repayment rules merely make it harder for some people to get credit, in particular young people with modest incomes and limited savings. They are in effect forced to save, or stopped from buying homes they could actually afford.

Just about all agree that underlying all this is a dysfunctional housing market.

Mortgage payments are still tax-deductible, which encourages borrowing and supports prices. Tight controls choke private renting. For years, population growth and housing demand have outrun supply, despite the recent blip. (Migration, a hot topic in September's election, also requires more public housing in the short run; refugees are not likely buyers.)

Such distortions need sorting out. But financial policymakers have one thing going for them. "We are having a slowdown in the housing market when the economy is still strong," says Olle Holmgren of SEB, another of the big banks. "That's the best scenario we can hope for."

After pride, the fall

Abraaj, a Middle Eastern private-equity firm, files for bankruptcy

The firm dipped into investor funds for its own corporate purposes

Jun 21st 2018

UNTIL recently the Abraaj Group, aprivate-equity firm based in Dubai, was riding high. It was one of just a few such firms focused on emerging markets, and a darling of "impact investors", who seek social or environmental returns, not just financial ones. Assets under management of $13.6bn made it the largest private-equity firm in the Middle East, and the 42nd-largest globally in 2017. Its Pakistani founder and boss, Arif Naqvi, a regular at Davos and a patron of the arts, had won awards for philanthropy. It is all the more surprising, then, that basic corporate-governance missteps led his firm to file for provisional liquidation on June 14th.

The problems began in late 2017 when four investors in its $1bn health-care fund, including the Bill & Melinda Gates Foundation and the private-sector arm of the World Bank, grew worried. Nearly $280m of $545m they had been asked for was not promptly spent on acquisitions, as is standard in the industry. Abraaj blamed delays in the construction of hospitals in Pakistan and Nigeria. The investors asked for proof that the funds had not been misspent; unsatisfied, they hired a forensic auditor to comb through Abraaj's accounts.

News of the investigation broke in February. Later that month Abraaj ceased investing and Mr Naqvi stepped down from the fund-management unit. The firm stopped raising money for its newest fund and released investors from $3bn already committed. A review by Deloitte, an auditor, concluded that it had covered its own expenses with investors' money from the health-care fund and another. The money was replaced in the health-care fund, but the other fund was left short of $95m.

Even before the review was finished, Abraaj had started looking for buyers for its fund-management arm, hoping to use the proceeds to pay off its creditors. But some grew impatient. On May 22nd Kuwait's social-security fund filed a petition in a court in the Cayman Islands, where Abraaj is incorporated, seeking to force it into bankruptcy proceedings. In response Abraaj filed for provisional liquidation, akin to America's Chapter 11 proceedings, to give it greater control over its restructuring.

Abraaj's downfall is highly unusual. Debt is generally taken on by the individual funds run by private-equity firms, or the companies that those funds own, rather than by the firms themselves. Ludovic Phalippou of the Saïd Business School at Oxford University says he cannot recall any other private-equity firm declaring bankruptcy.

A charismatic boss can sometimes lull investors in a private-equity fund into complacency. Although they will carefully scrutinise any new fund-management company, when it comes to established ones they typically focus their due diligence on the individual funds it runs. And they may gloss over the fine print in agreements that govern relations between investors and funds, says Sunaina Sinha of Cebile Capital, a placement agent that helps private-equity firms find investors. Abraaj's actions seem not to have broken its agreements with investors. Its collapse highlights the need for vigilance, especially when it comes to fashionable asset classes and fast-growing firms.

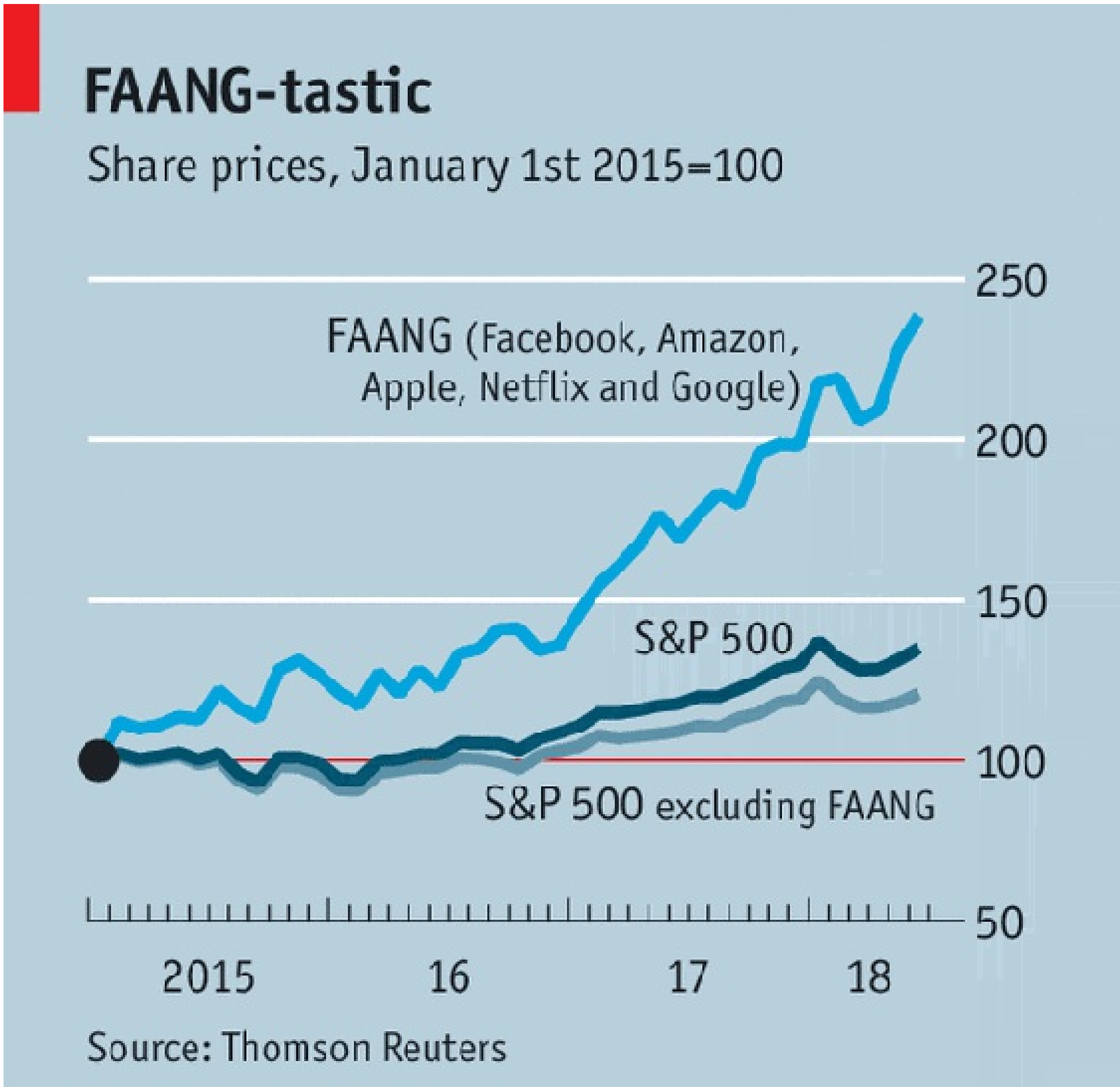
Buttonwood

Most stockmarket returns come from a tiny fraction of shares

Facebook, Amazon, Apple, Netflix and Google (FAANG) have been the motor of the S&P; 500

Jun 21st 2018

IN his book about the use of language, “The King’s English”, Kingsley Amis describes a tug-of-war. On one side are “berks”, careless and coarse, who would destroy the language by polluting it. On the other side are priggish “wankers”, who would destroy it by sterilisation.



Economist.com

The battle lines look similar in investment. The divide is not on points of grammar but on attitudes towards a handful of modish companies, known as FAANG. These stocks (Facebook, Amazon, Apple, Netflix and Google) have been the motor of the S&P; 500 (see chart). All but Apple hit record highs on June 20th. Fill your boots is the attitude of coarse stockmarket berks. FAANG makes more sense than stocks in dying industries. For the prigs, the mania for FAANG stocks is as abhorrent as a split infinitive. The high-minded investor stands apart from the herd.

In matters of grammar, the unsure often follow the sticklers. They at least have rules. But they are often too rigid. Stockmarket sticklers can similarly lead others astray. For most investors, it is often a mistake to shun individual stocks simply because other people are keen on them.

A recent paper* by Hendrik Bessembinder of Arizona State University explains why. Since 1926, most stockmarket returns in America have come from a tiny fraction of shares. Just five stocks (Apple, ExxonMobil, Microsoft, GE and IBM) accounted for a tenth of all the wealth created for shareholders between 1926 and 2016. The top 50 stocks account for two-fifths of the total. More than half the 25,000 or so stocks listed in America in the past 90 years proved to be worse investments than Treasury bills.

The sway that FAANG stocks have held recently is not out of the ordinary. A new report by analysts at Macquarie, a bank, find that the clout of leading stocks in the S&P; 500 has often been higher in the past. Mr Bessembinder's results complement the verdict of another strain of research, which says that most stock returns are made on relatively few trading days. Just as it is important not to be out of the market on those days, it is important not to omit key stocks from your portfolio.

Double or nothing

To understand why, it helps to think of investing as a game of chance. Imagine there is an equal chance that a stock will rise or fall by 50% each year. A $100 stock that goes up 50% in year one would be worth $150; if it falls by 50% in year two, it is worth $75, less than when the game started. In contrast, a lucky stock that rises by 50% in two successive rounds is worth $225. After many rounds, most stocks lose money. But a few stocks make a lot of it.

It would be foolish, though, to take this as cue to invest solely in FAANG. There is no guarantee that today's winners will still be winners tomorrow. Sticklers will rightly point out that if you overpay for a stream of earnings, however good the company is, you cannot hope to make money from investing. Are modish stocks a trap, then? It might seem so. The "Nifty Fifty", a group of popular (and thus expensive) stocks in the late 1960s, fell hardest in the bear market of the 1970s. Then again, many of them—GE, IBM, Johnson & Johnson, Coca Cola and so on—are also on Mr Bessembinder's list of the 50 biggest wealth creators. To have bought and sold them at the right moments required deft timing.

Wise investors who do not know how to pick tomorrow's winners, or how to time markets, opt to hold a broad index of stocks passively. Even this approach has drawbacks. Bull markets tend to narrow, says Robert Buckland, of Citigroup, because of rising pressure on fund managers to buy the recent winners. "A bubble is what I get fired for not owning," one told Mr Buckland. The stockmarket index thus tilts ever more heavily towards a few shares. And these may not turn out to be the big winners in the long term.

The best defence is to diversify broadly across markets and assets as well as stocks. That includes bonds and cash, of course. Another way to offset a concentration of a certain kind of stock is to invest in equity markets outside America. The euro zone's indices, for instance, have a far lower weight in technology companies. You won't avoid a crash in modish stocks, should one occur. But at least you will be able to survive it.

Such a middle-of-the-road approach might appear to lack personality. It is more distinctive to be a stickler for convention or a flouter of it. Yet it is the right approach—and it works for language, too. English survives and prospers because most of its users are neither style sticklers nor utterly slapdash.

**"Do Stocks Outperform Treasury Bills?" Forthcoming, Journal of Financial Economics (2018)*

Free exchange: Trading peace for war

Sino-American interdependence has been a force for geopolitical stability

A full-blown trade war would harm more than the two countries' economies

Jun 21st 2018

Economist.com

IN THE 1990s America and Europe had a trade dispute over bananas. No one worried that tanks might soon roll as a result. But trade is about more than economics. The European Union, the world's most ambitious free-trade area, was founded on the idea that trade integration would make war between members "not merely unthinkable, but materially impossible". As the risk of a serious Sino-American trade war grows, attention is mostly focused on the prospect of dearer iPhones and unhappy soyabean farmers. But the stakes are much higher.

China's economic miracle could not help but provoke geopolitical stress, given its size and illiberality. Relations between America and China are built on mutual suspicion. Geopolitical rivalry has been moderated, however, by economic interdependence: a mutual entanglement some economics wags have dubbed “Chimerica”.

As China opened up, American consumers hoovered up cheap Chinese goods. American firms built China into their supply chains, enjoying low labour costs and gaining a presence in a domestic market that would one day be the world’s largest.Export-oriented development created vast numbers of Chinese jobs, and American investment allowed Chinese firms to gain technological expertise. As China grew richer, it purchased American bonds to keep its currency low and its exports competitive. That allowed America to consume beyond its means year after year. This circular flow of money saw America’s current-account deficit grow in pace with China’s surplus.

Both countries have strained at these ties. Even before Donald Trump became president, America bristled at the theft of its intellectual property, aggressive government support for Chinese industry, and the destabilising currency manipulation. China deplored its dependence on foreign technology and consumers. These vulnerabilities were highlighted by the financial crisis, when plummeting global demand threatened to plunge China into recession, even though it is quite separate from the global financial system.

Support within America for a tougher line with China has been building for a while. And China is ever keener to achieve technological self-sufficiency. The share of domestic value-added in its exports has been rising steadily. “Made in China 2025”, the national development strategy, aims to create high-tech substitutes for foreign products from computer components to robots, cars and planes.

Yet an end to Sino-American interdependence is not inevitable. China might yet hew more closely to rich-country trade rules, and intervene less in its economy and foreign-exchange markets. Trade between America and China could continue to grow, even as the technological gap between them, and their bilateral imbalance, shrink. Expensive goods, investment and services could flow both ways, as between America and Europe.

But this sunny future looks increasingly remote. America already limits some Sino-American trade on national-security grounds. Past spats over dumping and other unfair trade practices led to punitive duties on some goods, as allowed under WTO rules. An all-out trade war would blow the two economies apart.

The higher tariffs being mooted on half, or nearly all, of America’s imports of Chinese goods would cause serious economic pain in both countries. In America the prices of many goods would jump and those of others, like the soyabeans exported to China by the shipload, would plummet. A sudden drop in China’s trade surplus with America, now over 3% of Chinese GDP, would be a heavy blow. Even though a weaker currency would make it easier to export more to other countries, China would probably need both monetary and fiscal stimulus to avoid a socially disruptive rise in unemployment.

Bad break-up

Then the real trouble would start. However warily American and Chinese leaders eye each other, economic self-interest keeps their most hawkish impulses in check. The interests of American consumers and firms constrain officials keen to keep sensitive technology out of Chinese hands (or snooping Chinese technology out of American households). China’s dependence on American spending and technology limits diplomatic and military adventurism. The break-up of Chimerica would mean an end to those constraints.

It might also shove the world economy back towards mercantilism and competing spheres of economic influence. China is already cultivating its economic imperium via the Belt and Road Initiative, a plan to build infrastructure for trade and to invest heavily in resource-rich developing economies. Cut off from American consumers, China would seek to strengthen ties with its neighbours in the hope of selling them more stuff. As Mr Trump’s economic sabre-rattling has grown louder, China has started to cultivate relations with Japan and South Korea. Mr Trump would probably view America’s allies strengthening their trade ties with China as a strategic blow—even though he has picked trade fights with them, too. He might limit access to the American market for countries that do not join his anti-China campaign. A world of mutually beneficial trade could turn into one in which there are no winners without losers, and no victory without conflict.

America has become embroiled in trade spats with fast-growing upstarts before; with Japan in the 1980s, for example. But these involved democratic countries grateful for American protection during the cold war—and American presidents with quite different characters. A closer analogy might be the early 20th century, when economic interdependence proved no match for rising nationalism and bad leadership. The fear is that Mr Trump's tariffs are less a way to correct legitimate trade grievances than a step towards a much darker world.

Science and technology

Publish and don’t be damned

Some science journals that claim to peer review papers do not do so

One estimate puts the number of papers in questionable journals at 400,000

Jun 21st 2018

WHETHER to get a promotion or merely a foot in the door, academics have long known that they must publish papers, typically the more the better. Tallying scholarly publications to evaluate their authors has been common since the invention of scientific journals in the 17th century. So, too, has the practice of journal editors asking independent, usually anonymous, experts to scrutinise manuscripts and reject those deemed flawed—a quality-control process now known as peer review. Of late, however, this habit of according importance to papers labelled as “peer reviewed” has become something of a gamble. A rising number of journals that claim to review submissions in this way do not bother to do so. Not coincidentally, this seems to be leading some academics to inflate their publication lists with papers that might not pass such scrutiny.

Experts debate how many journals falsely claim to engage in peer review. Cabells, an analytics firm in Texas, has compiled a blacklist of those which it believes are guilty. According to Kathleen Berryman, who is in charge of this list, the firm employs 65 criteria to determine whether a journal should go on it—though she is reluctant to go into details. Cabells' list now totals around 8,700 journals, up from a bit over 4,000 a year ago. Another list, which grew to around 12,000 journals, was compiled until recently by Jeffrey Beall, a librarian at the University of Colorado. Using Mr Beall's list, Bo-Christer Björk, an information scientist at the Hanken School of Economics, in Helsinki, estimates that the number of articles published in questionable journals has ballooned from about 53,000 a year in 2010 to more than 400,000 today. He estimates that 6% of academic papers by researchers in America appear in such journals.

Behind all this is a change in the way a lot of journals make their money. Over the past decade, many have stopped selling subscriptions. Instead, they charge authors a publication fee and permit people to read the result for nothing. This "open access" business model has the advantage of increasing the dissemination of knowledge, but it also risks corrupting the knowledge thus disseminated.

Trouble with lichen

The truth of this was shown as far back as 2013, in an experiment conducted by John Bohannon, a journalist with a doctorate in molecular biology. Dr Bohannon set up a sting operation by writing versions of a paper falsely claiming that a molecule found in lichens inhibits cancer. The papers featured, he says, "laughably bad" methodology and a shocking conclusion that the molecule is "a promising new drug" despite an absence of clinical trials. He attributed the papers to fictional biologists at made-up African medical institutes and then submitted them to open-access journals. Of 121 chosen from a blacklist, 69% offered to publish the paper for a fee, and even when he turned to journals on a whitelist of supposedly trustworthy open-access journals, 38% of the 167 he approached fell into the trap.

Dr Bohannon's experiment did lack a true control—submission to journals that still charge subscriptions. Nevertheless, his findings were worrying and since then, he says, "things have only gotten darker".

One aspect of that darkness is that compiling a blacklist has itself become risky. Mr Beall stopped adding to his last year and left his job at the University of Colorado in March. He claims to have been subjected to pressure from a superior, to a research-misconduct investigation by the university and to threats of lawsuits by publishers. The university, for its part, says that no pressure was put on him to take down the list. As far as it is aware that decision was his, and his job was never in jeopardy because of his work researching open-access journals. It cannot, however, disclose whether or not there was a research-misconduct investigation. Disclosure happens only after a finding has been made in such an investigation. Mr Beall's list has been taken up by another researcher who has since appended 690 new journals to it. But this new custodian refuses to be named.

Meanwhile, at Cabells, Ms Berryman reckons the publishers of bogus journals are getting ever cannier. She has seen cases of journals she regards as suspect claiming to be on whitelists, fabricating citation scores for papers, stating plausible time frames for peer review (claims of rapid review are often associated with questionable journals) and brazenly listing as sitting on their editorial boards scholars who are not in fact doing so.

Ms Berryman says, too, that some websites copy wording and graphics used by legitimate journals. Other sites go further, assuming a name that is confusingly similar to that of a reputable journal. And according to Ivan Oransky, co-founder of Retraction Watch, a pressure group, questionable journals now also occasionally retract articles in a bid to appear responsible, in what can only be described as a superb piece of subterfuge.

None of this would matter if institutions hiring academics were appropriately vigilant about checking candidates' publication histories against blacklists, and similarly inquisitive about the publications of those already employed. But some, apparently, are not. According to Brian Nosek, head of the Centre for Open Science, a not-for-profit organisation in Virginia that studies the matter, many institutions that hire and promote researchers seem unconcerned about where those researchers have been publishing—a problem made worse by recent requirements by the American and Canadian governments that taxpayer-funded research must be published in open-access journals.

Unsurprisingly, this is an area in which data are hard to come by. But one academic has been prepared to stick his neck out and investigate his own institution. Last year Derek Pyne, an economist at Thompson Rivers University's business school, in British Columbia, published a paper in the *Journal of Scholarly Publishing*, itself published by the University of Toronto Press. In it, he reported that many of the business school's administrators, and most of its economics and business faculty with research responsibilities, had published in journals on Mr Beall's blacklist. Dr Pyne also claimed that these papers seemed to further their authors' careers. Of the professors who had published in the blacklisted journals, 56% had subsequently won at least one research award from the school. All ten instructors promoted to full professor during the study period had published in a journal on Mr Beall's list.

Subsequently, Dr Pyne told school officials that an administrator up for promotion had published widely in blacklisted journals. This earned Dr Pyne an e-mail from the university's human-resources department on June 15th, threatening him with disciplinary action for "defamatory language and accusations". When asked, the university declined to comment.

Review peer review

What can be done about all this is hard to say. Dr Pyne thinks part of the problem is that too many academic administrators have no research experience, and so either cannot tell good publications from bad, or do not care. Few researchers, though, thrill to the idea of a career in administration, so changing that might be difficult. An extreme reaction, albeit one supported by a growing minority of researchers who think the peer-review system is anyway creaking under the weight of publication pressure, would be to abandon anonymous peer review altogether, and make the process open and transparent. This could be done (as sometimes happens already) by publishing unreviewed papers on special servers and then inviting criticism conditional on the name of the critic being public. That, though, brings other risks. Anonymous critics often find it easier to be honest, especially in fields where most researchers know each other.

One far-fetched solution is a return to journal subscriptions. These have for so long been excoriated as rent-seeking profit-inflators restricting the flow of information that a change of course would now be unthinkable. But those who pushed for their elimination might be wise to pause for thought. As the old proverb has it, be careful what you wish for. You might get it.

Football penalties

A practical guide to the most nail-biting part of the World Cup

There is an optimal strategy: be prepared

Jun 21st 2018

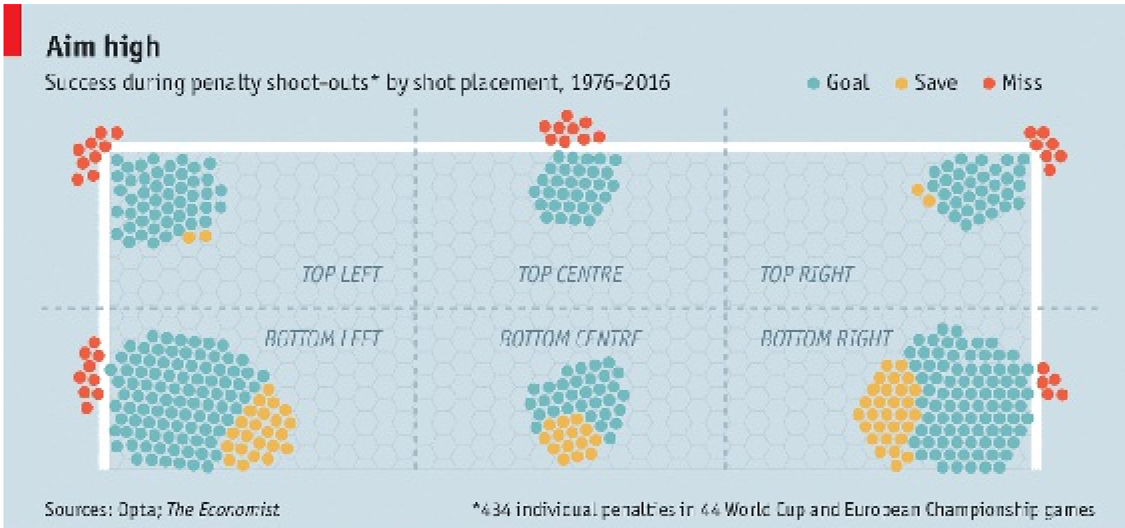
WHEN the World Cup, now under way in Russia, progresses to the knockout phases of the competition on June 30th attention will focus on the dreaded penalty shoot-out. Forty years ago, if a game was level after 120 minutes, the winner was decided by luck: a simple coin-flip. But in 1978 the rules were changed to create results that, at least in some sense, depend on skill. The question is, how much skill? Since 1982, the first competition in which penalty shoot-outs actually happened, there have been 26 of them—with seven of the 18 teams in the nine pertinent finals having arrived there thanks to success at penalties, and two of the finals themselves having been decided by them.

The format of a shoot-out is simple. Teams take it in turn to try to kick five penalties past the opposing team's keeper into the goal. If the score is even after five penalties a side then "sudden death" ensues: victory is achieved by a single winning kick that is not successfully replied to. Whether this is truly less dependent on luck is moot. Analysis suggests that no relationship exists between a team's general quality and its success in such shoot-outs. What analysis does suggest, though, is ways to improve the odds of victory.

The first is to go first, if given the option. That option is, admittedly, dependent on the toss of a coin. But if you win the coin toss you should take it, according to Ignacio Palacios-Huerta of the London School of Economics. After analysing data on 1,000 penalty shoot-outs in the World Cup and other competitions, Dr Palacios-Huerta found that teams which kick first win 60% of the time. Moreover, toss-winning captains do usually take this option, so FIFA, world football's governing body, is trying out a system similar to a tiebreak in tennis, in which teams A and B take turns to shoot first: AB then BA then AB and so on. The current World Cup, however, will keep the AB then AB format.

The toss having been won or lost, the teams decide the order in which players will take their kicks. Coaches typically select the best players to kick first, leaving the worst until last. Kickers are successful three-quarters of the time, on average, according to an analysis of penalties by *The Economist*. Yet the success rate falls by 12 percentage points for the fourth of the five pre-sudden-death penalties. This is where first-mover advantage appears to matter. The success rate in the fourth penalty for the team shooting first is 70%, whereas for the team shooting second it is just 56%. Thorough analysis of player sequencing by Dr Palacios-Huerta suggests that the importance of the five penalties is U-shaped: the first and fifth matter most; the third, least. So the best penalty takers, either in technique or those who can cope with stress, should be selected with that in mind.

Once the sequence of kickers is settled the ball is placed on the spot, 11 metres (36 feet) from the goal, the mouth of which is 2.4 metres high and 7.3 metres wide. A well-struck ball arrives at the goal line in just half a second, meaning that the goalkeeper must dive pre-emptively in the direction that he expects the kicker to shoot. Goalkeepers find high balls the hardest to deal with—just 3% of penalties aimed halfway up the goal or more are saved. Yet there is a tendency for these shots to miss the target: 18% of high shots do so, as opposed to 5% of low shots. Overall, though, allowing for misses and saves, high shots are successful 79% of the time compared with 72% for low shots (see chart).



Economist.com

As to the direction, left, right or centre, of both the kicker's shot and the goalkeeper's pre-emptive dive, it is best to be as unpredictable as possible. The data suggest there is little difference in success rates between shots that are aimed left, right or down the middle. Yet it is easier for a right-footed player to give the ball speed by aiming towards what is, from his point of view, the left-hand side of the goal (the keeper's right), and vice versa for left-footed players. On average, kickers strike the ball in this more natural direction 25% more frequently than in the other direction. Goalkeepers know these preferences and dive in those directions in matching proportions, in an attempt to exploit this bias.

Preparation helps, too. The Netherlands substituted in a specialist penalty stopper, Tim Krul, just ahead of their shoot-out with Costa Rica in the 2014 World Cup. It worked. He dived in the correct direction all five times and saved two penalties. Conversely, there is no substitute for kicking accuracy. Germany, with an 86% penalty success rate, has the best record of any top international team. England's record, by contrast, is a dismal 66%.

Fire arrows

A Chinese company plans to launch a rocket into orbit this year

It will use solid fuel—a first for commercial space flight

Jun 21st 2018 | BEIJING

THE first rockets were Chinese. In the 1230s the armies of the Song dynasty, who were fighting Mongol invaders, started launching "fire arrows" propelled by gunpowder some 300 metres into enemy lines. When the Song's artillerymen realised that these arrows continued to fly straight even after their fiery exhaust had burned away their feathers, they removed the fletching and the rocket was born.

Almost eight hundred years later Shu Chang, the head of a company called OneSpace, is trying to build on that historical tradition—though not for military purposes. The charred and twisted remnants of OS-X, the firm's first launch, are strewn across the floor of its laboratory in Daxing, a suburb of Beijing. The launch took place in May, from an undisclosed location in the north-west. OS-X, nine metres tall, climbed to an altitude of 40km and travelled 287km downrange. It remained airborne for five minutes before crashing into desert sands.

This lift-off was a first not only for OneSpace but also for China, for it was the first in that country of any rocket built by a private space company rather than a government agency. It was also the world's first flight of a rocket intended to pave the way for a commercial, solid-fuelled orbital launcher.

Solid fuel is easier and cheaper to handle than the liquid variety, which requires tanks and pumps, and its higher density means that rockets which use it can be made smaller than their liquid-fuelled brethren of equivalent lifting capability. Fine-tuning the flight of a solid-fuelled rocket is harder, though, because the supply of fuel to the motor cannot easily be regulated. For that reason American space companies have followed the liquid-fuelled path trodden by government space agencies around the world. The relative disadvantages of solid fuel do, however, diminish as rockets get smaller. And since OneSpace is not planning to hoist into orbit the multi-tonne loads carried by, say, the Falcon Heavy lifter of SpaceX, America's leading private space company, the firm hopes that the simplicity of solid fuel will offset its disadvantages.

OS-X was assembled in the laboratory where its remnants now reside. But OS-M, the next generation, will be built in a factory now nearing completion in Chongqing. These solid-fuelled rockets will be 20 metres tall and are destined for orbit. They will be able to launch payloads of up to 205kg—a load the firm hopes eventually to increase to 750kg by adding four booster rockets to the main one.

OneSpace's target is the rapidly growing market for small, short-lived satellites that will observe Earth's surface for various purposes. At the moment these devices, which weigh only a kilogram or two, are launched mainly as makeweights on missions whose principle purpose is to put a large satellite into space. Demand for small-satellite launches is now so great, though, that businesses can be built on it. Rocket Lab, an American firm, has recently begun offering dedicated small-satellite launches, using a liquid-fuelled rocket. OneSpace hopes the first OS-M should be launched before the end of the year.

The firm, which was founded in August 2015, owes its birth to government policies, promulgated a year earlier, that permitted private capital to enter the space industry—previously a state monopoly. It is backed by several Chinese venture-capital firms, including Legend Star, Zhengxuan Capital and the Hongtai Fund. It says it has already signed a number of contracts to launch small satellites for Chinese customers. It may not, though, keep its lead for long. Several other firms, including LandSpace and LinkSpace in Beijing, and ExPace, in Wuhan, have similar plans and are pressing it hard.

It seems, then, that in the small-satellite-launch market the Chinese are coming in earnest. With luck, at least from the customer's point of view, OneSpace and its modern fire arrows are about to ignite a private space race.

Insect migration

The first clear evidence of a sense of magnetism in insects

Australian moths travel 2,000km using it

Jun 21st 2018

BOGONG moths are not as glamorous as monarch butterflies. Their name means "brown" in Dhudhuroa, a now-extinct language once spoken in eastern Australia, where they live. And that is what they are—in contradistinction to a monarch's glorious orange and black. But drab though they may be, bogongs surely match monarchs in migratory tenacity.

Monarchs, famously, fly across much of North America, starting or ending their journeys in one of a few groves of trees in central Mexico. An adult monarch, though, migrates only once. During their lifetimes, bogong moths that survive to do so will make a pair of 1,000km journeys. One is from their winter birthing grounds in sun-scorched Queensland and New South Wales to a small number of cool caves in the mountains of Victoria where they will spend the summer months resting. The other is back again.

How they find their way to and from these caves is a mystery. But it is less mysterious in light of work by David Dreyer and Eric Warrant at the

University of Lund, in Sweden, published this week in *Current Biology*. Dr Dreyer and Dr Warrant suggest that bogongs use a combination of magnetic compasses and topography.

Several types of animals, including birds, turtles and fish, are known to sense and navigate by Earth's magnetic field, but evidence for such powers in migratory insects has been tenuous. A lone experiment has suggested monarchs may be able to detect magnetism—but, if so, that is probably just a back-up mechanism. Abundant other evidence suggests monarchs navigate mainly by the sun. For a night-flying moth, though, that is not an option.

To explore any magnetic sense bogongs might possess Dr Dreyer and Dr Warrant used light traps to capture hundreds of the moths during their migrations over the course of two seasons. They and their colleagues then glued stalks to the moths' backs and, using those stalks, tethered the insects inside a flight simulator in which they were free to "fly" in any direction they wished—though, of course, they could not actually move. The simulator was surrounded by a pair of magnetic coils that cancelled out Earth's field and replaced it with one of similar strength that could be turned through 120°. Because experiments like these, conducted on birds such as pigeons, have revealed that those animals do use Earth's magnetic field for navigation, the researchers hoped their set up would to do the same with the moths.

It did not. Unlike birds, the moths either failed to react to the movement of the field or reacted in an unpredictable manner. Unwilling to give up their hypothesis, though, Dr Dreyer and Dr Warrant wondered if they had simplified their apparatus too much. Many nocturnal insects have exquisite night vision so the two researchers thought that perhaps the absence of visual cues within their flight simulator, which had been intentional, might actually have confounded their experiment.

To test this, they lined the simulator's interior with white felt and introduced a triangular black "mountain" above a black horizon as a landmark. During the experiment they started by keeping their magnetic field in alignment with Earth's and then, after five minutes, began moving it. The moths continued to travel in the same direction with respect to the field for about three minutes after the field began moving but then, presumably as they realised that their visual cue and their magnetic cue were now in conflict with one another, they became disoriented.

This finding suggests that the moths do indeed depend on a magnetic sense to navigate during their long journey, but that they cannot, as it were, fly on instruments alone. They have rather to have sight of visual markers as well.

The test of this will be in the next series of experiments Dr Dreyer and Dr Warrant are planning, which will move the “mountain” and the magnetic field simultaneously. That, they hope will fool the insects into thinking they are flying home.

Books and arts

Love thy neighbour

Why America and Mexico are destined to grow even closer

Two books show that the forces driving the countries together are too strong to resist

Jun 21st 2018 | TIJUANA

Vanishing Frontiers: The Forces Driving Mexico and the United States Together. By Andrew Selee. *PublicAffairs; 336 pages; $28 and £20.*

Homelands: Four Friends, Two Countries and the Fate of the Great Mexican-American Migration. By Alfredo Corchado. *Bloomsbury Publishing; 304 pages; $27 and £18.99.*

ON THE Mexican-American border in Tijuana stands a building that resembles the hull of a ship. In 2004 authorities discovered a tunnel that gangsters had dug inside it, to smuggle drugs beneath the border wall. Officials jammed the tunnel with concrete; the building was taken over by a cross-border arts council, which aims to promote cultural integration between Mexico and America. These days La Casa del Túnel hosts exhibitions and workshops for aspiring artists. Among the paintings that adorn the walls is a diptych of Adolf Hitler and Donald Trump.

Up on the roof, with its view across the border and into southern California, Tito Arveola is building the gallery’s café. Walls have sprung up throughout his life, Mr Arveola observes, yet the two countries have only grown closer. As a child in the 1970s he would cross the border without papers to carry bags for Mexicans buying groceries in American stores. Later he spent three decades in America legally, cleaning cars for a living. His current place of work embodies a neighbourly bond that is tightening even as politics becomes more vituperative. This process is the subject of new books by Alfredo Corchado, a Mexican-American journalist, and Andrew Selee, president of the Migration Policy Institute, a think-tank in Washington.

Mr Trump wants the wall to rise higher and stretch farther across the 3,145km frontier. He won the White House by telling voters that Mexico was sending its “worst” people, and that trade between the two countries was unfair to American workers. Many expected his victory to lead to a fundamental change in relations. Yet in 2017 bilateral trade increased. Security co-operation continues. In “Vanishing Frontiers”, Mr Selee argues that the relationship will deepen further.

Homes are where the heart is

Beginning with the sister cities of Tijuana and San Diego, “Vanishing Frontiers” is an account of the people and places at the forefront of this integration. As Mr Selee reports, the two cities plan their futures together; their mayors talk of governing a single urban region. A new privately funded bridge, which crosses the wall and allows San Diegans to walk straight into Tijuana Airport, is a striking symbol of collaboration. The practical difficulties of sharing a border persist, but the underlying economic forces binding the countries together are irresistible.

American companies in search of cheap, diligent labour attract poor Mexican migrants or erect factories in Mexico. Products are increasingly made in both countries, with some zipping across the border several times along the way. In Tijuana the benefits are mutual: once a hub for factories with unskilled labourers, it now boasts many educated workers with sophisticated jobs.

Meanwhile, security agencies work together to counter a drug racket that subsists on American demand and respects no boundaries.

Mr Selee's book shows that what Mr Trump characterises as a zero-sum game is in fact a win-win arrangement. At La Casa del Túnel, that is Mr Arveola's conclusion, too. He thinks Mexicans change when they cross the border. The same people who drop litter on the streets of Tijuana refrain from doing so in San Diego, he says. Though Americans come to Tijuana for beaches and bars at weekends, on weekdays the roads are full of Mexicans heading north for jobs. "You can tell it is a good thing to work in America, the cars are all nice models," Mr Arveola notes.

In this tale of strengthening ties, the border-hoppers are the main protagonists. The number in America grew from 3m in 1962 to 36m today. Whereas Mexican men once went north for seasonal farm work before returning home, now whole families arrive and put down roots. The remittances they send home enrich some of Mexico's poorest places. At the same time their dispersal beyond the border states means that much of America has become familiar with Mexican culture. But their visibility has also fuelled the nativist backlash that helped elect Mr Trump.

Mr Corchado, a journalist at the *Dallas Morning News*, has lived this story. In "Homelands" he recounts his experiences and those of three friends—altogether, three Mexicans and an American of Mexican descent—as they grapple with having two countries to call home. The book begins in Philadelphia, where the friends met, in the 1980s (back when no good tequila was imported). It eloquently chronicles the effects of the North American Free-Trade Agreement between Mexico, America and Canada, the militarisation of the border after the attacks of September 11th 2001 and Mr Trump's victory.

In the early 1990s, when he lived in El Paso, Texas, and wrote a weekly column about trade, Mr Corchado was recognised at the drive-through window of a fast-food chain. "Is it true free trade will rescue us from these shitty jobs?" asked the attendant who handed over his meal. Twenty-five years later, El Paso has been transformed by new highways and bridges, and has a newfound sense of relevance. Since 1994 unemployment in the city has fallen by half. Yet in Mexico, beyond the border region, politicians' predictions about NAFTA’s dividends have proved less accurate. Despite progress in places like Tijuana, overall wages have barely budged; disillusioned Mexican voters are about to elect a populist president of their own.

The decades-long wave of migration that Mr Corchado documents has now largely abated. But it has made Mexican-American relations more intimate. Family ties improved Mexicans’ views of their neighbour (though attitudes have been damaged by Mr Trump). One American in nine is now of Mexican origin, and companies from Netflix to NASCAR are courting them. So are Mexican firms which peddle the comforts of home. Mexican customs have duly found broader followings—not just tacos and soccer but also drinkable yogurt and pay-as-you-go phone contracts, a Mexican habit. Cultural influences run the other way, too. The children of Mexican migrants prefer English to Spanish, American music to Mexican and—increasingly—Protestantism to Catholicism.

At La Casa del Túnel, Mr Arveola confides that he was deported back to Mexico in 2002. “I screwed up,” he says, adding that, in America, small infractions can lead to deportation. Every morning, perched on the gallery’s roof, he watches illegal immigrants jumping the border fence below. Personally he is now content to live in Tijuana, where he has a wife and young daughter, and feels no need to return to America. Still, he would like to obtain a visa for his child, so she can visit her half-dozen aunts and uncles in California.

She will get her first English lessons when she starts school later this year, Mr Arveola says. He wants her to be fluent in both cultures (and to understand their differences). Her American name, Hannah, is a testament to his hopes.

The empire strikes back

Habsburg culture is back in vogue

Beneath the glitz, the neuroses of the dying empire chime with those of today

Jun 21st 2018

IN HIS novel “The Radetzky March”, published in 1932, Joseph Roth traces the changing fortunes of the Trotta family amid the demise of the Austro-Hungarian Empire. “People lived on memories,” Roth writes of the era before the first world war, “just as now they live by the capacity to forget quickly and completely.” To the Trottas, life seems to be accelerating; nationalism, militarism and class antagonism are rife. Rumour runs amok. Little wonder that Vienna’s Burgtheater recently staged a version of the story. “We thought it fit the times we live in,” says Johan Simons, the play’s Dutch director.

This reinterpretation of Roth’s novel is one instance of a widespread interest in the art and style of the old Habsburg empire. Last year, for example, Arthur Schnitzler’s play “La Ronde”, set in Vienna in the 1890s, was staged in London; Federico Tiezzi, an Italian director, is reinterpreting a series of Schnitzler’s works outside Florence. “Morir”, a Spanish film released last year, was also inspired by him.

The revival encompasses painting and music too. Spotify, a streaming service, listed Serialism, Arnold Schoenberg's 12-tone musical technique, among the "biggest emerging genres" of 2017. Egon Schiele, an Austrian artist, was the subject of a recent biopic. A current show in Liverpool juxtaposes his work with modern photography; an installation in Paris focuses on Schiele and Gustav Klimt. Nudes by the pair feature in a forthcoming exhibition at the Metropolitan Museum of Art in New York.

Habsburg culture is back. "Every few weeks I do a search on Twitter and there is an incredible benevolence about the Habsburgs," says Eduard Habsburg, Hungary's ambassador to the Vatican and the former ruling family's unofficial social-media maven. "There is definitely renewed interest."

The reasons for this burst of enthusiasm are nuanced, even contradictory. This year's centennial of the end of the first world war, and of the empire's collapse, is part of the explanation. So is a sense that the anxieties of the late imperial period, years of disorienting change in politics and society, overlap with today's. "It's a dangerous time and we need to look very closely at signs from the past," says Mr Simons. "We do live in worrying times," agrees Mr Habsburg; "everything is shifting, you have a feeling you are walking in a fog."

Yet this notion of the late Habsburg period as a warning coexists with nostalgia for its glamour, epitomised by the gold leaf on a Klimt painting. Forever 21, a teen-fashion retailer, has emblazoned the lush art of Alfonse Mucha (see above), a Czech contemporary of Klimt, on its denim jackets and sweatshirts. In the same glossy vein, a joint Austrian-Czech-Hungarian-Slovak production reached farther into the past to dramatise the life of the Empress Maria Theresa in the 18th century. The mini-series—either a celebration of a Catholic, conservative epoch or a tale of female empowerment, depending on the viewer's bias—drew big ratings throughout central Europe. In the Czech Republic, a former Habsburg territory, a whopping 47% of television viewers tuned in.

Last train to Budapest

As Philipp Blom, a historian, notes, "people tend to idealise" the Habsburg empire, even though it was “ultimately torn apart by nationalism”. No one embodies the dual nature of the Dual Monarchy’s appeal better than Stefan Zweig, an Austrian novelist with a cult following.

Zweig’s elegant society novels are set in a charmingly liberal Vienna. By contrast, his memoir, “The World of Yesterday”, is a requiem for lost cosmopolitanism. Zweig was the subject of a searing biopic released in 2016; he also inspired Wes Anderson’s whimsical film “The Grand Budapest Hotel” (2014). In December Brazil posthumously awarded him the country’s highest state honour for foreigners, 75 years after he and his wife committed suicide there, having left first Austria and then Europe.

“There is an element of escapism into the great Habsburg era,” says Daniel Seton of Pushkin Press, which has reissued several of Zweig’s books in translation, “but there also seems to be this underlying sense of tragedy.” Another figure from the late Habsburg period, Sigmund Freud, might conclude that its culture has become a canvas on which readers and audiences project their own desires and fears.

Swamp creatures

Lauren Groff's short stories pulse with hidden malevolence

"Florida" confirms that she is a master of the tension between surface and depth

Jun 21st 2018

Florida. By Lauren Groff. *Riverhead Books; 288 pages; $27. William Heinemann; £14.99.*

FLORIDA is a gift to writers. Beneath its artificial shine lies dark, primeval swampland; a gulf divides the seen from the unseen. Visitors to the Sunshine State can quickly find themselves in the realm of the gothic, at once fascinated and repelled.

Born and raised in Cooperstown, New York, Lauren Groff is one such transplant, and a connoisseur of the tension between appearance and depth. Her dazzling third novel, "Fates and Furies", a portrait of a marriage built on secrets, was nominated for the National Book Award. Her new collection plunges into similarly murky terrain. Many of the 11 stories in "Florida" describe experiences of upheaval, violent disruptions to life's placid surface.

There is more than a little of David Lynch in Ms Groff's Floridian landscape: exotic and bright, yet pulsing with hidden malevolence. In "Eyewall", a wife drinks her faithless late husband's expensive Burgundy; a hurricane that batters her house induces a series of spectral encounters. In "Dogs Go Wolf", two little girls are abandoned on a blistering fishing atoll. In "The Midnight Zone", a mother and her sons are marooned in "an old hunting camp shipwrecked in twenty miles of scrub".

Real and metaphorical storms proliferate, along with ghosts, alligators and snakes. Two menaces in particular slither through Ms Groff's work: the obliteration of women by marriage and motherhood, and looming environmental collapse. The same unnamed woman features in twin stories that frame the collection. In one she roams the gentrified neighbourhoods of her town, ambivalent about both Florida and the pernicious expectations under which mothers labour. There is a hilarious riff on her failed attempt to make Halloween outfits; beleaguered costume-makers everywhere will smile in recognition.

Less whimsically, the same character contemplates the brutality of contemporary politics. She finds a young woman who has been attacked in an alley; she "can feel in [her] bloodstream the new venom that has entered the world". At the same time she is preoccupied by "glaciers dying like living creatures, the great Pacific trash gyre, the hundreds of unrecorded deaths of species, millennia snuffed out as if they were not precious."

Against these threats Ms Groff sets the particularity of individual lives, love and above all language. Her own is alive to Florida's lush, beguiling beauty. Lost in the swamp at night, her unnamed character observes how screen doors "pulsed with the tender bellies of lizards". Ms Groff's writing is marvellous, her insights keen, each story a glittering, encrusted treasure hauled from the deep.

Johnson

American political rhetoric is sliding towards the sewer

The vicious circle of insult and profanity will be hard to escape

Jun 21st 2018

MOST adults know all the words that will appear in this column. But they may still be shocked to hear them used in public, even distinguished, places. Robert De Niro won a standing ovation at the recent Tony Awards for shouting “Fuck Trump!” Samantha Bee, in a tirade on her comedy news show against Donald Trump’s immigration policy, called Ivanka Trump, his daughter, a “feckless cunt”. Their main target responded as usual, punching back at “no talent Samantha Bee” and “Robert De Niro, a very Low IQ individual” on Twitter.

Of course the great pioneer of vulgar political language sits in the Oval Office. During his campaign in 2016, Mr Trump promised to “bomb the shit” out of Islamic State, said voters should tell firms that move overseas to “go fuck themselves”, and smirkingly repeated an audience member’s dismissal of an opponent as “a pussy”. Mr Trump said that a female journalist who had asked him tough questions had “blood coming out of her wherever”. In office, he has derided immigration from “shithole” countries.

His opponents, flummoxed by his popularity, have sometimes tried to imitate him. It never works, but they never learn. When Marco Rubio, a rival for the Republican nomination, took a puerile potshot at the size of Mr Trump’s hands—“you know what they say about a man with small hands”—Mr Trump breezily defended his genitals at the next debate. Mr Rubio was demeaned; Mr Trump cruised on. When Michelle Wolf, a comedian, delivered a foul-mouthed routine attacking the president—“the one pussy you’re not allowed to grab”—at the White House Correspondents’ Dinner in April, her crudeness was more widely discussed than her wit (and there were indeed some good jokes in there).

In fact, the language of politics has been growing more informal for half a century. The 1960s and 1970s—which featured assassinations, Watergate and Vietnam in America, and left-wing uprisings in Europe—led people to mistrust their “betters” and their lofty, crafted rhetoric. Television, seeming to close the physical distance between viewers and viewed, rewarded an intimate, apparently genuine style in which politicians sounded like their voters, not above them. The impersonality and spontaneity of social media, which are edging out newspapers in news delivery, is fuelling the trend.

This is not only an American phenomenon. Russia’s Vladimir Putin once vowed to pursue terrorists everywhere—even “in the shithouse”. Rodrigo Duterte of the Philippines has called both Barack Obama and the pope a “son of a whore”. Both presidents remain popular in their countries, practising a rhetorical form of violence alongside the physical kind.

But in America the combination of vulgarity with the country’s extreme polarisation is producing a toxic mix. Politicians and public figures are literally dehumanising their adversaries. Mr Trump has called some illegal immigrants “animals” and said they are “infesting” America. Roseanne Barr, an actress, called Valerie Jarrett, a black adviser to Mr Obama, an offspring of the film “Planet of the Apes”. Michael Avenatti, a lawyer who is suing the president, called one of Mr Trump’s lawyers, Rudy Giuliani, a “pig”; *New York* magazine depicted Mr Trump as a pig on its cover. It is not altogether panicky to note that genocides are preceded by dehumanisation: the Nazis and the Rwandan *genocidaires* called their victims vermin. If your opponents are pigs or apes, it is worth doing almost anything to keep them from power.

America has entered a rhetorical vicious circle that may be impossible to escape. During the election of 2016 Michelle Obama, then the First Lady, said that “when they go low, we go high.” Those grand words have withered in the heat of the new era. Neither side is willing to stand down unilaterally in an escalating war of words. In this climate, Democrats will have little cause for complaint when the vilest of language is flung at their nominee in 2020.

Is the country of Lincoln, MLK and JFK on an irreversible slide towards the rhetoric of the sewer? In 2016 many voters wanted a candidate who reflected their anger. Today many are troubled by the tone of debate, too. The problem is that, even if they prefer civil politics in general, they want the toughest possible fighter on their side. If they continue rewarding loathsome language, they should prepare to hear a lot more of it.

Obituary

Politics and priesthood

Cardinal Miguel Obando y Bravo died on June 3rd

The Archbishop of Managua and first cardinal from Central America was 92

Jun 21st 2018

WHEN the news came through in 1970 that Miguel Obando y Bravo had been appointed Archbishop of Managua, the capital of Nicaragua, a journalist from *La Prensa* was despatched to find him. It was not an easy task. He was not in his house in Matagalpa, of which he was then auxiliary bishop. But after fording fast rivers, trekking through forest and braving mountain roads, the journalist found him. He was mounted on a mule, in a wide sombrero and rough riding trousers, making his usual rounds of the diocese. The only hint of priestliness lay in the spectacles gleaming on his broad, dark *mestizo* face, and the high-collared white jacket straining its buttons across his boxer's chest.

The new archbishop saw himself as a priest of the common people, a good Salesian (for that was his formation) carrying out the Catholic church's "option for the poor". He had been born poor himself, in a camp outside the shabby ranching-and-mining town of La Libertad in Chontales province, the illegitimate son of a prospector and an Indian peasant woman. But now he faced quite different pressures. The first came in the form of a shiny new Mercedes sent to him by Anastasio Somoza, Nicaragua's dictator. He enjoyed it, this "wedding present" that bound him to his archdiocese, until colleagues pointed out that it also tied him to Somoza. That oppressor of the ground-down *campesinos* now called him "my little Indian". He raffled the car and gave the money to the poor, but this was the start of many sharp swerves between right and left.

In his own mind, his career had clear themes. He was not a complicated man. His education in various Central American seminaries had been wide, but intellectualism seemed, to him, a foreign thing. His Catholicism was simpler, more Nicaraguan, and of the old hierarchical style the people loved: vestments, incense, prayers to the saints, spiritual instruction. When a savage earthquake struck Managua in 1972, he took to the streets in his broken shoes and torn soutane to succour his sheep. His episcopal motto, from 1 Corinthians, was *Me hice todo para todos*, "I did everything for everyone."

The kingdom of God

So tyranny had to be resisted, but obliquely, with a biblical reference or a parable in his slowly spoken sermons; he preferred to be a drop of eroding water, not a spearhead. Under Somoza, he urged respect for human rights and signed the bishops' letter of June 1979 that called revolution legitimate "in the case of evident and prolonged tyranny". Though the call to arms was careful, Somoza never forgave him. The little Indian was now "Comandante Miguel".

When the Sandinistas took over later that year, he broadly welcomed it. A pastoral letter warned against "false socialism", but he still hoped Nicaragua might proclaim the justice of the Kingdom of God. A vain hope; the regime of Daniel Ortega emerged as Marxist-Leninist, and the archbishop's sermons began to warn of tyranny again. Increasingly he backed the right-wing contras, funded by the United States, despite their atrocities in the civil war. In 1985 John Paul II made him a cardinal, the first from Central America, in part for his resistance to the almost Godless left.

Yet he wanted to be a mediator, surely the proper role for a Christian and a priest. Since the mid-1970s, when he had helped to end a hunger strike by political prisoners, he had won a reputation as a peacemaker. When he got his red hat, he hoped it would mark him out as a man beyond faction. Sandinista leaders did not agree. Although, under his aegis, the contras gradually disarmed, for years he was not truly neutral. Before the elections of 1996 he repeated, in a sermon, Aesop's fable of the frozen viper that revived to bite the hand that warmed it: a warning to voters that the repackaged Sandinistas had not changed their ways. Partly as a result, they lost.

By now he was seen as a man of the right, sometimes a *caudillo* himself. He was caught up in financial scandals, such as the import of luxury cars tax-free (a long way from mules, as people said). His satin vestments looked finer, and he hobnobbed with the rich and corrupt. Yet he had not done with U-turns; and he was about to perform the strangest of all. He ended up as the adviser and firm friend of that treacherous snake, Mr Ortega, who in 2007 became Nicaragua's president again.

Their paths had crossed before. Cardinal Obando, when a priest, had taught him at the Salesian college in San Salvador. Under Somoza, he had negotiated his release from jail. Nonetheless, they hated each other until, in 2004, Mr Ortega turned back to Catholicism and, in 2005, Cardinal Obando officially married him to his long-time mistress. To shocked observers he explained himself, with his usual simplicity, by preaching of the prodigal son.

In fact it was simpler even than that. They both came from La Libertad, under the mountains and the open-cast mine, where in 2010 they went together for the feast of La Virgen de la Luz, with processions and brass bands. There they sauntered, two familiar native sons, and Mr Ortega opened a new road. Neither man talked much, because both liked silence. The president may have been contemplating his next betrayals of liberty; but his stocky old chaplain was perhaps just marvelling at the convoluted ways of God.

Economic and financial indicators

Output, prices and jobs

Jun 21st 2018

Output, prices and jobs
% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2018†	2019†	latest	latest	year ago	2018†	rate, %
United States	+2.6 Q1	+2.2	+2.8	+2.5	+3.5 May	+2.8 May	+1.9	+2.5	3.8 May
China	+6.8 Q1	+5.7	+6.6	+6.4	+6.8 May	+1.8 May	+1.5	+2.3	3.9 Q1§
Japan	+1.1 Q1	-0.6	+1.3	+1.2	+2.6 Apr	+0.6 Apr	+0.4	+1.1	2.5 Apr
Britain	+1.2 Q1	+0.4	+1.4	+1.4	+1.8 Apr	+2.4 May	+2.9	+2.5	4.2 Mar††
Canada	+2.3 Q1	+1.3	+2.3	+2.0	+1.9 Mar	+2.2 Apr	+1.6	+2.1	5.8 May
Euro area	+2.5 Q1	+1.5	+2.3	+2.0	+1.7 Apr	+1.9 May	+1.4	+1.6	8.5 Apr
Austria	+3.4 Q1	+9.7	+2.9	+2.3	+3.9 Mar	+1.9 May	+1.9	+2.2	4.9 Apr
Belgium	+1.5 Q1	+1.3	+1.7	+1.7	+3.5 Mar	+1.8 May	+1.9	+1.8	5.3 Apr
France	+2.2 Q1	+0.7	+2.0	+1.9	+2.1 Apr	+2.0 May	+0.8	+1.8	9.2 Apr
Germany	+2.3 Q1	+1.2	+2.2	+2.1	+2.0 Apr	+2.2 May	+1.5	+1.7	3.4 Apr‡
Greece	+2.3 Q1	-3.1	+1.8	+1.9	+1.9 Apr	+0.6 May	+1.2	+0.7	20.1 Mar
Italy	+1.4 Q1	-1.1	+1.4	+1.3	+1.9 Apr	+1.0 May	+1.4	+1.2	11.2 Apr
Netherlands	+2.8 Q1	-2.1	+2.8	+2.5	+5.0 Apr	+1.7 May	+1.1	+1.5	4.9 Apr
Spain	+2.9 Q1	+2.8	+2.7	+2.4	+11.0 Apr	+2.1 May	+1.9	+1.5	15.9 Apr
Czech Republic	+3.7 Q1	+1.6	+3.5	+3.0	+5.5 Apr	+2.2 May	+2.4	+1.8	2.3 Apr‡
Denmark	-1.3 Q1	+1.7	+1.8	+2.0	+5.1 Apr	+1.1 May	+0.8	+1.1	4.0 Apr
Hungary	+4.4 Q1	+4.9	+3.9	+2.7	+2.9 Apr	+2.8 May	+2.1	+2.5	3.8 Apr‡‡
Norway	+0.3 Q1	+2.5	+1.9	+1.8	-1.3 Apr	+2.3 May	+2.1	+2.2	3.9 Mar‡‡
Poland	+5.2 Q1	+6.6	+4.2	+3.4	+5.3 May	+1.7 May	+1.9	+1.9	6.1 May§
Russia	+1.3 Q1	na	+1.8	+1.7	+3.7 May	+2.4 May	+4.1	+3.0	4.7 May§
Sweden	+3.3 Q1	+2.9	+2.7	+2.4	+3.2 Apr	+1.9 May	+1.7	+1.7	5.5 May§
Switzerland	+2.2 Q1	+2.3	+2.2	+1.9	+3.7 Q4	+1.0 May	+0.5	+0.8	2.6 May
Turkey	+7.4 Q1	na	+4.3	+4.1	+5.1 Apr	+12.1 May	+11.7	+10.9	10.1 Mar§
Australia	+3.1 Q1	+4.2	+2.8	+2.8	+4.3 Q1	+1.9 Q1	+2.1	+2.2	5.4 May
Hong Kong	+4.7 Q1	+9.2	+3.6	+2.8	+1.0 Q1	+1.9 Apr	+2.1	+2.5	2.8 May‡‡
India	+7.7 Q1	+10.1	+7.3	+7.5	+4.9 Apr	+4.9 May	+2.2	+4.7	5.3 May
Indonesia	+5.1 Q1	na	+5.3	+5.5	+4.7 Apr	+3.2 May	+4.3	+3.6	5.1 Q1§
Malaysia	+5.4 Q1	na	+5.6	+5.5	+4.5 Apr	+1.8 May	+3.8	+1.9	3.3 Apr§
Pakistan	+5.4 2018**	na	+5.4	+5.0	+4.2 Apr	+4.2 May	+5.0	+5.0	5.9 2015
Singapore	+4.4 Q1	+1.7	+3.2	+2.9	+9.1 Apr	+0.1 Apr	+0.4	+0.8	2.0 Q1
South Korea	+2.8 Q1	-4.1	+2.9	+2.9	+0.9 Apr	+1.5 May	+2.0	+1.8	4.0 May§
Taiwan	+3.0 Q1	+0.8	+2.7	+2.0	+3.1 Mar	+1.6 May	+0.6	+1.5	3.7 Apr
Thailand	+4.8 Q1	-8.1	+4.1	+3.6	+4.0 Apr	+1.5 May	nil	+1.4	1.1 Apr§
Argentina	+3.6 Q1	+4.7	+2.2	+2.5	+3.2 Apr	+26.4 May	na	+25.1	7.2 Q4§
Brazil	+1.2 Q1	+1.8	+2.2	+2.8	+8.9 Apr	+2.9 May	+3.6	+3.4	12.9 Apr§
Chile	+4.2 Q1	+4.9	+3.7	+3.4	+7.6 Apr	+2.0 May	+2.6	+2.4	6.7 Apr‡‡
Colombia	+2.8 Q1	+2.8	+2.5	+3.1	+10.4 Apr	+3.2 May	+4.4	+3.3	9.5 Apr§
Mexico	+1.3 Q1	+4.6	+2.1	+2.3	+5.8 Apr	+4.5 May	+6.2	+4.4	3.4 Apr
Venezuela	-8.8 Q4~	-6.2	-16.0	-4.9	na	na	na	12,615.2	7.3 Apr§
Egypt	+5.3 Q4	na	+5.4	+5.6	+3.7 Apr	+11.5 May	+29.7	+17.5	10.6 Q1§
Israel	+4.0 Q1	+4.5	+3.8	+3.3	+4.2 Mar	+0.5 May	+0.8	+1.5	3.9 Apr
Saudi Arabia	-0.9 2017	na	+1.0	+2.0	na	+2.6 Apr	-0.7	+4.4	5.0 Q4
South Africa	+0.8 Q1	-2.2	+1.9	+2.1	-1.6 Apr	+4.4 May	+5.4	+4.8	25.7 Q1§
Estonia	+3.6 Q1	-0.5	+4.0	+3.5	+2.1 Apr	+3.0 May	+3.3	+3.5	5.8 Q1§
Finland	+2.8 Q1	-5.1	+2.3	+2.1	+3.8 Apr	+1.0 May	+0.8	+0.9	8.6 Apr§
Iceland	+6.6 Q1	+4.4	+4.1		na	+2.0 May	+1.7		2.2 May§
Ireland	+8.4 Q4	+13.3	+4.5	+3.6	-4.5 Apr	+0.4 May	+0.2	+0.8	5.3 May
Latvia	+4.2 Q1	+6.2	+3.3	+3.9	+0.9 Apr	+2.3 May	+2.0	+2.5	8.2 Q1§
Lithuania	+3.7 Q1	+3.6	+3.7	+3.3	+3.8 Apr	+2.9 May	+3.4	+2.9	8.1 May§
Luxembourg	+1.7 Q4	-0.4	+3.4		+4.5 Apr	+1.3 May	+1.7		5.3 May§
New Zealand	+3.0 Q1	1.1	+3.1	+3.1	+1.4 Q1	+1.1 Q1	+2.1	+1.8	4.4 Q1
Peru	+3.2 Q1	+5.6	+3.7	+4.0	+20.3 Apr	+0.9 May	+3.0	+1.7	7.0 May‡
Philippines	+6.8 Q1	-6.1	+6.4	+6.3	+31.0 Apr	+4.6 May	+2.9	+5.1	5.5 Q2§
Portugal	+2.1 Q1	+1.8	+2.3	+2.1	+3.8 Apr	+1.0 May	+1.5	+1.0	7.9 Q1§
Slovakia	+3.6 Q1	+3.4	+3.7	+3.8	+4.1 Apr	+2.7 May	+1.1	+2.4	5.4 May§
Slovenia	+4.6 Q1	na	+4.5	+3.7	+9.3 Apr	+2.0 May	+1.5	+1.8	8.3 Apr§
Ukraine	+3.1 Q1	+2.6	+3.0	+2.8	+3.1 Apr	+11.7 May	+13.5	+11.5	1.2 May§
Vietnam	+6.8 2017	na	+6.9	+6.7	+7.1 May	+3.9 May	+3.2	+4.6	2.3 2016

Source: Haver Analytics. *% change on previous quarter, annual rate. †The Economist poll or Economist Intelligence Unit estimate/forecast. §Not seasonally adjusted. ‡New series. ~2016 **Year ending June. ††Latest 3 months. ‡‡3-month moving average.

Trade, exchange rates, budget balances and interest rates

Jun 21st 2018

Trade, exchange rates, budget balances and interest rates

	Trade balance latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2018†	Currency units, per $ Jun 20th	Currency units, per $ year ago	Budget balance % of GDP 2018†	Interest rates 3-month latest	Interest rates 10-year gov't bonds, latest
United States	-830.6 Apr	-465.5 Q1	-2.6	-	-	-4.6	2.33	2.93
China	+384.7 May	+121.0 Q1	+1.1	6.47	6.83	-3.5	4.33	3.47§
Japan	+42.2 Apr	+196.2 Apr	+3.9	110	112	-4.7	-0.05	0.02
Britain	166.9 Apr	106.7 Q4	3.8	0.75	0.79	1.8	0.63	1.43
Canada	24.1 Apr	53.8 Q1	2.6	1.33	1.33	1.9	1.69	2.18
Euro area	+263.9 Apr	+485.5 Apr	+3.2	0.86	0.90	0.8	0.32	0.38
Austria	-5.5 Mar	+7.7 Q4	+2.3	0.86	0.90	-0.6	-0.32	0.48
Belgium	+24.7 Apr	-0.8 Dec	-0.3	0.86	0.90	-0.9	-0.32	0.73
France	-70.4 Apr	-7.8 Apr	-1.0	0.86	0.90	-2.4	-0.32	0.67
Germany	+292.8 Apr	+322.8 Apr	+7.9	0.86	0.90	+1.1	-0.32	0.38
Greece	-22.6 Apr	-2.9 Apr	-1.2	0.86	0.90	-0.3	-0.32	4.36
Italy	+56.1 Apr	+53.5 Apr	+2.7	0.86	0.90	-2.0	-0.32	2.56
Netherlands	+64.4 Apr	+84.9 Q4	+9.7	0.86	0.90	+0.8	-0.32	0.54
Spain	-28.9 Mar	+26.2 Mar	+1.8	0.86	0.90	-2.2	-0.32	1.19
Czech Republic	+19.4 Apr	+0.9 Q1	+0.7	22.3	23.7	+0.9	0.93	2.19
Denmark	+5.6 Apr	+20.9 Apr	+7.7	6.44	6.69	-0.7	-0.31	0.42
Hungary	+9.4 Mar	+4.0 Q4	+1.9	279	276	-2.6	0.20	3.46
Norway	+21.6 May	+22.8 Q1	+6.5	8.17	8.56	+4.9	1.02	1.78
Poland	-1.3 Apr	-0.8 Apr	-0.7	3.73	3.81	-2.2	1.50	3.17
Russia	+132.2 Apr	+41.7 Q1	+3.3	63.6	59.7	+0.3	6.11	8.13
Sweden	-1.7 Apr	+16.8 Q1	+3.4	8.89	8.80	+0.8	-0.35	0.49
Switzerland	+32.3 Apr	+56.5 Q4	+9.2	0.99	0.98	+0.8	-0.73	0.01
Turkey	-87.1 May	-57.1 Apr	-5.5	4.74	3.55	-2.8	19.3	16.9
Australia	+6.8 Apr	-36.8 Q1	-2.5	1.35	1.32	-1.0	2.21	2.62
Hong Kong	-65.8 Apr	+14.7 Q4	+3.7	7.85	7.80	+1.9	2.04	2.30
India	-161.1 May	-48.7 Q1	-2.2	68.1	64.5	-3.5	5.47	7.83
Indonesia	+5.2 Apr	-20.9 Q1	-2.2	13,932	13,289	-2.5	7.06	7.23
Malaysia	+28.4 Apr	+12.2 Q1	+2.7	4.01	4.28	-3.3	3.68	4.23
Pakistan	-36.6 May	-16.7 Q1	-5.8	121	105	-5.4	6.91	8.50††
Singapore	+47.3 May	+61.7 Q1	+20.4	1.36	1.39	-0.7	na	2.54
South Korea	+87.3 May	+69.2 Apr	+4.8	1,105	1,135	+0.7	1.67	2.62
Taiwan	+18.3 May	+84.8 Q1	+13.5	30.2	30.4	-0.9	0.66	0.97
Thailand	+10.5 Apr	+50.2 Q1	+9.8	32.8	34.0	-2.9	1.03	2.61
Argentina	-10.6 Apr	-30.8 Q4	-4.6	27.8	15.1	-5.1	28.2	6.23
Brazil	+62.1 May	-8.9 Apr	-1.1	3.75	3.31	-7.1	6.62	9.59
Chile	+10.2 May	-3.1 Q1	-1.1	640	664	-2.0	0.30	4.60
Colombia	-6.8 Apr	-9.8 Q1	-3.0	2,942	3,029	-2.0	4.57	6.61
Mexico	-11.2 Apr	-15.9 Q1	-1.7	20.4	18.1	-2.3	7.90	7.83
Venezuela	-35.2 Q4~	-17.8 Q3~	+2.4	79,900	10.1	-15.9	14.9	8.24
Egypt	-37.0 Apr	-9.3 Q4	-5.2	17.9	18.1	-9.6	17.8	na
Israel	-20.1 May	+9.7 Q1	+2.6	3.63	3.55	-2.4	0.14	1.99
Saudi Arabia	+87.3 2017	+15.2 Q4	+7.0	3.75	3.75	-4.4	2.53	na
South Africa	+3.8 Apr	-8.6 Q4	-2.7	13.7	13.1	-3.5	6.93	9.02
Estonia	-2.1 Apr	+0.7 Apr	+2.1	0.86	0.90	-0.3	-0.32	na
Finland	-2.4 Apr	+1.5 Apr	-1.0	0.86	0.90	-0.7	-0.32	0.59
Iceland	-1.6 May	+0.8 Q1	+4.5	109	103	+1.2	4.70	na
Ireland	+55.0 Apr	+42.8 Q4	+7.8	0.86	0.90	-0.2	-0.32	0.87
Latvia	-3.0 Apr	-0.2 Apr	-0.2	0.86	0.90	-1.2	-0.32	na
Lithuania	-2.6 Apr	nil Q4	+0.8	0.86	0.90	+0.6	-0.32	1.05
Luxembourg	-7.4 Mar	+3.3 Q4	+5.7	0.86	0.90	+1.1	-0.32	na
New Zealand	-2.7 Apr	-5.7 Q1	-2.9	1.45	1.38	+1.0	2.01	2.52
Peru	+7.1 Apr	-2.9 Q1	-1.6	3.28	3.26	-3.5	3.25	na
Philippines	-33.5 Apr	-1.9 Mar	-1.2	53.5	50.1	-1.8	3.27	6.35
Portugal	-17.2 Apr	+0.5 Apr	+0.1	0.86	0.90	-1.1	-0.32	1.76
Slovakia	+3.4 Apr	-2.3 Apr	-1.2	0.86	0.90	-0.9	-0.32	0.71
Slovenia	nil Mar	+3.8 Apr	+5.7	0.86	0.90	+0.2	-0.32	na
Ukraine	-6.7 Apr	-2.5 Q1	-4.4	26.5	26.0	-2.6	17.0	na
Vietnam	-1.0 May	+6.4 2017	+2.2	22,868	22,726	-6.3	4.60	4.75

Source: Haver Analytics. †The Economist poll or Economist Intelligence Unit estimate/forecast. ‡2015 §5-year yield. ††Dollar-denominated bonds.

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Markets

Jun 21st 2018

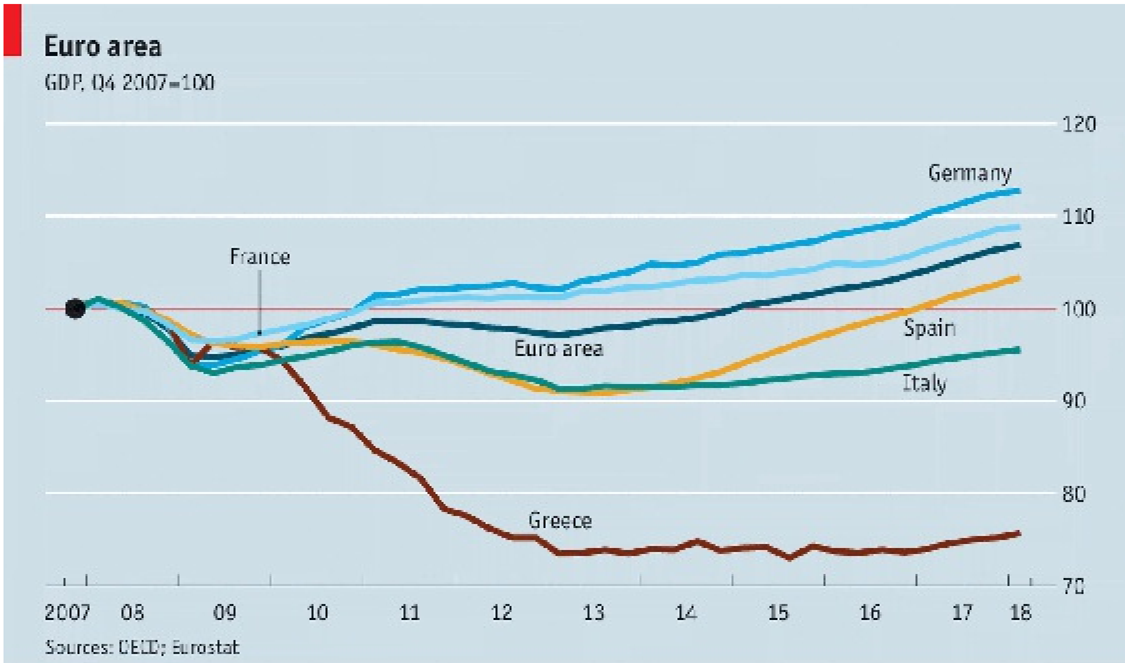
Markets

	Index Jun 20th	% change on one week	% change on Dec 29th 2017 in local currency	% change on Dec 29th 2017 in $ terms
United States (DJIA)	24,657.8	-2.2	-0.2	-0.2
United States (S&P 500)	2,767.3	-0.3	+3.5	+3.5
United States (NAScomp)	7,781.5	+1.1	+12.7	+12.7
China (Shanghai Comp)	2,915.7	-4.4	-11.8	-11.3
China (Shenzhen Comp)	1,612.6	-6.9	-15.1	-14.6
Japan (Nikkei 225)	22,555.4	1.8	0.9	+1.6
Japan (Topix)	1,752.5	-2.6	-3.6	-1.1
Britain (FTSE 100)	7,603.9	-1.3	-1.1	-3.7
Canada (S&P TSX)	16,421.0	+1.0	+1.3	-4.4
Euro area (FTSE Euro 100)	1,198.8	-1.3	-0.9	-4.6
Euro area (EURO STOXX 50)	3,435.3	-1.3	-2.0	-5.4
Austria (ATX)	3,268.6	-2.6	-4.4	-8.0
Belgium (Bel 20)	3,745.6	-1.0	-5.8	-9.3
France (CAC 40)	5,390.6	-1.1	+1.5	-2.3
Germany (DAX)*	12,678.0	-1.6	-1.9	-5.5
Greece (Athex Comp)	756.1	-0.5	-5.5	-8.0
Italy (FTSE/MIB)	22,084.3	-0.6	+1.1	-2.7
Netherlands (AEX)	554.6	-1.7	+1.8	-1.9
Spain (IBEX 35)	9,755.4	-1.5	-2.9	-6.5
Czech Republic (PX)	1,069.2	-1.3	-0.9	-5.7
Denmark (OMXCB)	888.8	-0.8	-4.1	-7.8
Hungary (BUX)	34,972.4	-2.5	-11.2	-17.8
Norway (OSEAX)	1,007.3	-1.0	+11.1	+10.7
Poland (WIG)	55,912.0	-4.7	-12.3	-18.3
Russia (RTS, $ terms)	1,096.5	-4.4	-5.0	-5.0
Sweden (OMXS30)	1,564.9	-0.4	-0.8	-9.2
Switzerland (SMI)	8,463.4	-2.0	-9.8	-11.7
Turkey (BIST)	94,436.8	+1.0	-18.1	-34.4
Australia (All Ord.)	6,274.6	-2.3	+1.7	-5.7
Hong Kong (Hang Seng)	29,696.2	-3.3	-0.7	-1.2
India (BSE)	35,286.7	1.3	+3.6	-3.2
Indonesia (JSX)	5,884.0	-1.8	-7.4	-9.8
Malaysia (KLSE)	1,709.6	-1.1	-4.8	-3.8
Pakistan (KSE)	43,482.8	-0.4	-7.9	-1.4
Singapore (STI)	3,315.9	-2.3	-2.6	-4.7
South Korea (KOSPI)	2,363.9	-4.2	-4.2	-7.5
Taiwan (TWI)	10,927.4	-2.2	+2.7	+1.3
Thailand (SET)	1,664.3	-1.1	-5.1	-5.8
Argentina (MERV)	29,116.5	-3.7	-3.2	-34.2
Brazil (BVSP)	72,123.4	nil	-5.6	-16.5
Chile (IGPA)	27,383.8	-2.0	-2.1	-6.3
Colombia (IGBC)	12,069.1	-1.9	+5.1	+6.8
Mexico (IPC)	46,759.4	nil	-5.3	-10.0
Peru (S&P/BVL)*	20,445.3	-3.3	+2.4	+1.0
Egypt (EGX 30)	15,067.9	-0.7	+0.0	+0.3
Israel (TA-125)	1,376.1	-1.2	+0.9	-3.8
Saudi Arabia (Tadawul)	8,270.5	nil	+14.4	+14.4
South Africa (JSE AS)	56,753.3	-3.7	-5.5	-15.1
Europe (FTSEurofirst 300)	1,498.1	-1.3	-2.1	-5.7
World, dev'd (MSCI)	2,111.4	-1.3	+0.4	+0.4
Emerging markets (MSCI)	1,085.0	-4.5	-6.3	-6.3
World, all (MSCI)	510.8	-1.7	-0.4	-0.4
World bonds (Citigroup)	937.3	-0.1	-1.4	-1.4
EMBI+ (JPMorgan)	777.9	-0.7	-7.0	-7.0
Hedge funds (HFRX)	1,270.9§	-0.3	-0.4	-0.4
Volatility, US (VIX)	13.4	12.9	11.0	(levels)
CDSs, Eur (iTRAXX)†	69.6	-0.8	+31.9	+40.3
CDSs, N Am (CDX)†	62.9	-1.1	+26.1	+26.1
Carbon trading (EU ETS) €	14.2	-7.0	+75.2	+68.7

Sources: IHS Markit; Thomson Reuters. *Total return index. †Credit-default-swap spreads, basis points. §Jun 19th.

Euro area

Jun 21st 2018



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The euro area is five years into an economic upswing. Though growth is likely to slow, loose monetary policy and recovery elsewhere in the world mean GDP will increase by 2.2% in 2018 and 2.1% in 2019, according to the OECD, a club of mostly rich countries. Labour markets are improving and support for the common currency is at an all-time high. However, high levels of public debt still burden several countries. The legacy of the financial crisis of 2007-08 remains stark: the Greek economy is 24% smaller than in 2007 and the Italian economy 4% smaller. Aggregate investment in the euro area is not expected to reach pre-crisis levels until 2019.

The Economist commodity-price index

Jun 21st 2018

The Economist commodity-price index

2005=100

	Jun 12th	Jun 19th*	% change on one month	% change on one year
Dollar Index				
All Items	156.2	149.2	-5.1	+5.7
Food	155.0	147.9	-8.2	-3.6
Industrials				
All	157.5	150.6	-1.7	+17.1
Nfa†	148.1	141.6	-4.2	+9.4
Metals	161.5	154.4	-0.7	+20.5
Sterling Index				
All items	212.8	206.0	-3.3	+1.2
Euro Index				
All items	164.8	160.4	-3.4	+1.7
Gold				
$ per oz	1,298.9	1,274.1	-1.4	+2.5
West Texas Intermediate				
$ per barrel	66.4	65.1	-9.9	+49.6

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.