The Economist

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The Economist

2018-05-19

The world this week

Politics this week

May 17th 2018

Tens of thousands of Palestinians protested along the border between **Gaza** and **Israel** to highlight their various grievances. Israeli soldiers shot and killed about 60, according to Gaza's health ministry. Some had attempted to breach the border fence; others threw rocks and Molotov cocktails at the Israeli side. Most of the protesters, however, were unarmed. See article.

On the same day as the violence, America opened its new embassy in **Jerusalem**, recognising the contested city as Israel's capital. Binyamin Netanyahu, Israel's prime minister, said it was a "great day for peace". Mahmoud Abbas, the Palestinian president, described the embassy as a "US settlement outpost".

A coalition led by Muqtada al-Sadr, a Shia cleric who once urged attacks on American troops, won **Iraq's** parliamentary election, according to preliminary results. His allies promised to tackle corruption and curtail foreign influence. A coalition led by Haider al-Abadi, the prime minister, came second. See article.

After a campaign marred by several murders, **Burundi** held a referendum on whether to extend the president's term from five years to seven. If it passes, Pierre Nkurunziza, who calls himself the country's "Supreme Eternal Guide", might remain president until 2034. See article.

An outbreak of **Ebola** in the Democratic Republic of Congo spread to the city of Mbandaka, a transport hub, raising fears that the disease will advance rapidly. At least 42 people have been infected by this latest outbreak so far.

Fancy a flutter?

The Supreme Court overturned a law that banned **betting** on sports, finding that it infringed on states' rights. The law was passed in 1992 (Nevada was exempted). Americans already place an estimated $150bn of illegal wagers on sports each year. See article.

Another round of primary elections was held in America to pick congressional candidates for the mid-terms. **Pennsylvania's** contests took place under new district boundaries, after a court over-ruled Republican gerrymandering. Three women won in heavily Democratic districts, so the state's all-male delegation will probably be slightly feminised in November

Unknown territory

Italy's populist Five Star Movement (M5S) and far-right Northern League neared agreement on forming a governing coalition, more than two months after an election. The government would be the first all-populist one in western Europe. Many fear it could pull Italy out of the euro and cosy up to Russia. The parties have struggled to reconcile their programmes, which promise big tax cuts (the League) and benefit increases (M5S). See article.

Catalonia's parliament elected Quim Torra as president of the region. He was backed by Carles Puigdemont, who was forced from office when he declared independence and is now in Germany. The Catalan parliament approved Mr Torra, a hardline separatist who has made disagreeable remarks about Spaniards, by a margin of one vote. See article.

The Open Society Foundations decided to close shop in Budapest, the birth place of George Soros, its founder, and move its Hungarian operations to Berlin. Mr Soros has been scapegoated by the nationalist Fidesz government, which blames the Jewish billionaire philanthropist for much that goes wrong in **Hungary**. See article.

Time to talk

Students, businessfolk and civic leaders in **Nicaragua** gathered in Managua, the capital, for the first day of talks with Daniel Ortega, the president. The "dialogue", which is being mediated by the Catholic church, follows weeks of protests against Mr Ortega's socialist government, in which dozens of people were killed.

Margarita Zavala, an independent candidate in **Mexico's** presidential election, dropped out to "free" her supporters to vote for more popular candidates. Her withdrawal could weaken Andrés Manuel López Obrador, a left-wing populist who has a big lead in the polls.

Venezuela's socialist regime took over a factory that Kellogg, a food company, had closed because of the country's economic meltdown. President Nicolás Maduro said workers at the factory could "continue producing for the people", who are going hungry because of price controls and official corruption. Meanwhile, prisoners took over the detention centre of Sebin, Venezuela's feared intelligence agency, to protest against abuses. The government said it had regained control; prisoners disputed this.

Party poopers

North Korea cancelled a meeting with the South about improving ties and threatened to pull out of a summit between its leader, Kim Jong Un, and Donald Trump, due to take place in Singapore in June. The Kim regime hinted that it was less keen on giving up its nuclear weapons than it had previously implied. See article.

China marked the tenth anniversary of an earthquake in Sichuan that killed 70,000 people. President Xi Jinping said China had provided "enlightenment for the international community" in rebuilding disaster zones. Officials imposed tight security, fearful of attempts by parents to mourn children who died in shoddily built schools.

The governor of the **Indian** state of Karnataka invited the Bharatiya Janata Party to form a government, though two other parties had won a majority of the state legislature between them. The pair appealed to the Supreme Court. See article.

Suicide-bombers attacked churches and police stations in **Indonesia**, killing 13 people. The attacks were mounted by families, including children. Islamic State claimed responsibility. See article.

Anwar Ibrahim, **Malaysia's** former finance minister and a leader of the opposition alliance that won the recent general election, was released from prison on the ground that his jailing had been politically motivated. Mr Anwar is expected eventually to take over from the current prime minister, Mahathir Mohamad. See article.

The windscreen of a Chinese **passenger jet** blew out while it was cruising at 32,000 feet. The co-pilot was sucked halfway out, but was saved by his safety belt. The pilot landed the aircraft safely, despite the sudden loss of cabin pressure and a plunge in temperature to -30°C (-22°F).

Business this week

May 17th 2018

President Donald Trump introduced a plan to lower the cost of **drug prices** for consumers in America. The proposals include compelling pharmaceutical firms to list their prices in advertisements. The government may also get tough with firms that prevent their drugs from being copied when patents expire. But Mr Trump stopped short of keeping his populist pledges, such as allowing Americans to import prescriptions from other countries. The share prices of leading drug companies rose after his speech. See article.

The great protector

Taking many in his administration by surprise, Mr Trump tweeted that he was working to overturn a ban on American chip companies from selling to **ZTE**, a Chinese maker of telecoms equipment, because of the job losses it entailed in China. The Commerce Department imposed the ban on ZTE for contravening a settlement over selling products to Iran and North Korea. Mr Trump said his remarks were made in the context of negotiating with China to avoid a trade war.

America claimed victory after the **World Trade Organisation** upheld a decision that the European Union wrongly provided subsidies to Airbus. Robert Lighthizer, America's trade representative, said that unless the EU stopped "breaking the rules" America would "have to move forward with countermeasures on EU products". Airbus retorted that 94% of Boeing's original claims had been dismissed by the WTO. A separate case brought by the EU against American support for Boeing will come up later this year. See article.

Vodafone announced that Vittorio Colao is to step down as CEO after ten years in the job. During Mr Colao's tenure the world's second-biggest wireless provider sold its minority stake in Verizon Wireless, a deal which fetched $130bn, $84bn of which was returned to shareholders. It recently struck an agreement to expand in Europe by buying some of Liberty Global's assets. Nick Read, the company's chief financial officer, steps up to the top job.

Xerox called off an agreement that would have seen it merge with **Fujifilm**, with which it has a long-standing joint venture in Asia selling photocopiers. The deal had been strongly opposed by Carl Icahn and Darwin Deason, two investors who own more than 10% of the shares in Xerox.

In an acquisition underlining the popularity of price-comparison services, **Silver Lake**, an American private-equity firm, agreed to buy **ZPG**, which owns several such websites in Britain, including Zoopla and uSwitch, for £2.2bn ($3bn).

A hawkish dove

The **Turkish lira** tumbled against the dollar again, after Recep Tayyip Erdogan, Turkey's president, said that he will seek greater influence over monetary policy if he wins next month's snap election. Mr Erdogan's distaste for high interest rates, which he recently described as the "mother and father of all evil", has increased investors' concerns about the capacity of Turkey's central bank to rein in inflation and arrest the currency's fall. See article.

Britain's financial-conduct regulators handed a £642,000 ($865,000) fine to **Jes Staley**, the chief executive of Barclays, for his attempt to unmask an internal whistleblower. The regulators said that Mr Staley “failed to act with due skill, care and diligence” in his response to an anonymous letter that criticised a senior executive at the bank.

After months of negotiations, **Saudi British Bank** (SABB) and **Alawwal Bank** struck a preliminary agreement to merge. The combination of SABB, which is 40% owned by HSBC, and Alawwal, which is 40% owned by the Royal Bank of Scotland, would create Saudi Arabia’s third-biggest bank. It would also mark the largest banking merger in the kingdom since 1999.

Punjab National Bank reported a net loss of 134bn rupees ($2bn) for the quarter ending on March 31st, one of the biggest ever at an Indian state-owned bank. The loss was mostly a result of setting aside money to cover a fraud involving diamond firms that raised credit abroad using fake guarantees from PNB. Federal investigators have charged more than 20 people in the case, including a former chief executive of the bank.

The stakes are high

The British government reduced the maximum stake at **fixed-odds betting terminals** from £100 ($135) to £2. Groups helping gambling addicts had pressed for change, claiming punters could potentially lose £18,000 an hour because £100 can be wagered every 20 seconds at the machines. FOBTs are the primary source of income for betting shops, generating £1.8bn a year. Each terminal (restricted to four per shop) on average takes in £50,000 a year for a bookie. The industry has warned there will be big job losses because of the change.

KAL’s cartoon

May 17th 2018

Leaders

Gaza erupts

Israel must answer for the deaths in Gaza

But it is time for Palestinians to take up genuine non-violence

May 17th 2018

GAZA is a human rubbish-heap that everyone would rather ignore. Neither Israel, nor Egypt, nor even the Palestinian Authority (PA) wants to take responsibility for it. Sometimes the poison gets out—when, say, rockets or other attacks provoke a fully fledged war. And then the world is forced to take note.

Such a moment came on May 14th. Tens of thousands of Palestinians massed near Gaza's border fence, threatening to "return" to the lands their forefathers lost when Israel was created in 1948. Israeli soldiers killed about 60 protesters—the bloodiest day in Gaza since the war in 2014 (see Briefing). In a surreal split-screen moment, the Israeli prime minister, Binyamin Netanyahu, was exulting over the opening of America's embassy in Jerusalem, calling it a "great day for peace".

Many countries have denounced Israel; a few have recalled diplomats. Some people accuse it of war crimes. Others blame President Donald Trump for causing the clashes by moving the embassy from Tel Aviv to Jerusalem. It is surely right to hold Israel, the strong side, to high standards. But Palestinian parties, though weak, are also to blame. Seven decades after the creation of Israel as a thriving democracy, there is a better way than endless conflict and bloodshed.

How much blood is proportionate?

Every state has a right to defend its borders. To judge by the numbers, Israel's army may well have used excessive force. But any firm conclusion requires an independent assessment of what happened, where and when. The Israelis sometimes used non-lethal means, such as tear-gas dropped from drones. But then snipers went to work with bullets. What changed? Mixed in with protesters, it seems, were an unknown number of Hamas attackers seeking to breach the fence. What threat did they pose? Any fair judgment depends on the details.

Just as important is the broader political question. The fence between Gaza and Israel is no ordinary border. Gaza is a prison, not a state. Measuring 365 square kilometres and home to 2m people, it is one of the most crowded and miserable places on Earth. It is short of medicine, power and other essentials. The tap water is undrinkable; untreated sewage is pumped into the sea. Gaza already has one of the world's highest jobless rates, at 44%. The scene of three wars between Hamas and Israel since 2007, it is always on the point of eruption.

Many hands are guilty for this tragedy. Israel insists that the strip is not its problem, having withdrawn its forces in 2005. But it still controls Gaza from land, sea and air. Any Palestinian, even a farmer, coming within 300 metres of the fence is liable to be shot. Israel restricts the goods that get in. Only a tiny number of Palestinians can get out for, say, medical treatment. Israeli generals have long warned against letting the economy collapse. Mr Netanyahu usually ignores them.

Egypt also contributes to the misery. The Rafah crossing to Sinai, another escape valve, was open to goods and people for just 17 days in the first four months of this year. And Fatah, which administers the PA and parts of the West Bank, has withheld salaries for civil servants working for the PA in Gaza, limited shipments of necessities, such as drugs and baby milk, and cut payments to Israel for Gaza's electricity.

Hamas bears much of the blame, too. It all but destroyed the Oslo peace accords through its campaign of suicide-bombings in the 1990s and 2000s. Having driven the Israelis out of Gaza, it won a general election in 2006 and, after a brief civil war, expelled Fatah from the strip in 2007. It has misruled Gaza ever since, proving corrupt, oppressive and incompetent. It stores its weapons in civilian sites, including mosques and schools, making them targets. Cement that might be used for reconstruction is diverted to build underground tunnels to attack Israel. Hamas all but admitted it was not up to governing when it agreed to hand many administrative tasks to the PA last year as part of a reconciliation deal with Fatah. But the pact collapsed because Hamas is not prepared to give up its weapons.

Israel, Egypt and the PA cannot just lock away the Palestinians in Gaza in the hope that Hamas will be overthrown. Only when Gazans live more freely might they think of getting rid of their rulers. Much more can be done to ease Gazans' plight without endangering Israel's security. But no lasting solution is possible until the question of Palestine is solved, too. Mr Netanyahu has long resisted the idea of a Palestinian state—and has kept building settlements on occupied land.

It is hard to convince Israelis to change. As Israel marks its 70th birthday, the economy is booming. By "managing" the conflict, rather than trying to end it, Mr Netanyahu has kept Palestinian violence in check while giving nothing away. When violence flares Israel's image suffers, but not much. The Trump administration supports it. And Arab states seeking an ally against a rising Iran have never had better relations with it.

Israel is wrong to stop seeking a deal. And Mr Trump is wrong to prejudge the status of Jerusalem. But Palestinians have made it easy for Israel to claim that there is "no partner for peace", divided as they are between a tired nationalist Fatah that cannot deliver peace, and an Islamist Hamas that refuses to do so. Palestinians desperately need new leaders. Fatah must renew itself through long-overdue elections. And Hamas must realise that its rockets damage Palestinian dreams of statehood more than they hurt Israel.

The only way to stop fighting is to stop fighting

For all their talk of non-violence, Hamas's leaders have not abandoned the idea of "armed struggle" to destroy Israel. They refuse to give up their guns, or fully embrace a two-state solution; they speak vaguely of a long-term "truce". With this week's protests, Hamas's leaders boasted of freeing a "wild tiger". They found that Israel can be even more ferocious.

If Hamas gave up its weapons, it would open the way for a rapprochement with Fatah. If it accepted Israel's right to exist, it would expose Israel's current unwillingness to allow a Palestinian state. If Palestinians marched peacefully, without guns and explosives, they would take the moral high ground. In short, if Palestinians want Israel to stop throttling them, they must first convince Israelis it is safe to let go.

Pharmaceuticals

Why Trump's plan will not cut drug prices

The president's proposals skirt the real reasons for high costs

May 19th 2018

POPULISTS often put their finger on problems that irk their countrymen. They also tend to come up with inadequate solutions to them. So it is with President Donald Trump's plan, unveiled on May 11th, to lower the price of prescription drugs.

Drugs are more expensive in America than anywhere else. A month's supply of Harvoni, which cures hepatitis C, costs $32,114 in America and $16,861 in Switzerland. Some cancer drugs can cost more than $150,000 a year. Mr Trump campaigned on a promise to reduce prices. He suggested that he would make it easier to import drugs from abroad and would force drug companies to lower prices for Americans, using the state's bargaining power to save $300bn a year—preposterous, given that this is almost the entire sum the government spends on drugs. Nevertheless, his promises may have helped Mr Trump win the support of the majority of older voters.

The president's plan, which he called the "most sweeping action in history to lower the price of prescription drugs", lacks potency. A few ideas are welcome, including the proposal to hinder pharmaceutical firms that try to delay the arrival of generic versions of their drugs after patents expire. But many of Mr Trump's suggestions need legislation, which is unlikely just now. No wonder his speech triggered a rise in the share prices of pharma firms.

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Mr Trump also repeated an argument beloved of pharmaceutical companies—that foreigners are to blame for America's high prescription-drug prices. Because Europeans pay too little for their drugs, goes the argument, Americans make up the losses by paying more. Mr Trump promises to instruct trade negotiators to demand that other countries extend periods for patents on American-made drugs, which in turn would raise costs for foreign governments. Even if this proves possible—and it seems unlikely to succeed with America's big trading partners—it would not cut Americans' drugs bills by a cent.

That is because the price of drugs in America would remain at what the market will bear. Put another way, prices would continue to be largely set by pharma companies. For, unlike other countries, America does a bad job of negotiating down the prices of new drugs. If America really wanted cheaper drugs, it would copy what European countries do, and refuse to buy drugs that do not offer good clinical value for money.

A second opinion

Even short of such radical action, there are plenty of opportunities for useful reform. The government could give Medicare, the health scheme for the elderly, more power to negotiate prices and more freedom to determine the drugs it has to provide by law. At the moment it cannot haggle directly with drug companies. It could also expose the opaque and hugely profitable array of intermediaries which sit between the makers and takers of drugs. These firms are supposed to negotiate cheaper prices on behalf of insurance companies, passing savings on to consumers. In reality, a complex and largely confidential system of rebates on published prices has driven up the bill for patients, who pay from their own pockets and see little of the discounts.

The Trump administration criticises the rationing of treatment in other countries. But American insurers routinely restrict the use of costly drugs—only their approach disproportionately affects those of very modest means, since they have flimsier insurance plans. The Food and Drug Administration is set to relax the efficacy test in order to cut the cost of developing new drugs. Extra innovation is welcome but, unless America gets a grip on prices at the same time, it will lead to yet more costly new drugs offering poor clinical value.

Fiddling before Rome burns

Italy’s populists are more dangerous than they seem

Markets should worry more about a coalition of tax-cutters, big spenders and anti-euro radicals

May 17th 2018

ITALY has gone without a government for more than two months. That is no great shock. At elections on March 4th, Italians deserted mainstream parties and backed radical populist ones whose leaders have never had to haggle to form a coalition. The surprise has been the belated reaction of the financial markets, which this week suddenly woke up to the looming threat. The men who, as *The Economist* went to press, were on the verge of taking power in Italy cannot be trusted to run it.

One reason for the delay—and for general concern—is that the populist parties that won the most votes have conflicting policies. The far-right Northern League promised a flat tax rate of 15%, which would lower revenues. The Five Star Movement (M5S), which claims to transcend left-right divisions, promised a universal basic income of €780 ($920) per month, which would require huge outlays. Bridging the gap between these two parties, in office as well as in the coalition talks, would be hard for the most charming and seasoned politicians, let alone the League's firebrand of a leader, Matteo Salvini (pictured, left), and M5S's 31-year-old head, Luigi Di Maio (right).

Another reason to beware is the parties' programmes. Their visceral Euroscepticism threatens the integrity of the euro zone. M5S has only recently stepped back from pledging to hold a referendum on leaving the single currency. The League goes well beyond reasonable concern over refugees, advocating xenophobic and unworkable deportation policies. Both parties want to scrap sanctions on Russia, threatening the European unity that deters President Vladimir Putin's aggression in Ukraine and elsewhere. At home they would undo vital reforms, cutting the pension age in a rapidly greying country with low fertility. They have other perverse distractions, such as M5S's sympathy with the anti-vaccination movement.

Dangerous in isolation, their policies could be worse in combination. If Mr Salvini and Mr Di Maio reach an accord that includes both of their budgetary priorities, it would be fiscally irresponsible. Implementing the flat tax, the universal basic income and the pension roll-back would cost tens of billions of euros a year, probably increasing the deficit from 2.3% of GDP to more than 3% and breaching European rules.

Perhaps that is why an early version of the parties' accord included demands that the ECB forgive €250bn in Italian debt and that the EU send over truckloads of money to finance M5S's basic income. It also hinted at scrapping the euro and bringing back the lira. The document's latest version drops the wildest proposals, but retains plenty of disquieting ones.

The last reason to worry is Italy's fragility. With a national debt of over 130% of GDP, the euro zone's third-largest economy is too big to bail out—even if the single currency is at stake. Although Mr Salvini and Mr Di Maio have moderated their promises, the markets have suddenly taken fright. On May 16th spreads between Italian and German government bonds widened by 0.22 percentage points, to 1.5 points—their biggest single-day increase since the Brexit vote.

Italians have reason to be angry with their politicians. Silvio Berlusconi, beset by legal troubles, neglected the euro crisis until he was forced from power. Matteo Renzi squandered the hopes invested in him by betting on an ill-fated referendum to change the constitution, leaving other reforms largely undone. The country is unstable at the top. It has had five prime ministers in ten years, and none of the past four was the leader of his party at the time it was elected. Europe, too, has much to answer for. The EU promised to help Italy cope with the refugees that arrive on its coast, but broke its word.

Circuses, but not enough bread

The pity is that neither the League nor M5S offers solutions to Italy's real problems. Italian productivity has scarcely risen since 2001. (In Germany it is up by 16%; in Romania, by 134%.) To put this right will require loosening labour laws, reforming the courts, investing in education and infrastructure, and attacking corruption. Although the League and M5S pay some attention to these issues, their chief plan seems to be a huge burst of stimulus from tax cuts and handouts, financed by wishful thinking. Italy has stagnated for too long; it cannot afford more years of inaction, or a government that makes matters worse with incoherent radicalism. If Italians do not sort this out, the markets will render a harsh verdict.

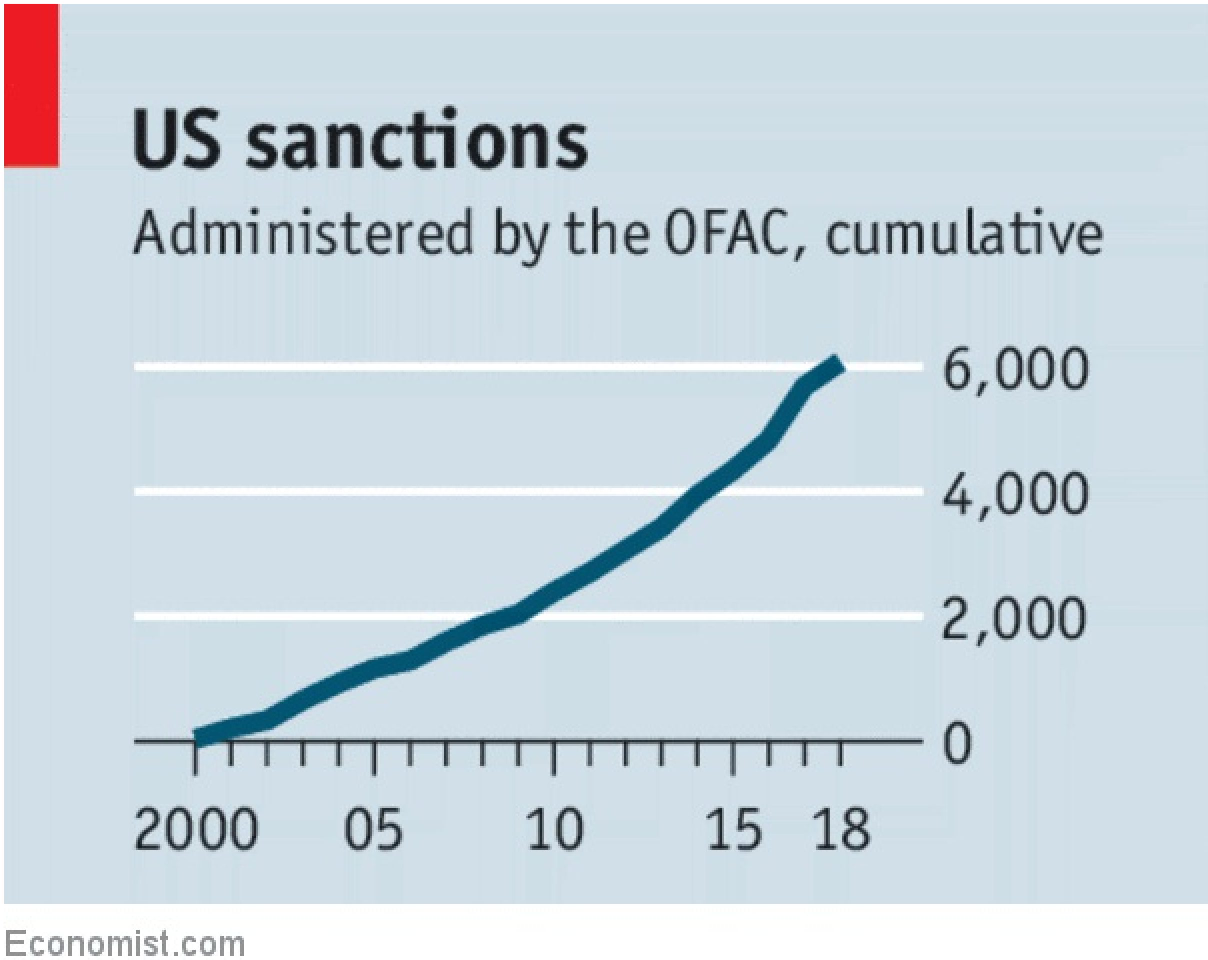
About that big stick

America must use sanctions cautiously

The dollar gives the Treasury extraordinary power over global finance. It should not be used lightly

May 17th 2018

WHAT is America's greatest source of power? Its military might is unparalleled. Its market is vast. Alongside these assets stands the dollar. The world depends on America's currency, and hence on access to dollar payments systems and the banks America has effective control over. Greenbacks fuel trade everywhere. On average, countries' dollar imports are worth five times what they buy from America. More than half of all global cross-border debt is dollar-denominated. Dollars make up nearly two-thirds of central-bank reserves. That gives the Treasury a veto over much of global commerce.



Most presidents have used the dollar-weapon sparingly. In recent weeks the Trump administration has imposed tough financial sanctions against Russia. Having withdrawn from the nuclear deal, America is acting against Iran and European firms that trade with it. In 2017 the administration's "blacklist" gained roughly 1,000 new entries, almost 30% more than Barack Obama added in his last year.

There are times when it is wholly appropriate for America to use its clout. But the country risks choosing quick wins regardless of the long-term and less visible costs. Using the dollar as a bludgeon has already led to capricious and arbitrary decision-making. It also risks destabilising global finance. Eventually, it may hasten the demise of the dominant dollar.

Start with unpredictable decision-making. America's financial power is so great that its application is hard to calibrate. After the Treasury sharpened sanctions against Russia in April, Rusal, a large aluminium producer, was frozen out of financial markets even though it does little of its business in America. Its shares fell by more than half. Perhaps awed by its own might, America backtracked, offering the firm a partial reprieve.

Calibration problems are exacerbated by inconsistency. In April the Commerce Department banned American firms from doing business with ZTE, a Chinese telecoms giant which violated sanctions against Iran and North Korea. The firm immediately foundered. President Donald Trump now seems to want to trade ZTE's survival as part of a larger trade deal with China. As a result the administration is sending contradictory messages: first that Iran is beyond the pale, and second that sanctions violations involving it may be negotiable. As the number of sanctions multiplies, so will the exemptions, contradictions and unintended consequences. If that happens, sanctions' effectiveness will fall accordingly.

Abrupt shifts in policy cause uncertainty for companies and risk financial turmoil (see article). That is because the corollary of dollar dominance is dollar dependence. At the end of 2007 the financial crisis went global when large European banks ran short of currency with which to service their dollar debts. The Federal Reserve stepped in to provide foreign central banks with liquidity. Since the crisis the offshore dollar financial system has grown, especially in Asia. A clumsily antagonistic move, such as cutting off a big Chinese bank—a move which some American officials may have contemplated—could create havoc. This time, though, it would be harder for the Fed to fight the fire, because the system is bigger and more dispersed. Even large non-financial firms could destabilise offshore finance if they defaulted on dollar debt.

One reserve, no substitute

Just as serious are the long-term risks for America. There is no obvious substitute for the dollar (see Free exchange). The euro zone has yet to recover from its crisis. China does not have a stable banking system or an open capital account. Only America can provide the safe, global asset needed to keep trade and finance flowing. But the dollar is unlikely to dominate for ever. As America's share of world output shrinks, a shift to a mix of reserve currencies is, eventually, probable.

How orderly that transition is will depend in part on how America is perceived by its allies as well as its adversaries. European countries wish to continue honouring the Iran nuclear deal, for example, from which Mr Trump unilaterally withdrew earlier this month. But faced with the threat of being cut off from American markets and banks, European firms probably have little choice but to follow America's lead.

That will surely be chalked up as a win by the White House. But it carries long-run costs. The dollar reigns supreme in part because foreigners trust American institutions and because its friends think that their interests coincide with America's. If alliances become chiefly transactional, efforts by others to wean themselves off the dollar will intensify—and inevitably spill over into military and intelligence relationships. For there is another answer to the question of what gives America power: its commitment to a rules-based system.

Restrain the restraints

The case against non-compete clauses

America would benefit if workers had greater freedom to choose their next employer

May 17th 2018

THE non-compete clause has been causing trouble for over 600 years. In 1414 an English court heard the case of John Dyer, an apprentice whose master had stopped him from plying his trade for six months. The judge was having none of it. “The contract is contrary to common law,” he ruled. Individuals should be free to pursue the livelihood of their choice.

That principle has been diluted in the intervening centuries—most countries give businesses some leeway to use non-compete clauses, whereby workers promise not to start or join firms that go head-to-head with their ex-employer. But their prevalence in America is striking (see article). According to a study by the Treasury in 2016, almost 20% of American workers are bound by a non-compete agreement, and almost 40% have been subject to one at some point. Efforts to rein them in are intensifying. Rightly so.

Incumbency we trust

Defenders of these agreements put forward several arguments. One is that non-competes encourage innovation by stopping rivals waltzing off with trade secrets; there is some evidence that levels of investment are higher at firms where they are used. Another argument is that firms are less likely to train workers if newly skilled employees are able to up sticks and take what they have learned with them to a rival. Again, research backs up this claim. A third argument is that firms and employees should be free to contract as they wish.

The counter-arguments are stronger. The prevalence of non-compete agreements is clear evidence that they are being used indiscriminately. Roughly 15% of American employees without a college degree, and a similar share of those earning less than $40,000 a year, are bound by them. Burger-flippers and care-home workers do not have trade secrets to hawk.

The gains in investment and training must be set against the wider costs. In one study, in Michigan, researchers found that workers' job mobility fell by 8% when non-competes were allowed. When people cannot work for another employer who would value their skills, wage growth suffers, too, because people typically achieve the biggest bumps in their salary when they move firm. Non-competes are also associated with a decline in enterprise. One study found that the rate of entry of new firms into knowledge-intensive industries fell by 18% when non-compete clauses could more easily be enforced. It is no accident that California, a notably innovative state, is one of only three to make the clauses unenforceable except in special circumstances, such as the sale of a business.

The costs spill over to all workers—even those who are not subject to non-competes. Young firms are disproportionately important for job growth, for example; if fewer firms are formed, it will affect everyone in the labour market. And non-competes can have a chilling effect even in places that do not recognise them. One study found that 40% of employees who turn down job offers from competitors cite the clauses as a reason, whether they are in enforcing or non-enforcing states.

The drawbacks of non-compete clauses are all the more worrying because of today’s business climate. The incentive to invest and train counts for less when, as now, the American economy suffers from a lack of competition. Clamping down on such agreements would not solve the problem—just look at the tech giants that call California home—but it would help.

Non-competes are also more worrying when the balance of power between companies and employees is already skewed. The spread of mandatory-arbitration clauses in employment contracts and the decline of trade unions are both signs of that imbalance.

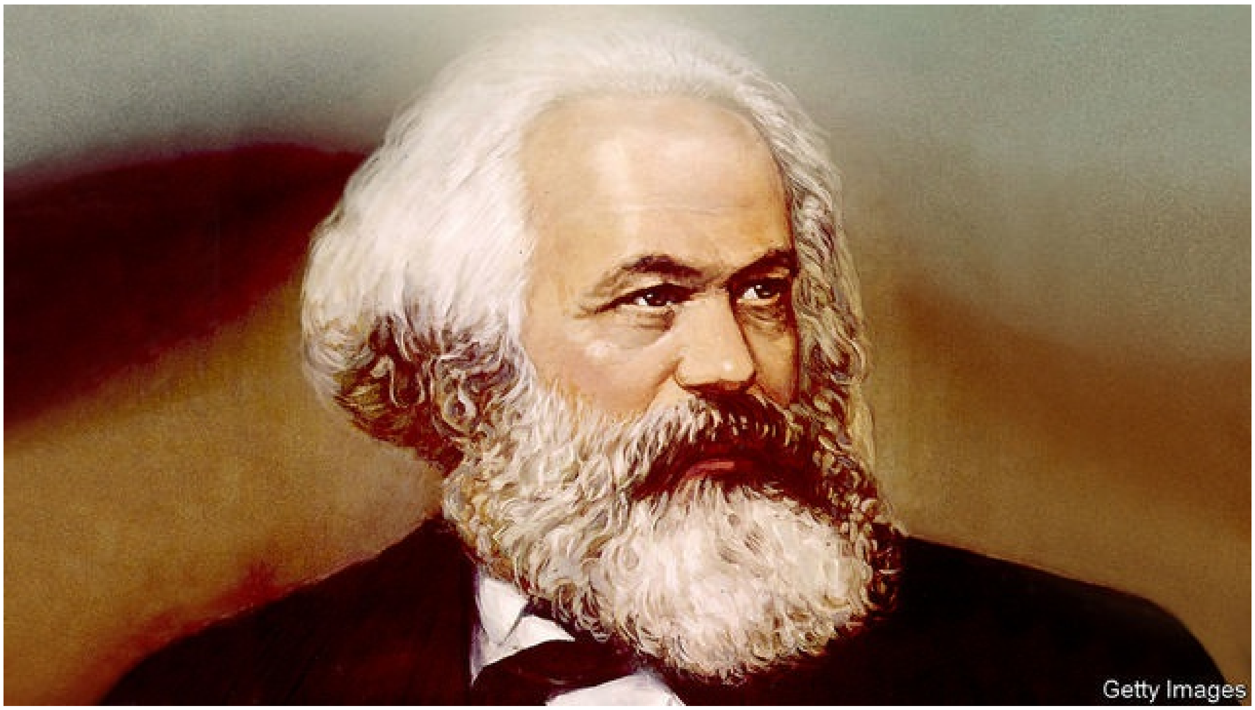
The bar to making all non-compete clauses illegal is high. But the circumstances in which they can be enforced should be narrow, as they are in California. They should be negotiated before employees accept a job offer and they should apply for short times. If a company takes an ex-employee to court, it should be required to demonstrate genuine harm to its business. Non-compete agreements were a bad idea in the 15th century. They still are.

Letters

Letters

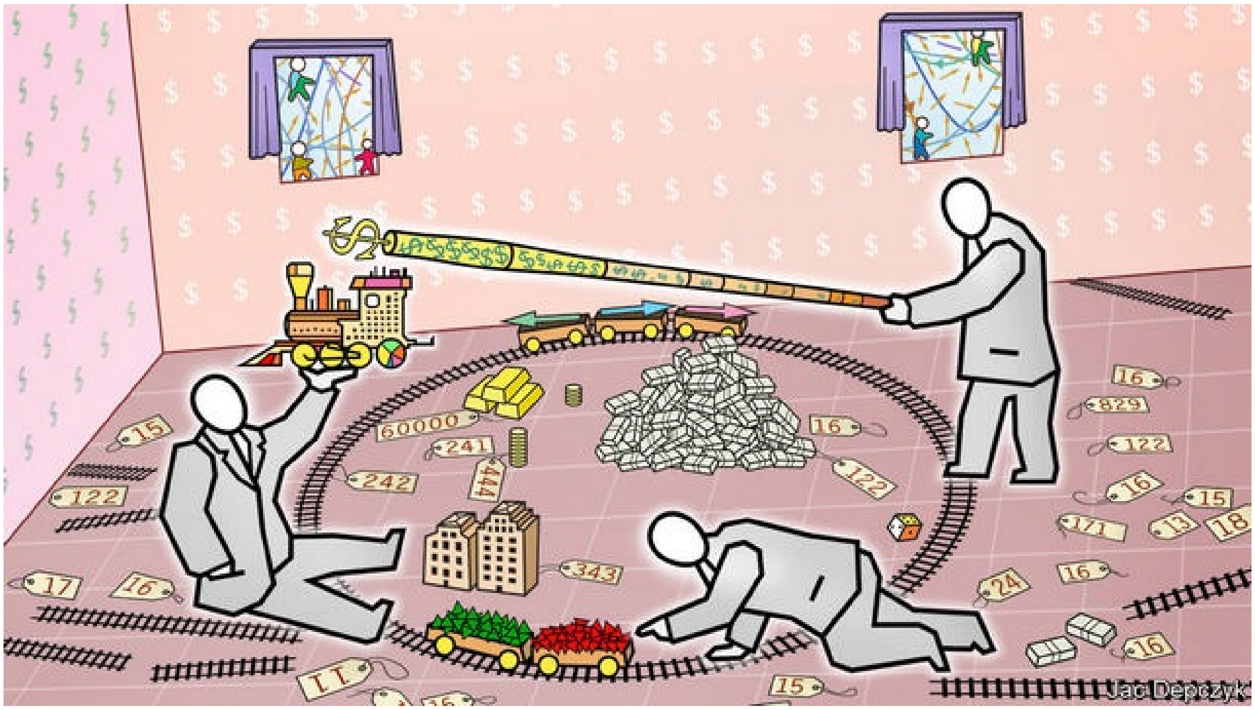
Letters to the editor

On happiness, crypto-currencies, Marx, mental health, Deutsche Bank, the post



May 17th 2018

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



We're not just units of output

The criticism in a Free exchange column of GDP as a measure of progress was excellent (May 5th). But it barely mentioned the concept of subjective well-being, which is the preferable alternative to GDP. Not only can we now measure it; we also have a good understanding of what determines it. This makes it easier to target policy at the well-being of people.

As Thomas Jefferson said, "The care of human life and happiness, and not their destruction, is the first and only legitimate object of good government." We now have the knowledge to implement that approach. Much of it is found in the annual *World Happiness Report* and the *Global Happiness Policy Report*.

RICHARD LAYARD
Director
Well-Being Programme
London School of Economics

Laundering in public

The fact that money-laundering with crypto-currencies persists ("Digital detergent", April 28th) actually shows that criminals, just like the general public, do not yet fully understand them. The ledger for these currencies—the blockchain—is completely open. Every person can download it and track each and every transaction. The benefits of speed or processing little chunks (or a long chain of transactions, also common when laundering regular currencies and observed in bitcoin) matter little when a very simple scan of transactions can reveal the ultimate destination of any crypto-coin. This is a more powerful and extensive registry than what is available to the authorities for conventional currencies.

The convenience of crypto-currencies for launderers comes from the basic anonymity of the network. There is no need to present any identification to open a crypto-coin "banking" account, and, using secure online connections, one can access the internet without revealing one's location. Without these features, money-laundering would have been much harder in crypto-coins than in regular currencies.

OMER LEV

Ben-Gurion University of the Negev
Beersheba, Israel

Small is beautiful
* "Germany is frustratingly prone to a small-country outlook", you say "Cool Germany", April 14th). Many larger countries would do well to learn from small countries. Small advanced economies, such as Singapore, Sweden and Switzerland, have adapted well to the challenges and opportunities from globalisation in ways that many larger economies have not. Many invest heavily in human capital and R[space]&[space]D and actively promote open markets around the world.

In the specific policy areas you mentioned, military spending to GDP in a range of small economies, including Finland and Norway, is higher than in Germany. The current-account surpluses of small countries are frequently lower, partly because of high investment rates in their economies. Germany should step up to its leadership responsibilities on economic and security matters. But a small country outlook also serves it well.

DAVID SKILLING
Director
Landfall Strategy Group
Singapore

Loafers of the world, unite!

You presented Karl Marx's vision of a post-capitalist future as "people essentially loafing about" ("Second time, farce", May 5th). You went on to enumerate their activities as "hunting in the morning, fishing in the afternoon, raising cattle in the evening and criticising after dinner." May one inquire what *The Economist*'s vision of a strenuous life would entail?

MATTHEW DRAPER
Charlottesville, Virginia

Mental-health policy

The rising numbers of people with mental-health conditions ("Locked away", April 21st) can also be explained by short-sighted budget constraints. I know someone in his early 40s who was diagnosed with schizophrenia 20 years ago. He can live an independent life, provided his medication is supervised, as was the case when he was living in a house run by MIND. In an attempt to save money spent on such outsourced care by skilled professionals, the National Health Service moved him to a flat in "the community".

He became isolated and soon relapsed, stopped his medication and let his new accommodation fall into chaos. He was found by NHS staff wandering around nearby woods barefoot and scantily clad. Just months after this budget-saving exercise he was back in hospital, sectioned and cared for at even greater cost.

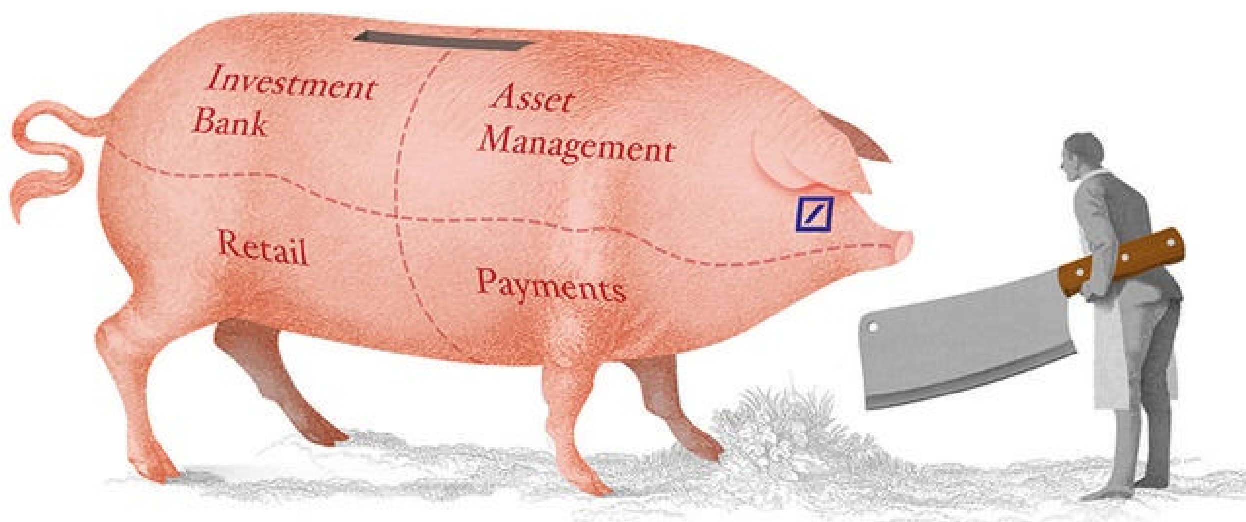
People with mental-health problems need proper care. Scrimping on skilled carers is cruel, misguided and ultimately more expensive

ROSIE HOARE
Ipswich, Suffolk

The tone of your article is that being detained under the Mental Health Act, or “being sectioned” as you call it, is punitive and potentially damaging. I disagree. The MHA focuses on the rights of patients suffering from mental illness and includes numerous safeguards to empower and protect them. Unanimous agreement is required by various professionals in a MHA assessment. A patient who challenges detention has the have the right to legal assistance and due process; this is not possible for voluntary patients. In the case of a treatment order patients get access to fully funded lifelong aftercare once they recover.

I do not wish to paint a completely rosy picture; problems remain. Ethnic disparities are alarming, though the act itself is not racist. The fact that it is being used more often is largely explained by the shrinking number of inpatient psychiatric beds.

BENJAMIN PERRY
NIHR academic clinical fellow in psychiatry
Warwick



Brett Ryder

What to do with Deutsche?

Schumpeter's call for Deutsche Bank to be dismantled contained an inherent flaw (April 21st). If you were a corporate customer, why would you stay with a bank that is in the process of breaking up and going out of business? What does make sense is to divest the bank's German retail business, which is unlikely ever to earn a decent return because of not-for-profit competition from state and mutual institutions. That would leave Deutsche with corporate and investment banking and wealth management, its long-standing and steady core businesses.

Realistically, Deutsche's competitive position in America and Asia is not strong enough to challenge the likes of Goldman Sachs on a global basis. However, it is well positioned to be the largest corporate and investment bank in the euro zone, serving regional customers. Deutsche should reaffirm its commitment to these businesses in Europe.

RAY SOIFER
Green Valley, Arizona

Wait a minute, Mr Postman

Your leader calling for the United States Postal Service to be privatised gave short shrift to deliveries in remote areas ("Deliverance", April 21st). The USPS is trying to close the post office in Pie Town, New Mexico. As there is no home delivery here, locals will thus have to travel 40 miles to collect their mail, including legal notifications, bills and medication, not to mention my subscription to *The Economist*.

To drive to the nearest post office to pick up my mail even once a week would cost me 10% of what I live on. I cannot do this. There are also people in Pie Town who are not physically capable of driving that far. Some items, especially legal documents, can only be delivered by post. What will happen to people in rural areas if, say, they don't receive summons to jury duty in a timely manner?

UNCLE RIVER
Pie Town, New Mexico

* I was pleasantly struck by the argument that a country like the United States ought to undertake a radical reform of its postal service, following the example set some years ago by Poste Italiane, to the satisfaction of its shareholders. Your analysis of whether or not opening up the postal service to competition, including that provided by the giants of e-commerce, is the right thing to do is confirmed by events in Italy, where such a move was behind the success of the company's IPO in 2015.

Today, following the presentation of our new strategic plan, Deliver 2022, based on a new business model for post, on diversifying the traditional business towards the potential offered by mobile and digital payments, financial services and e-commerce logistics, Poste Italiane's market capitalisation has risen above €10bn. This means that the share price has risen by 30% in three years, making our company the fourth best performer on the Italian Stock Exchange in 2018 to date.

The British and German postal services, which have also diversified their businesses, are certainly in good company with Italy. Could this be one of those rare occasions when Washington, DC looks to Rome for ideas on how to find the road to market?

MATTEO DEL FANTE

Chief executive
Poste Italiane
Rome

On the outside of the Post Office building in New York is a plaque that reads: “Neither snow nor rain nor heat nor gloom of night stays these couriers from the swift completion of their appointed rounds”. To which a graffito was once scrawled alongside: “What is it, then?”

ROBERT GENTLE
Johannesburg

* Letters appear online only

Briefing

Siege mentality

Deadly protests on Gaza’s border with Israel

While the territory remains isolated and desperate the only recourse for Gazans is violence

May 17th 2018 | GAZA CITY AND MALAKA

MAZEN QASSAS was supposed to be in bed, not hunched over a man missing a chunk of his thigh. The surgeon had just finished a 12-hour shift at Al-Shifa, Gaza’s main hospital. But after a nap he was back treating people who had been hurt in the territory’s bloodiest day of violence in four years. The hospital was overflowing with patients so Dr Qassas was brief. He unwound a bandage to reveal a gaping wound, the work of a sniper’s bullet, gave instructions to nurses and moved on. He had 50 patients waiting. “Yesterday was worse than the last war, because the rush came all at once,” he noted gloomily.

The bloodshed on May 14th started after tens of thousands of people descended on the barrier that separates Gaza from Israel. It was the latest of six weeks of weekly protests known as the “Great Return March”, nominally an effort to reclaim the lands their grandparents fled or were pushed out from during the creation of Israel. It also coincided with the contentious relocation of America's embassy in Israel from Tel Aviv to Jerusalem, which Palestinians regard as yet another injustice (see article).

In some places the barrier is a concrete wall topped with remote-controlled machineguns. In others it is merely a chain-link fence. Only a few protesters tried to cross it. Most hung well back in fields or on dusty patches of ground, where music played on loudspeakers and sandwiches and soft drinks were on sale. "People came to watch other people," said one.

At Malaka, east of Gaza City (see map), protesters ran up a raised bank to burn tyres or cut through coils of barbed wire. Many came back down on stretchers. As the Israeli army sent tear-gas canisters whizzing overhead into Gaza, kites sailed the other way, dangling cans of burning fuel meant to ignite Israeli farms. Snipers' rifles cracked amid shouting and the blaring sirens of ambulances. By the next morning the death toll had reached 60, according to Gaza's health ministry, with more than 2,700 others injured.

The edge of reason

The response to the march was a public-relations disaster for Israel, which was deemed by many countries to have overreacted. No Israelis were killed and few were injured. Most of the protesters were unarmed. Those with weapons tended to have slingshots and Molotov cocktails, neither of which posed much threat to soldiers more than 100 metres away. Some of the wounded were not even trying to rush the fence. One young man was shot walking on a dirt path parallel to the border but 100m metres from it.

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Israel's army argued that its actions were proportionate, a justified attempt to defend a border. Soldiers did try to disperse the crowds with tear-gas, but it was ineffective in an open, windy area. Most of the injured were shot in their legs—meant to wound, not kill, though some died anyway from lack of proper medical care. And in several instances militants tried to plant improvised explosive devices near the fence. Hamas says that most of the men shot dead were its own people.

Individually, few if any of the protesters posed a danger. The threat, simply put, is that Israel does not have enough troops to stop 2m people from crossing a fence. It controls them through fear—through the belief that the armistice line is an inviolable barrier. The marches chipped away at that fear. A few young protesters marvelled that they had never been so close to the fence before.

The shooting restored the trepidation, but only in the short run. As a tactical measure, firing thousands of rounds at a crowd is a successful deterrent. But it does nothing to resolve the festering conflict that sent people to the fence in the first place. If the blockade of Gaza persists, they will surely try again.

Outbursts of violence such as the events of May 14th have earned Gaza a reputation as a war zone. More often it is a place of grinding boredom. Few of its 2m residents can leave the enclave. They have been hemmed in by Israeli and Egyptian blockades since 2007, when Hamas, a militant Islamist group, took control of Gaza.

The crossing to Israel at Erez is open only to some businessmen, people needing urgent medical care and a few others (see chart). For most Gazans the only way out is at Rafah, on the border with Egypt. But since 2015 the crossing has been open on 129 days, an average of five-and-a-half weeks a year. Only 63,000 people have been able to go to Egypt. Smuggling tunnels have been closed. Almost everyone is stuck.

So is Gazan commerce. Rafah is largely closed to it. Israel tightly controls the flow of goods through another crossing, at Kerem Shalom. For decades Gazans had sent their wares, from strawberries to furniture, to Israel. Now that market is closed. The result is empty factories, rusting machinery and unemployment. Over two-fifths of Gazans are jobless; nearly two-thirds of young people have no work. Without it many families cannot afford even basic staples and rely on charity to survive.

Sewers and reapers

Neglect and the Israeli bombardment have shattered infrastructure. The territory cannot treat its sewage, so it stores the stuff in fetid open-air pools or dumps it straight into the Mediterranean. Sewage and seawater seep into Gaza's depleted aquifer, rendering most water supplies unfit for human consumption, according to the UN. Electricity comes on for three hours a day, often at odd times. Gazans are used to waking in the middle of the night to wash their clothes and charge their mobile phones. Children study by candlelight.

Despair at such conditions brought Mujahid Abu Shuayb to a protest last month. He lost his job at a marble factory last year. He cannot afford to start a family. "I was bored and this was something new," he says. Now he is in a hospital bed watching his leg swell and blacken after being shot. Doctors expect to amputate it. A better-equipped hospital might have saved it, but Mr Abu Shuayb cannot get permission to cross into Israel for treatment.

Crowded, heavily populated by refugees and poorer than the other Palestinian territories on the West Bank, where much of the population has been settled for generations, Gaza has a turbulent past. In the 20th century it passed through the hands of the Ottomans, the British and the Egyptians, until Israel captured it in 1967.

The Oslo peace accords in 1993 created the Palestinian Authority (PA) and gave it limited autonomy in the Israeli-occupied territories. Israel withdrew its troops from Gaza, except for settlements and military bases. This became hard to sustain, especially during the bloody fighting of the second intifada, or uprising, which began in 2000. Ariel Sharon, Israel's hawkish prime minister, withdrew from Gaza completely in 2005. The PA had day-to-day control, but not for long. Yasser Arafat, founder and leader of Fatah, the main Palestinian nationalist group, and subsequently head of the PA, had made Gaza his base. The Israeli pull-out and his death in 2004 opened the way for Hamas to take charge.

In January 2006 Palestinians voted for a new parliament. The result was a shock victory for Hamas, as Palestinians voiced their anger at the corruption of Fatah, which had previously held power. This broke the Palestinian movement apart. Fatah refused to join a coalition government with Hamas. Months of fighting between the two groups in Gaza culminated in a week-long battle in June 2007 that left Hamas in control but Gaza under a blockade.

Since 2007 Israel has fought three wars against Hamas and other militant groups in Gaza. The last and deadliest dragged on for 51 days in the summer of 2014 and shattered Gaza. More than 2,000 people were killed in relentless bombing, most of them civilians; another 100,000 were displaced. Hamas celebrates the war as a victory simply because it survived.

For Israelis, this confirms their worst fears. Give the Palestinians a state in the West Bank and they will use it to fire rockets at Tel Aviv. Hostility to Hamas is shared by Abdel-Fattah al-Sisi, Egypt's president, who led a coup against a Muslim Brotherhood government in 2013. Hamas was founded as an offshoot of the Brotherhood (though last year it severed ties with the group). Mr Sisi accuses Hamas of aiding jihadists in Sinai. His claims have some truth to them. Hamas has allowed scores of Egyptian militants to slip into Gaza and seek refuge there.

Gaza is even caught up in the Middle East's wider feuds. Qatar has long been close to Hamas and for years it was Gaza's main patron. It donated $1bn after the war in 2014 to build thousands of new homes and fix the coast road. But Qatar faces an embargo of its own, imposed by four Arab states, to punish it for backing Islamists. It has now pulled back its support for such groups, including Hamas. The United Arab Emirates, Qatar's neighbour and rival, is trying to usurp its influence in Gaza.

Fault finding

Gazans, though, mostly blame other Palestinians for their daily misery. Six reconciliation deals between Hamas and Fatah have yielded little more than piles of worthless paper. In the past year Mahmoud Abbas, the Palestinian president, based in the West Bank, has imposed sanctions on the strip, halting shipments of medicine and cutting payments for Gaza's electricity. Last October Hamas and Fatah signed yet another deal in Cairo, agreeing that the PA would take power in Gaza. Hamas was happy to cede control of the sewers and schools—to make someone else responsible for the awful conditions.

It refused to hand over control of the security forces, however, let alone relinquish its arsenal of rockets. When the agreement took effect, smartly uniformed PA soldiers took over the Hamas checkpoint at Erez. But the Hamas men just moved to a cluster of cramped trailers nearby. Foreign visitors must still obtain permits from Hamas and endure a barrage of bizarre questions from its secret police.

Israelis usually insist that the plight of Gaza is not their problem, as they ceased to occupy it in 2005. It is a nuisance but rarely intrudes on Israelis' daily life. Yet this is false. Israel is still deeply involved in Gaza. Its army controls Gaza's coast and air space. Israel decides how far its fishermen may sail offshore, and whether Gazans can use 3G services on their mobile phones. It oversees a population registry that tracks every child born in a Gazan hospital. The sewage that pours into the sea washes ashore on Israel's beaches.

Over the years, Israeli officials have proposed ways to ease the suffering. Infrastructure projects are suggested, or schemes to let tens of thousands of day labourers cross into Israel. None gets serious consideration. Gazans have little support in parliament and even less in Binyamin Netanyahu's right-wing government.

Lifting the blockade would ease the hardship. But Gazans would still be stateless, and for all its rhetoric, Hamas cannot change that by force. Its meagre arsenal is not a serious threat to the Middle East's strongest army. The group fears that losing its weapons would mean losing its identity, turning it into "Fatah with beards", as some officials joke. Yet many Gazans grumble (quietly, since Hamas has informants everywhere) that it has, in effect, given up the fight. Most of the time its weapons sit unused. "They talk about resistance, but the only ones fighting Israel are boys with stones," says a woman who lost a son in the protests.

Violence begets non-violence

In recent months Hamas has begun to praise non-violent resistance, a big step for a group psychologically wedded to political violence. A commitment to armed resistance is written into Hamas's charter. The group's leadership pays homage to Gandhi and Martin Luther King. So far it is rhetoric. Yet it puts

Hamas in an awkward position. A local activist dreamed up the protests. Hamas quickly co-opted them, sending text messages to encourage support and laying on buses to the frontier. “There is a wild tiger that was besieged and starved through 11 years, and now it has been set free,” said Yahya Sinwar, Hamas’s leader in Gaza. Earlier he had issued a warning to Israelis: “We will take down the border and we will tear out their hearts from their bodies.”

After the latest bloodshed, Hamas leaders worried they would lose control of the tiger. On a radio station run by Islamic Jihad, a rival militant group, hosts urged their comrades to retaliate. Israeli jets carried out airstrikes. An army spokesman threatened more to come if the protests continued. Israel has more than doubled the standing force of troops ready for action around Gaza. All this raises the prospect of a war that Gaza can ill afford.

Rattled by the violence, Hamas pulled back. May 15th, the day after the clashes, was meant to be the climax of the protests. Nakba (“Catastrophe”) Day marks the mass displacement of Palestinians during the establishment of Israel 70 years earlier. Only a few hundred people turned up at Malaka, and few of them approached the fence. One man brandished a kitchen knife and challenged Israeli soldiers to come and fight. Another commandeered a frozen-drink cart and used its loudspeaker to hurl insults in Hebrew. The feeling of solidarity was gone.

Back at the hospital, Mustafa Murtaja lay in another crowded room. He had joined the protests out of despair and took a bullet to the leg. His injuries were relatively minor, but he fears the weeks of recovery may cost him his job on a poultry farm. But he might lose it anyway, as his struggling employer talks of lay-offs. And with nothing but a bleak future in prospect, he and those like him have little reason to turn their backs on confrontation. “For sure I would go back and protest again. It’s kind of a challenge,” he says. “What else do I have to hope for as a young man here?”

Promised land

Israel at 70

A successful country amid the politics of fear

May 17th 2018 | JERUSALEM

THESE are joyous days for Israel. As the Jewish state celebrates its 70th anniversary, it is enjoying sustained economic growth (see chart), its lowest unemployment rate in decades, booming high-tech exports and a growing list of international companies eager to set up research centres on its soil.

In an unstable region, Israel is more secure than ever. Arab states around it are in chaos and regional powers including Egypt and Saudi Arabia are eager to form alliances to confront Iran and Islamists. A procession of world leaders visits Jerusalem. Binyamin Netanyahu, its prime minister, is well received in capitals across the globe. Israel's foreign relations have never seemed in such good health. This week's relocation of the American embassy from Tel Aviv to Jerusalem is a moment of glory. And Israel even won the Eurovision Song Contest, despite not being in Europe.

Much has contributed to Israel's success. A transition from a centralised economy, beginning in 1985, kept it from an inflationary meltdown, while it also hung on to popular parts of its socialist legacy such as a free national-health service and a decent education system. A highly skilled workforce, including many young people trained by the Israeli army and 1m immigrants who arrived during the collapse of the Soviet Union, has built many high-tech businesses.

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Pressure on Israel to solve its conflict with the Palestinians, who share the same small parcel of land between the Mediterranean and Jordan river, has eased. Arab governments have other worries, and often value Israeli trade and security co-operation much more than paying lip service to the Palestinian cause. Donald Trump likes Israel just the way it is.

But Israel should not celebrate too wildly. Israeli-Arabs, many of them poor, struggle to integrate. And ultra-Orthodox Jews, whose numbers are rising fast, often do not work. The two groups make up over 30% of the population, putting a strain on Israel's welfare state. Technological success is fuelling resentment among those left behind in the "old economy". Infrastructure is creaking and public transport is dilapidated. Xenophobia towards non-Jews and African refugees is on the increase.

Although this resembles the problems of most Western democracies, Israel faces unique challenges, too. It lacks a political consensus to draft a constitution that will safeguard its democracy. Unresolved contradictions of state and synagogue allow the Orthodox rabbinate sole control over marriage and divorce. Israel's concept of citizenship, based on serving as a haven for all Jews, is hopelessly outdated. Above all looms the Palestinian issue. Foreign pressure on Israel may have subsided, but 4.5m demoralised and divided Palestinians live in Gaza and the West Bank.

The good news is that Israel still has plenty of scope to develop its economy, particularly if it can find ways to integrate the groups that have been left behind. The bad news is that Mr Netanyahu, who has based his electoral success on divisive politics and the fear of Arabs, shows little inclination to use Israel's moment of advantage to seek a lasting peace with Palestinians.

United States

The Department of Justice

Donald Trump wants tough justice—with one exception

He is testing Jeff Sessions's tolerance for pain

May 17th 2018 | WASHINGTON, DC

IN 2015 Jeb Bush, who was competing with him for the top job, warned that Donald Trump would be "a chaos president". In many respects he has been proved right. President Trump has failed to keep many of the promises he made on the campaign trail. The White House leaks like a colander. The administration has suffered rapid staff turnover while weathering scandal after scandal. Mr Trump often appears capable of remaining on-message for no more than 280 characters.

But ineptitude and inconsistency are not quite the same as inaction. Mr Trump is transforming the federal government—and one department in particular. With Jeff Sessions, the attorney-general, he has radically reoriented the Department of Justice (DoJ), undoing many changes made under his predecessor, Barack Obama. At the same time, he has relentlessly attacked Mr Sessions and the department for failing to protect him from

Robert Mueller, the special counsel charged with investigating alleged links between Russia and Mr Trump's campaign. The DoJ is both comprehensively Trumpified and deeply irksome to Mr Trump.

Though changeable in many ways, Mr Trump has consistently approved of harsh punishment and disliked due process. In 1989, after five black and Hispanic teenagers were accused of raping a white woman in Central Park (wrongly, it turned out), Mr Trump took out full-page advertisements in four New York papers that screamed, "Muggers and murderers should be forced to suffer, and, when they kill, they should be executed for their crimes." After a terrorist attack in New York, he called for "quick…strong justice". He believes America's method of prosecuting terrorists—gathering evidence and building a provable case—to be "a joke, and…a laughing stock".

He also believes that America is beset by violent crime. At a meeting with sheriffs in February 2017, Mr Trump claimed that America's murder rate "is the highest it's been in 47 years". In fact, murder and crime in general are much rarer than they were in the 1990s. In 2016 just 21.1 per 1,000 people over the age of 12 reported being victims of violent crime, around one-quarter of the 1993 figure. In Mr Trump's home town of New York, crime has fallen for 27 straight years, to levels not seen since the 1950s.

And throw away the key

Mr Obama took advantage of falling crime rates to make American criminal justice a little less punitive. His Justice Department allowed prosecutors to bring lesser charges against some drug offenders to avoid triggering mandatory-minimum sentences, and let them decline to prosecute non-violent marijuana offences if they complied with state law (marijuana is illegal under federal law, but several states have legalised it). Mr Obama called for an end to mandatory-minimum sentences and cut or commuted the sentences of nearly 1,400 people, most of whom were imprisoned for drug-related crimes. The federal prison population was smaller when he left office than when he entered—something no president had achieved since Jimmy Carter, four decades ago.

Mr Sessions, who as a senator was a fierce drug warrior and opponent of criminal-justice reform, has sharply reversed this course. In May 2017 he directed federal prosecutors to "charge and pursue the most serious, readily provable offence." Last January he rescinded the previous administration's guidance on marijuana, which he has called "only slightly less awful" than heroin. (In 2016 opioid overdoses killed more than 42,000 Americans; marijuana overdoses killed none.) These policies are likely to send more people to jail. Yet Mr Sessions's budget aims to cut prison staff. His prison bureau wants to boost the populations of private jails—another reversal from practice under Mr Obama.

Another of Mr Trump's core beliefs is that too many of the wrong sort of people are voting. After the election he claimed, without evidence, that "millions of people voted illegally". Since he took office, the Department of Justice's voting section has not filed a single voting-rights case. The department has, however, sent letters to 44 states inquiring about the accuracy of their voter rolls—something many fear implies a green light for states that want to make it harder for people to vote.

In two current voting-rights cases, the DoJ reversed its position after Mr Sessions took over. In February 2017 it decided that Texas's strict voter-ID law was not enacted with discriminatory intent. Last August it sided with Ohio, which had purged its rolls of voters it deemed insufficiently active. The Obama administration, along with several civil-rights groups and a federal appellate court, believed the purge violated federal law. Agencies' priorities often change, but a 180-degree shift in an ongoing case—as one longtime voting-rights lawyer puts it, "one day saying the law means X, and the next saying it means not X"—is unusual.

The department has also reversed its position on civil-rights protections for gay and transgender people. In 2014 Eric Holder, then the attorney-general, issued a memo determining that federal protections against workplace discrimination based on sex also applied to "gender identity, including transgender status". Mr Sessions revoked it. This runs counter not just to the Obama administration's position, but to a long-standing, bipartisan trend of expanding civil-rights protections. Both Bushes, for instance, expanded federal protections for the disabled.

Morale in the department has crashed. One lawyer who left in 2017 says that staff were instructed "to scrub words like 'reform'" from their writing, because “anything that smacked of reform was too closely aligned with the previous administration”. Lawyers provided copious evidence that changes in sentencing had not caused violent crime to rise, but “it was like shouting into a vacuum,” says the lawyer. Fewer staff are now inclined to work late nights or at weekends.

Mr Trump’s attacks on the department do not help. He seems to think of the agency as part of his operation, as though he has been elected chief executive of America and the DoJ is the company’s legal department. It follows that, in failing to protect him from Mr Mueller, the department is not doing its job. He has never forgiven Mr Sessions for recusing himself from Mr Mueller’s investigation, and believes he has “the absolute right to do what I want to do with the Justice Department”.

This contravenes long-standing norms, under which a president appoints an attorney-general and other top officials, then sets general policy direction, but otherwise respects the department’s independence—and certainly does not intervene in investigations. Susan Hennessey, a fellow at the Brookings Institution and former lawyer for the National Security Agency, believes the president “has no reference to the DoJ as an institution that has to be defended—it’s entirely personal for him”. The DoJ’s independence, and the rule of law that independence protects, are not features of the American system to Mr Trump; they are pesky inconveniences.

Yet the department has stood more or less firm against attacks from Mr Trump and his congressional supporters. House Republicans threatened Rod Rosenstein, the deputy attorney-general, who is overseeing Mr Mueller’s investigation, with impeachment for failing to surrender documents they wanted. Mr Rosenstein retorted that the Department of Justice “is not going to be extorted”, and is said to have told friends that he is ready to be fired.

As for Mr Sessions, Ms Hennessey posits that he puts up with periodic threats and public humiliation because he has an alternative agenda. As long as he is able to roll back criminal-justice reforms, reinstate mandatory-minimum sentences and stiffen punishments for marijuana dealing, she suggests, “he seems to have decided that this is a bargain worth making”. But, as with his boss’s efforts to undermine law enforcement, it is also a bargain for which America will pay.

Politics

California's primaries are the most unpredictable in America

As usual, the golden state leads the way

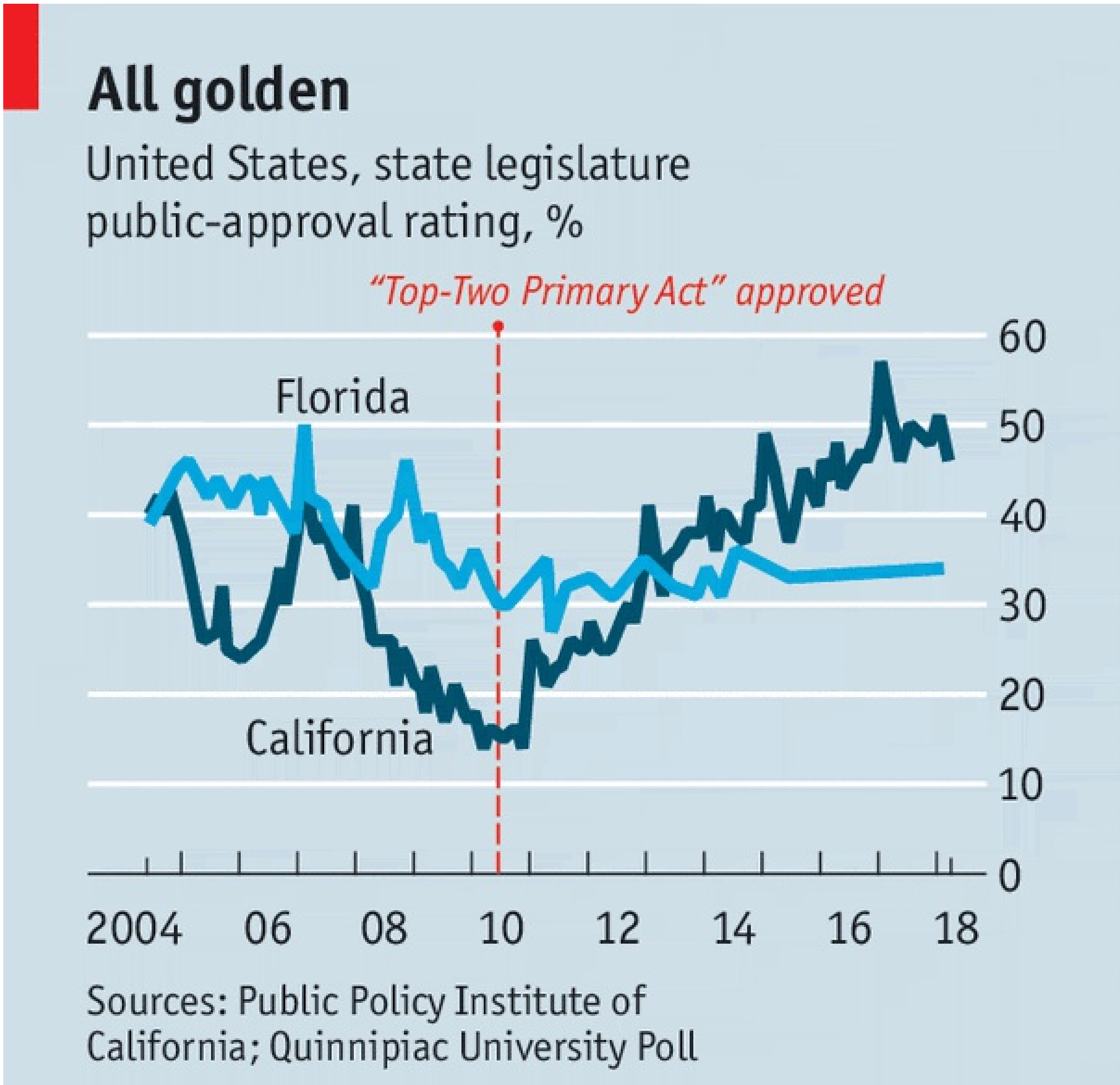
May 17th 2018 | LOS ANGELES

LOTS of things come with warnings in California. Signs in parking garages admonish drivers that they could be exposed to carbon monoxide gas. Recently a judge ruled that coffee-sellers must warn of cancer. Voting instructions also come with an alert. Under a bold exclamation mark, a mail-in ballot insert sent to Los Angeles voters in anticipation of California's primary elections on June 5th reads: "There are 27 candidates for governor" and "There are 32 candidates for US senator", adding: "If you vote for more than one candidate, your vote will not count for that contest."

In many states, primary elections are simple affairs. Voters who are registered with a party pick a champion from their side to contest the general election. But in 2010 Californians approved a "top-two" primary system, in which all voters receive the same ballot and can choose anyone they like. The two most popular candidates move on to the general election.

Eight years ago California was notorious for its extremely left-wing Democrats, its extremely right-wing Republicans and its political paralysis. The few moderates, such as then-governor Arnold Schwarzenegger, championed primary reform as a way to empower centrists. In theory, top-two primaries encourage candidates to appeal to lots of voters, not just the ideological purists who turn up for ordinary primary elections. Constituency boundaries and term limits were altered at about the same time.

The results have been mixed. California's legislature is more popular than it was (see chart). On the other hand, just 18.4% of eligible voters voted in the primaries of 2014, the first non-presidential election year since the reform was enacted, down from 24.1% in 2010. A study last year by Eric McGhee, a researcher at the Public Policy Institute of California, and Boris Shor, a political scientist at the University of Houston, examined the ideologies of candidates before and after top-two primaries were introduced in California and Washington state. Evidence of moderation in both states was "modest and somewhat inconsistent", they decided.



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One clear result of top-two primaries is that they have led to non-partisan general elections. That happened in 2016 when Barbara Boxer retired, leaving open her seat in the US Senate. Kamala Harris, a Democrat, went on to defeat Loretta Sanchez, a fellow Democrat. This year's governor's race may set Gavin Newsom, a Democrat and former mayor, against Antonio Villaraigosa (ditto).

The reform now threatens to produce weird results. When many Democratic or Republican candidates pile into a race (as Democrats in particular are doing this year) they threaten to split the party vote and allow two finalists from the other side. So parties put pressure on their own candidates to drop out. Sometimes they go for the other side. In the election to replace Ed Royce, a Republican congressman for California's 39th District, Democrats have begun airing advertisements attacking relatively weak Republican candidates. They hope to ensure that the front-runner, Young Kim, is the only Republican to reach the general election. The Democratic Congressional Campaign Committee is using similar tactics in several other races across the state, where the stakes are high. They need to flip 23 seats in November's midterms to reclaim control of the House of Representatives. Ten of the races deemed competitive by the Cook Political Report, a political newsletter, are in California—the most of any state.

"We tried to warn people that this was a bad idea," laments Bruce Cain, a political scientist at Stanford University. "But all you have to do in California is wave the flag of reform and people say: 'Yay! Good idea! Reform!'"

For bettor, not worse

The Supreme Court lets Americans lose money in a new way

The decision might also improve sport in Las Vegas

May 17th 2018

AMERICANS love gambling. Nearly two-thirds of adults place some sort of stake each year, and about one-tenth visit Las Vegas to try their luck. Some even bet on whether the Supreme Court would strike down the Professional and Amateur Sports Protection Act (PASPA) of 1992, which prohibits most sports gambling in states other than Nevada. On May 14th the justices ruled in favour of New Jersey, which violated the act in 2014 by legalising such wagers. Chris Christie, a former governor, had argued that PASPA represented an unconstitutional federal infringement.

The new precedent could have broad implications, perhaps making it harder for the federal government to impose other laws, such as those covering drugs and immigration. For now, it ends America's stint as the only rich country that prevents most sports fans from betting. Each state will now decide whether to permit it. New Jersey will do so quickly. Pious states such as Utah may never do so. Chris Grove of Eilers and Krejcik Gaming, a research firm, forecasts that 32 states will have some form of regulated betting by 2023, handling about $90bn of wagers a year—compared with $4.9bn in Nevada today.

Congress introduced the law at the behest of major sports leagues, who worried that gambling encouraged match-fixing. That spectre has loomed over American competitions since 1919, when the Chicago White Sox deliberately lost the baseball World Series. But times have changed. Athletes' rocketing salaries have made bribes less appealing. Fans can place bets with offshore bookmakers and gamble on their favourite players in fantasy sports leagues, which received a legal exemption in 2006 and handle about $3bn in entry fees a year. A recent poll found that only one in three Americans opposes the legalisation of sports betting.

America's major leagues at first sought to halt Mr Christie's plan in court. But they have since realised that gambling's rewards outweigh its risks. The National Basketball Association (NBA) reversed its position in 2014. Along with Major League Baseball, it is greedily lobbying for a 1% "integrity charge" on legal wagers. The National Football League (NFL) and National Hockey League (NHL) will probably come round in time.

The leagues are not the only winners, notes Darren Heitner, a sports lawyer. Fantasy firms have been preparing fully fledged betting products. Shares in foreign bookmakers like Paddy Power Betfair and William Hill have risen. Punters may show more interest in less glamorous matches, which would boost ratings for televised sport. Betting firms are likely to advertise on television and try to sponsor teams. States could gain extra revenue by taxing bookmakers—but should be wary. Set rates too high, and punters are likely to be pushed onto the black market. Americans currently wager about $50bn-60bn a year using illegal services, says Mr Grove, though the vast majority now use offshore websites rather than shady neighbourhood bookies.

Nevada is unlikely to suffer much. Just 2.5% of its earnings come from sports betting. And America's big sporting leagues are increasingly willing to move franchises to Las Vegas, which is part of a metropolis of more than 2m inhabitants. They had shunned it for years, citing the corrupting temptations of sports gambling. The NHL's Golden Knights, the city's first big team, are enjoying a remarkable debut season, having reached the playoff semi-finals. The Raiders, an NFL franchise, will arrive in 2020. The NBA could be next. Sin City is losing a monopoly on one of America's vices, but gaining a share in its favourite pastimes.

Working for it

How the Trump administration is reshaping Medicaid

Republican-led states are using waivers to impose work requirements for the first time ever

May 17th 2018 | WASHINGTON, DC

AMERICAN lawmakers are acutely afraid of rewarding the loafing poor. For that reason, Congress has set strict work requirements on federal food assistance and cash welfare. The Trump administration is now steadily doing the same for Medicaid, as America's health-insurance programme for the poor is known. On January 11th the Centres of Medicare and Medicaid Services (CMS) issued a memo inviting states to apply for waivers that would include "work and community engagement requirements" on the theory that this would both improve health and help families "rise out of poverty and attain independence". Ten states, all Republican-led, quickly took up the offer. Michigan, another Republican-controlled state, has contemplated a waiver of its own which would impose some of the strictest work requirements yet seen. The impetus is less financial than moral—an attempt to sort the deserving poor from the chaff.

The state proposals to reform Medicaid are fairly similar. Exempting the pregnant, disabled and others, all adults would have to work, volunteer or undergo job training to continue receiving benefits. Kentucky, the first to send a plan to CMS, set the minimum at 20 hours per week. Michigan had proposed 29 hours per week. After one warning, those who failed to meet the requirement would be locked out of coverage for a year.

The most controversial portion of Michigan's plan would exempt counties with high unemployment rates, defined as 8.5% or higher, from the work requirements. Only 17 rural counties, with a total population that is 91% white, would have reached the threshold. The residents of struggling cities like Flint and Detroit, which have high unemployment rates and are disproportionately black, would not have qualified because surrounding counties are better-off. "Lot of folks that really need health care would lose it," says Jim Ananich, a state senator from Flint.

The exempt counties are reliably Republican outposts, so currying favour with constituents is a likelier explanation than outright racial animus. "It was an honest effort to recognise that across the state there are variations in the ability to get jobs. There was no thought given to the R-word on this," says Mike Shirkey, the Michigan state senator sponsoring the Medicaid legislation. Yet the effort has an unpleasant, and familiar, smell. Martin Gilens, a political scientist at Princeton University, has shown that antipathy towards welfare in the 1990s was driven by hostile attitudes toward blacks, who were thought of as lazy and undeserving.

A costly point

Though the unemployment provision was in the bill that passed the state Senate, the House could well strip it out before the governor, Rick Snyder, signs the bill, according to Mr Shirkey. To hurry Mr Snyder along, the state Senate also passed a budget which would suspend the salaries of top health officials if the Medicaid reforms are not speedy enough.

The plans seem likely to reduce the number of beneficiaries. Kentucky estimates that its rolls will shrink by 15%. Michigan's legislative research staff suggest similar effects. But state bureaucracies will have to spend dizzying sums to create the infrastructure to monitor how much work people do. Kentucky will pay $374m to launch the plan—a higher cost than simply keeping the original one. Asked about the cost savings, Matt Bevin, the governor, said that he did not know, “nor do I care”. Saving money “wasn’t the intent” of the Michigan proposal either, says Mr Shirkey.

Americans on Medicaid are not merely poor. They are profoundly poor. Even after Obamacare’s expansion, a family of three would have to make less than $28,676 a year to qualify. The Brays, living in Ypsilanti, Michigan with their seven-year-old daughter, are one such family. Both are self-employed—Mr Bray as a metalworker and Mrs Bray as a weaver, primarily of baby wraps. The pending reform has left them worried. “I really have no idea how they are going to expect self-employed people to validate their hours. Are we exempt or are we excluded from Medicaid?” says Mrs Bray. “It would either be a lot of paperwork, or I would lose health care.”

Midwestern politics

Missouri’s governor is likely to be impeached

It could have been worse

May 17th 2018 | CHICAGO

ERIC GREITENS, who fired a machine gun and posed with an assault rifle in 2016 to advertise his love for gun rights, appears to have dodged a bullet. On May 14th, with jury selection under way, prosecutors in St Louis announced they were dropping an invasion-of-privacy charge against Missouri’s Republican governor. “This is a great victory, and it has been a long time coming,” said Mr Greitens afterwards. Yet his tribulations are only beginning. On May 18th the state House will meet for a special session to ponder the governor’s removal from office.

On January 10th a television station in St Louis broadcast a recording of a phone call between Mr Greitens’s mistress, who was his hairdresser, and her former husband. In the course of it she alleged that the governor blindfolded her half-naked in his basement, then took a photograph that he threatened to make public if she told anyone about him. In February prosecutors charged

Mr Greitens with invasion of privacy, related to the photo. (No photo was found, which is partly why the case collapsed.) A special investigative committee of the House, five Republicans and two Democrats, subpoenaed the hairdresser to testify under oath and found her a credible witness. In April it published pages of excruciating details of her encounters with the governor, including allegations of spanking and non-consensual sex. Mr Greitens admits the relationship but denies blackmail and violence.

The governor is also facing a charge of tampering with computer data, which is a felony in Missouri. According to another report by the committee, he allegedly illegally obtained the list of donors of Mission Continues, a charity for veterans he founded, in order to raise money for his campaign in 2016. The report alleges that the governor lied in campaign filings and broke campaign-finance laws. He denies wrongdoing; the case may go to trial.

Mr Greitens has become exceedingly unpopular in the upper echelons of his own party, which has a supermajority in both House and Senate. Lawmakers voted unanimously to set up the investigative committee. Four-fifths of them voted for a special session to consider the governor's impeachment. Most Republican legislators say they want him gone—and fast. John Hancock, a former state chairman of the party, says he is convinced that Mr Greitens will be impeached but would much prefer him to resign, because of the damage he is doing to Republicans as midterm elections approach.

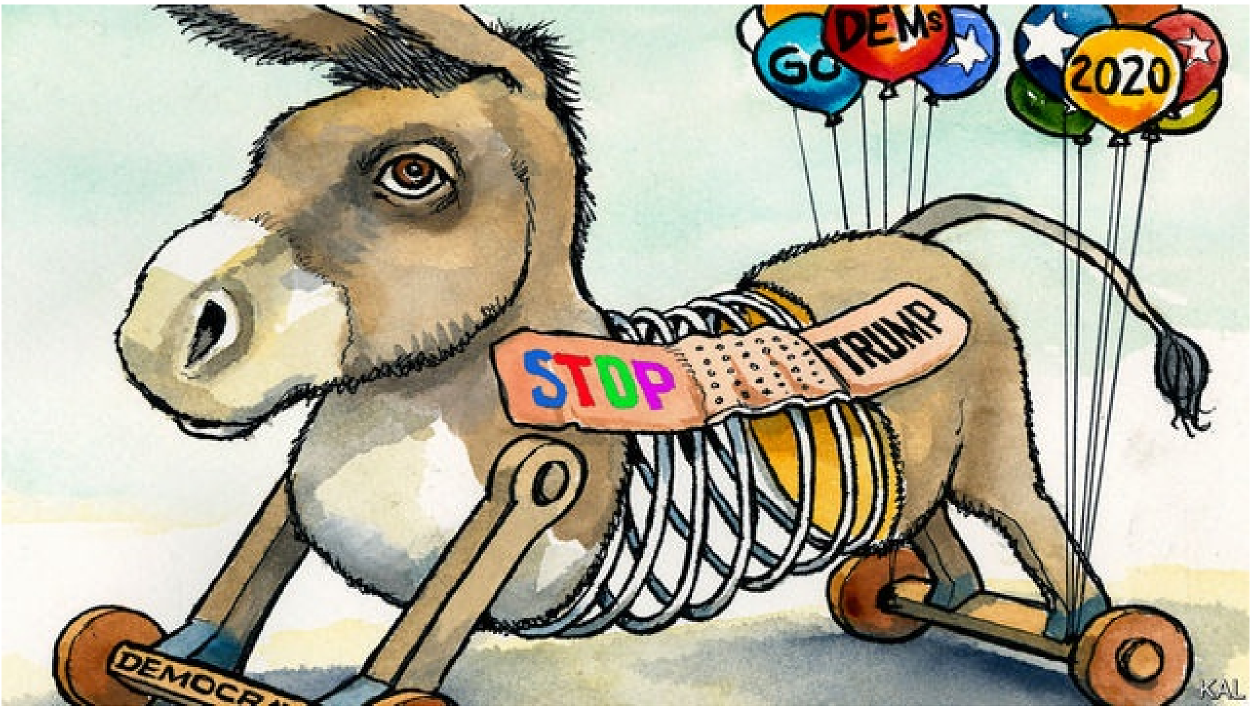
Only seven American governors have been impeached, none in Missouri. If the House votes to do so (by a simple majority), the Senate will appoint seven judges to hold a trial. Missouri's constitution says elected officials can be impeached for "crimes, misconduct, habitual drunkenness, wilful neglect of duty, corruption in office, incompetency, or any offence involving moral turpitude or oppression in office". These offences are elastic, points out Frank Bowman of the University of Missouri School of Law. What exactly, for example, is "moral turpitude"?

Yet the salient question is whether the governor can be indicted for his behaviour before he took office, as is the case with the affair and the alleged breaches of campaign-finance laws. "The constitution is ambiguous on that point," says Michael Wolff, a retired judge of the Missouri Supreme Court. If Mr Greitens were facing federal impeachment, with senators rather than judges in charge of the trial, he would be shown no mercy. The eminent justices may be no softer on him.

The state of the opposition

Democrats have plenty of anger, but few good ideas

It might not be a problem—until they get into power



May 17th 2018

IN SEARCH of a quiet spot to conduct interviews at the Centre for American Progress's Ideas Conference in Washington this week, Lexington found a space outside the gender-neutral bathroom. This seemed doubly appropriate. The conference, an important gathering of the Democratic establishment, reflected how thoroughly the party has embraced liberal causes in recent years. The panel discussions on race, women's power and "Moving LGBTQ equality forwards" drew the biggest disapproving tuts and whoops of excitement all day. But it also seemed notable, for those who wonder whether such base-rallying tactics can bring the Democrats back from the wilderness, that even in this impeccably progressive company there was little demand for the gender-neutral facilities.

The gathering did acknowledge the economic anxiety that helped drive millions of working-class whites from the Democrats to Donald Trump in

2016. Sherrod Brown, a gravel-voiced senator from Ohio, which Mr Trump won thanks to huge support from unionised workers, helped kick things off. "The economy is where the motor" of Democratic policymaking is, said Senator Amy Klobuchar of Minnesota, another of the dozen Democratic senators and governors with presidential ambitions making an appearance. The CAP, a think-tank launched in 2003 as a riposte to George Bush, also released a sheaf of policies aimed at low-skilled workers, including boosts to child care and infrastructure. Yet such familiar ideas mainly illustrated how little the Democrats have learned from their electoral wipeout in 2016.

There was more to that failure than Hillary Clinton's incoherence or Donald Trump's race-baiting. The Democrats lost the presidency to the most unpopular opponent they had ever faced. The centre-left, to be sure, is losing to right-wing populists wherever globalisation has caused factories to close—yet the Democrats' defences were too weak. Their dedication to minority causes, though admirable, looked out-of-touch when paired with a relative unconcern for struggling whites. Mrs Clinton's uninspiring incrementalism made that relative disregard seem absolute. Perhaps worse, considering the defining place it occupies in American debate, the Democrats failed to think critically about the issue that divides conservatives and progressives most, the role of government. Endlessly pushing publicly-funded solutions that Americans find unsatisfactory has made them the party of bad government. That is why the initial failure of Obamacare's website, though a lesser matter than the 20m uninsured people covered by the reform, was so devastating to its reputation.

The Democrats' response to 2016, which mixes day-to-day resistance to Mr Trump with a pro forma commitment to do better, shows little serious reflection on any of that. "There's still a feeling that if we just redistribute wealth, everything will be all right," says Senator Mark Warner of Virginia. "We haven't reckoned with 2016, we haven't changed our approach at all," says Senator Michael Bennet of Colorado. The Ideas summit, at which neither lawmaker appeared, supported their analysis. Most of the presidential hopefuls spoke powerfully, but on predictable issues. Senator Kirsten Gillibrand spoke on women; Senator Cory Booker, an appealing if slightly plaintive talent, on inequality; Senator Bernie Sanders was supposed to speak on criminal justice, but reprised his stump speech on the "oligarchy in this country, whose greed is insatiable”. Only Senator Elizabeth Warren, in remarks on shoring up democracy, notably extended her range.

The new ideas on offer mostly involved swelling the size of a government which the Republicans’ latest tax cut has made even more unaffordable than it was. There was no attempt to grapple with the political traps Mr Trump has created for the party. There was, for example, no re-examination of the Democrats’ questionable support for “sanctuary cities” or their opposition to a border wall that looks like a $25-billion extravagance but not worth dying in a ditch over. Indeed there was hardly any discussion of immigration, perhaps the defining issue of the 2016 election.

The unhappy truth is that most Democrats don’t think they need new ideas to defeat Mr Trump and his party. And they may well be right. The vote in 2016 showed how irrelevant ideas are to winning elections. Mrs Clinton had plenty, Mr Trump had almost none. Yet just enough voters in swing states were willing to believe he had their backs to see him home. “There is no evidence good ideas are better for winning elections than bad ideas,” says Lee Drutman, a political scientist at New America, a think-tank. So long as the Democrats can find less objectionable candidates than Mr Trump, for the mid-terms and the 2020 general election, they will probably do well. But a party intent on attacking the root causes of Americans’ dissatisfaction should aim higher.

Here are three reasons why fresh thinking is needed on the centre-left. First, moderate Democrats need better arguments to explain why the all-government solutions preached by Mr Sanders are not merely unaffordable but bad. There is otherwise a risk they will mistake seething anti-Trump resistance with a desire for Mr Sanders’s similarly fervent pitch. Second, even if the Democrats could reclaim power with a divisive Sandernista agenda, they could not implement it. The reality is that neither party can bring big change without some support from the other. Hence, Barack Obama’s executive record has been easily shredded by the Republicans, and they now struggle to pass laws.

Change no one should believe in

The third, overarching, reason is that the contempt voters feel for both parties is grounded in those failures. To mitigate their disdain will above all require much better government. The Democrats trying out presidential pitches all seem to want that: their shortcomings are not to be compared to Mr Trump’s cynicism and greed. Yet they are some way from suggesting the requisite turnaround in Washington is a realistic prospect.

The Americas

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A police-state poll

As Venezuelans go hungry, their government holds a farcical election

The danger to Nicolás Maduro's rule begins after election day

May 17th 2018 | CARACAS

IF VENEZUELA were a democracy, President Nicolás Maduro's bid to win re-election would certainly fail. He leads a regime that has been in power for 19 years. Its economic policies have made life intolerable for most of the country's 34m citizens. Food is in short supply, and nearly 90% of Venezuelans say they do not have enough money to eat properly. The contraction of the economy is the biggest in the history of Latin America. Prices are doubling nearly every month. At least a million people have left the country in the past four years.

Yet almost nobody thinks the president, who looks as well fed as ever, will lose the one-round election scheduled for May 20th. At rallies of loyalists and dragooned state workers held in barricaded streets, Mr Maduro talks of getting 12m votes, even more than Hugo Chávez, the charismatic founder of Venezuela's "Bolivarian revolution", who died in 2013. To suffering voters he promises relief. “I am ready to make a change,” he said on May 11th.

The fact that few voters believe him does not matter. The “independent” electoral commission is a puppet of the regime. After regional elections last October, it refused to investigate evidence of fraud. Smartmatic, the company based in Britain that supplied Venezuela’s voting machines, has withdrawn its staff. It said that results in a vote last July for a new “constituent assembly”, whose main purpose is to circumvent the opposition-controlled legislature, had been “manipulated”.

But Mr Maduro may not have to steal the election on the day to win it. The regime has arrested the most prominent leaders of the opposition or banned them from politics. Others are in exile, leaving the opposition leaderless, divided and demoralised. Little is left of the hope and fury that animated protests against the regime last year, in which at least 163 people died.

In last year’s regional elections the government placed booths at polling stations where voters were required to renew their electronic “fatherland cards”, which entitle them to receive subsidised food. Nearly 70% of the population gets such subsidies. Mr Maduro is again suggesting that the government will exchange food for votes. “Whoever goes to vote with their fatherland card is going to get a big prize from the country, because we give and give,” he said on May 14th.

Henri the hopeful

Talks aimed at establishing conditions for a fair election between the regime and the Democratic Unity roundtable (MUD), the main opposition grouping, broke down in February. Most opposition parties then decided to boycott the vote. They have international support. The “Lima group” of 14 countries, including Brazil, Colombia, Mexico and Canada, has said it will not recognise the election result. Mike Pence, the United States’ vice-president, has declared the election “fake”. Even the election date, set by Mr Maduro, points to its spuriousness: his term ends in January. In countries where incumbents could lose, they do not linger in office for nearly eight months.

Mr Maduro faces enough opposition to provide the illusion of a real contest. Henri Falcón, a former ally of Chávez who then became an opposition governor of Lara, a north-western state, broke ranks with the MUD to run against the president. Another challenger is Javier Bertucci, an evangelical pastor who draws huge crowds to rallies with the offer of free soup.

A recent poll by Datanálisis suggests that Mr Falcón should win. It puts his support at 28% of registered voters. Mr Maduro and Mr Bertucci are roughly even at 17% each. Mr Falcón's chances depend on anti-Maduro voters overcoming their sense of hopelessness to turn up at the polls. That is unlikely to happen, especially without the backing of parties in the MUD. A poll last month by Datincorp suggests that 38% of the electorate will not vote.

Boycotters say Mr Falcón is giving legitimacy to a fraudulent election and undermining international condemnation of it. He denies doing this. He says he had no hesitation in putting his name forward. "Every authoritarian, neo-dictatorial regime is fraudulent by nature, but can be defeated," he says. "Today the conditions are in place, like never before, in favour of a political change in Venezuela." Mr Falcón cites as a precedent the referendum called in 1988 by Augusto Pinochet, Chile's dictator, to extend by eight years his 15-year rule. Pinochet lost.

Mr Falcón hopes to improve his chances by exploiting divisions within the government. He has offered to govern with pragmatic members of the regime who see the need for taking steps to avert economic and humanitarian disaster.

His economic adviser, Francisco Rodríguez, a former Wall Street banker, proposes replacing the debased bolívar with the dollar to end hyperinflation and the economic slump. To work, dollarisation would have to go along with cuts to the massive budget deficits that cause inflation and with help from international bodies such as the IMF.

Mr Maduro's proposal for dealing with hyperinflation is simpler: just knock three zeros off the bolívar. He says the new "sovereign bolívar" will replace the "strong bolívar" on June 4th.

He will probably stay president long enough to make this happen. But threats to his rule are mounting. Oil production by state-owned PDVSA, practically the only source of foreign exchange, has dropped by 30% since 2014 because of incompetent management and inadequate investment. The United States bars American investors from accepting new debt from PDVSA and the government in exchange for bonds on which they have defaulted. Bondholders are preparing to take legal action against both debtors. In April the International Chamber of Commerce awarded $2bn to ConocoPhillips, an American oil company, to compensate for the nationalisation of its operations in Venezuela in 2007. The American firm has begun to seize PDVSA's oil stored in the Caribbean.

Cracks within the *chavista* government are widening. The former ambassador to the UN (and head of PDVSA) and the former attorney-general are in exile. They accuse Mr Maduro of corruption and crimes against humanity. Most of his main advisers are subject to sanctions by the United States and the European Union for drug-trafficking or undermining democracy. These could become harsher and target more people. The government has jailed some 60 officers in the army, whose support is vital to the regime's survival. The charge, it is thought, is that they plotted against it. On May 11th the president of neighbouring Colombia, Juan Manuel Santos, predicted that "a change in the regime" will happen "very soon". That could open the way to the sort of hybrid government that Mr Falcón envisages.

Mr Maduro has surprised people who wrote him off as a bumbling heir to the clever, charismatic Hugo Chávez. His vivisection of the opposition and ruthless exercise of power have put him in position to win re-election, despite a record of governance that would destroy most presidents. But he cannot defy for ever the laws of economics or the international coalition ranged against him. His victory on May 20th may be not only fake, but fleeting.

Against graft, for growth

Peru’s new president, Martín Vizcarra, explains his plans

Mr Vizcarra sounds a pragmatic note in an interview with The Economist

May 17th 2018 | SAN JOSÉ DE LOURDES

THE narrow streets of San José de Lourdes, on Peru’s border with Ecuador, were jammed on May 10th for a once-in-a-lifetime event. Martín Vizcarra (pictured) was the first president of Peru to visit the sweltering town, which was founded nearly 75 years ago and then, it seems, promptly forgotten. “We are taking a look at the entire country, focusing attention right now on areas that have been abandoned by the state,” he told *The Economist* in his first interview with a foreign newspaper. “This zone fits that description.”

Schools in San José de Lourdes lack windows and running water. No doctor has visited the health clinic in three years. The poverty rate of around 60% is nearly three times the national average. Cars cross the Chinchipe river on a pulley-drawn platform, sometimes waiting days for passage. The town’s previous mayor is in prison on corruption charges.

Mr Vizcarra's visit is part of a frenetic travel schedule that he began after his unexpected elevation to the presidency in March. He heads to the countryside at least once a week. In Lima, the capital, he shows up unannounced at schools and hospitals. Part of the point is to show that he is nothing like his predecessor, Pedro Pablo Kuczynski, who resigned to avoid impeachment in a conflict-of-interest scandal. The former president is urbane, polyglot and out of touch. Mr Vizcarra, an engineer by training, is "provincial and proud of it", says John Youle, a consultant in Lima.

The new president has two priorities. The first is to restore Peruvians' faith in government and democracy, which has been weakened by Mr Kuczynski's scandal and by allegations or charges against four other former presidents. "We need to rebuild trust by showing that public management can be done transparently and honestly," says Mr Vizcarra. His second goal is to boost economic growth, which is too slow to continue the recent progress Peru has made in reducing poverty. In 2017 GDP growth dropped to 2.5% from 3.9% in the previous year and the poverty rate increased. The government has cut its forecast for growth this year from 4% to 3.6%. With more public and private investment, "we will expand the economy, create jobs and fight poverty," he promises.

Though keen to show that he understands people's problems, he does not offer quick and easy solutions for them. In San José de Lourdes he spurned a waiting pickup truck to walk from site to site, cuddled a newborn baby at the clinic and placed a cornerstone for a bridge across the Chinchipe. But to pupils who lobbied for computers at their school he counselled patience. "Before we can think about computers, we have to provide water, electricity [and] bathrooms," he told them.

His message seemed to be getting through. "It is nice to hear a politician talking about real things and not just making promises," says Jenny Tello, a teacher. "It will be a big change if he governs like this."

That will not be easy. The biggest party in congress is Popular Force, led by Keiko Fujimori, the daughter of a former president, Alberto Fujimori, who was jailed for human-rights crimes. Her implacable opposition to Mr Kuczynski helped topple him. The new president must get on better with her. Some well-wishers fear that Mr Vizcarra, a micro-manager with little national experience, will be hamstrung by *fujimoristas* intent on preventing the institutional reforms he hopes to make. “We are going to talk to all parties and leaders to show Peruvians that the country comes before us,” he says.

On May 2nd congress gave his cabinet a vote of confidence. The government has asked congress for decree powers in six areas, including taxes, political reform, infrastructure and corruption. One proposal is to publish the banking and tax records of any candidate for public office.

A new “public-integrity office” under the prime minister, César Villanueva, will oversee anti-corruption policies. Part of its job will be to implement 100 anti-graft recommendations from a body set up by Mr Kuczynski who, to the chagrin of campaigners, largely ignored them.

To counter the slowdown in economic growth Mr Vizcarra hopes to unblock some $10bn of private investment, much of it in mining projects stalled by farmers and environmental groups. “Peru is a mining country, but we need to do things differently from the past,” he says. That means creating “consensus around advantages and benefits” of projects. Mr Vizcarra can claim to have done this before. As governor of Moquegua, a southern department, from 2011 to 2014, he “knocked mayors’ heads together” to advance the planned Quellaveco copper mine, says Mr Youle.

Mr Vizcarra, who says he will not run for re-election, has just three years to convince voters that a moderate president can clean up government and revive social and economic progress. If he fails, Peru’s sour-minded voters may offer the next chance to someone less committed to pragmatism and democracy.

Bello

Why Argentines are wrong to scapegoat the IMF

They themselves are mainly to blame for their economic plight

May 17th 2018

IN THE early months of 2002 Argentines were gripped by rage, fear and a deep sense of loss. They had suffered years of austerity and slump and finally the *corralito*, in which the government halted a run on the banks by barring savers from withdrawing their money. None of this could save "convertibility", as Argentines called an arrangement under which the peso had been pegged at par to the dollar since 1991. As four presidents came and went in a week over Christmas 2001, Argentina devalued and defaulted on $82bn of bonds, the largest sovereign default in history. Incomes plunged, unemployment soared and the poverty rate rose to 56% in a country that a century before had been one of the ten richest in the world.

These events seared the Argentine soul. Many blame the IMF for them. That is why the decision by Mauricio Macri, Argentina's president since 2015, to counter a run on the peso this month by seeking a standby loan from the IMF, though economically sensible, is politically very risky. “We Argentines have a very bad collective memory of the fund,” said Miguel Ángel Pichetto, the leader in the senate of the opposition Peronists, in an interview with *Clarín*, a newspaper.

But are they right to fear the fund? Since the 1950s Argentina has repeatedly turned to the IMF to finance stabilisation plans that failed because of political resistance to the short-term pain involved. Today, when Argentines criticise the IMF for its role in the traumas of 2001 and 2002, they give contradictory reasons. They blame the fund both for backing convertibility and for pulling the plug on it.

Convertibility was a purely Argentine invention—by Domingo Cavallo, the economy minister under Carlos Menem, the president from 1989 to 1999. The IMF had qualms about it, but was won over when the scheme succeeded in killing hyperinflation and promoting rapid economic growth. Since convertibility meant forgoing exchange-rate flexibility and an independent monetary policy, fiscal discipline was all-important for its success. The fund was remiss in not objecting when Mr Menem tried to spend his way to a third term in the late 1990s, just when money was flooding out of emerging economies.

The fund’s second mistake was to be browbeaten by Mr Cavallo, brought back by Mr Menem’s successor, into giving a second loan to Argentina in 2001. Inevitably, the conditions attached to it included the austerity needed for the “internal devaluation” that convertibility required. It was clear to many that the country should have devalued and defaulted. After Mr Cavallo imposed the *corralito*, undermining his own programme, the fund refused to disburse the second tranche of that loan. Right to the end, convertibility was very popular. That is why many Argentines were shocked when the fund withdrew its support. “Argentina obeyed, but was punished,” Juan Carlos Volnovich, a psychoanalyst in Buenos Aires, said at the time.

In 2002 Argentines were angrier with their own politicians. “Society blames the political leaders for the situation, the main parties without distinction,” Cristina Fernández de Kirchner, then a senator, told this columnist in February of that year. Her husband, Néstor Kirchner, turned the fund into a scapegoat after he became president, initially with a weak mandate, in 2003.

Buoyed by a surge in world prices for Argentina's farm commodities, in 2005 he repaid Argentina's debts to the IMF early, accusing it of being "the promoter and vehicle of policies which provoked poverty and pain". That was unfair. The fund had not imposed convertibility. It was an accessory to, rather than the author of, those policies.

Argentines mainly have themselves to blame for their economic decline. Their governments rarely live within their means, as Mr Macri's aspires to. Ms Fernández, who succeeded her husband as president in 2007 and governed until 2015, resorted to inflation to avoid fiscal discipline. Argentines are historically unwilling to accept that the peso may be worth less than they would like. The central bank erred this year in intervening to try to prop up the currency, although it is overvalued. Armed with a prospective IMF loan, it now appears to be letting the currency depreciate, as it must.

Mr Macri's attempt to stabilise the economy gradually after Ms Fernández's populism was well intentioned. He bought time by issuing foreign debt. With the era of cheap money in the financial markets now ending, Argentina must speed up its adjustment to reality after the pretend economics of concealed inflation, parallel exchange rates and unaffordable subsidies. Argentines should come to understand that the IMF is their best hope of softening the blow.

Asia

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Vacuum power

Thailand's ruling junta is preparing to hold an election—and to win it

Political parties are not allowed to hold rallies, but the generals are

May 17th 2018 | BANGKOK

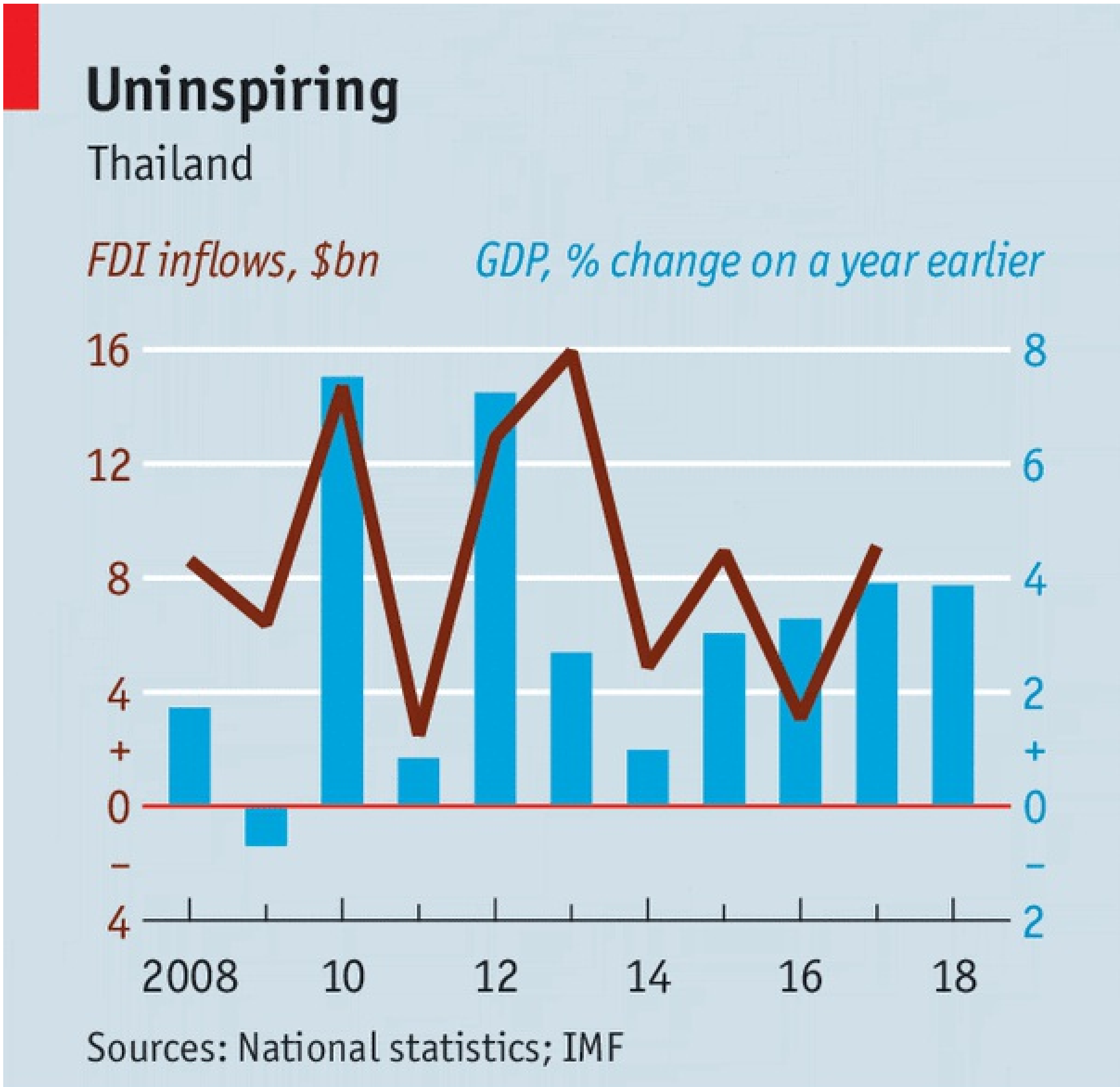
"I AM not a vacuum cleaner," Prayuth Chan-ocha, who heads Thailand's military junta, insisted last month. The general was responding to the accusation that he was trying to hoover up support from political powerbrokers in anticipation of the restoration of democracy. Nonetheless, he has been touring the country, addressing huge crowds in the company of local barons such as Newin Chidchob, from the populous north-east, who used to act as a political kingmaker before the military coup of 2014. The charm offensive comes ahead of elections currently scheduled for February, although delayed four times already. Mr Prayuth insists he will not support any particular party, nor run for office himself. But the constitution promulgated 13 months ago deliberately weakens existing political parties, and Mr Prayuth has been compounding their woes. The likeliest outcome seems to be a chaotic coalition, perhaps with Mr Prayuth, pretending to be surprised and reluctant, staying on as prime minister.

For almost 20 years Thai politics has revolved around a feud between the supporters of Thaksin Shinawatra, who served as prime minister from 2001 to 2006, and the traditional elites, represented by the army and the monarchy. The Thaksinites have won all six elections since 2001. When the army threw them out of office in 2006 and banned their party, they regrouped under a new banner and won the subsequent vote, in 2007. After the courts banned the new outfit (and Mr Newin defected from it), a third Thaksinite party won the next two elections. This time the army, although notionally committed to free elections, seems determined to make sure that voters are prevented from repeating their past mistakes.

A plague on both your houses

The new constitution, approved in a farcically circumscribed referendum, creates a National Assembly consisting of an appointed Senate with 250 members, to be picked by the generals, and an elected House of Representatives with 500 members. The system of proportional representation to be used in elections will diminish the power of big parties, compared with a first-past-the-post system.

The prime minister will be selected by a joint sitting of the two houses. With 250 senators in the bag, the junta's candidate would still need the votes of 125 members of the lower house to be selected, which explains both Mr Prayuth's barnstorming and the emergence of several parties backing the army or run by military men. But the generals' record is not impressive. They have presided over widespread human-rights abuses; economic growth is relatively wan; workers are burdened by high personal debt and foreign investors have been scared away. What is more, the new parties' lack of policy ideas means they will fail to win support, believes Prajak Kongkirati of Thammasat University.



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The obvious solution, from the generals' point of view, is to smother the existing parties. Section 44 of the interim constitution, which has been in effect since 2014, gives the junta the power to curb "any act which undermines public peace and order or national security, the monarchy, national economics or administration of state affairs". It has banned political activities, including gatherings of more than five people, and accorded itself the power to stop the publication of news it considers unconstructive or misleading. During April members of parties were supposed to declare themselves and pay 100 baht ($3.15) for a year's membership or 2,000 baht for life. The public clearly sees little point in signing up: just 80,000 of the 2.5m former members of the Democrat party, the country's oldest, chose to reconfirm their status.

To make life even harder for the politicians, a law passed last month bans policies that are intended to improve the government's popularity but that may cause long-term damage to the economy or society—a definition so sweeping as to encompass nearly any government decision. Mr Prayuth seemed to have forgotten about the rule, however, when appearing with Mr Newin at the "Thunder Castle", the stadium of a popular north-eastern football team (pictured above). Mr Newin said the region needed at least 10bn baht in government investment; Mr Prayuth duly promised to improve local infrastructure.

Preechapol Pongpanit, a Thaksinite former member of parliament, says other new rules block even the most basic forms of campaigning. "The best strategy for me to communicate with my people is to make a speech," he explains. But election speeches will be allowed only at venues managed by the Election Commission appointed by the junta, perhaps only during working hours. The generals' 20-year strategic plan, enshrined in law, binds future administrations to its development policies. The laws regulating MPs and senators, which have not yet been completed, may find ways to hamstring politicians further.

None of this has deterred new entrants. One of the most prominent of dozens of new parties is Future Forward, led by a 39-year-old car-parts magnate, Thanathorn Juangroongruangkit, who argues forcefully for a meaningful restoration of democracy. "There's no consensus in the country on how to move forward," he laments. Yet he says that during recent visits to the south and the obstinate north, a Thaksinite bastion, he encountered far more supporters than he expected, despite not being able to hold any rallies. His party has already had to satisfy elaborate rules regarding the distribution of its membership and branches around Thailand's 77 provinces, without holding any political meetings. More hurdles are doubtless under construction.

The junta has had four years to make its mark, as long as a democratically elected government would have. But it has ducked necessary reforms.

“They’ve run out of ideas,” says a foreign diplomat. The one area in which they have shown a little creativity is in keeping people who might do a better job than they do out of power.

Rumble in the jungle

Myanmar’s government sits by while the army goes on the offensive

Young Burmese, however, are up in arms

May 17th 2018 | MYITKYINA

AFTER fighting flared in April between the Burmese army and the Kachin Independence Army (KIA), an insurgent force controlling much of Myanmar’s northern extremes, thousands of civilians fled into the jungle. Some trekked for weeks before reaching Myitkyina, the capital of Kachin state, where they have taken refuge in a local church. Plenty more are still trapped in the hills. According to the Red Cross, almost 7,000 civilians have been forced to flee their homes since the beginning of April, to add to 100,000 already displaced.

Violence is nothing new in this part of Myanmar. The war in Kachin state has rumbled on since a ceasefire broke down between the Burmese army and the KIA in 2011. Dozens of similar guerrilla groups representing downtrodden ethnic minorities have been fighting the central government for decades, demanding greater autonomy. Many agreed to a nationwide ceasefire in

2015, but the KIA, with at least 10,000 troops, has not.

It is hard to identify the trigger for the latest violence. The generals, naturally, put the blame on the rebels. But the army routinely attacks rebel outposts during the dry season. (Things usually calm down when monsoon rains make the hilly jungle impassable.) Control over resources may play a part. The region of Tanai, where the clashes erupted, is rich in gold and amber, two important sources of income for the KIA. In June last year government soldiers attacked mines which, they said, were operating illegally. Two months later, under the pretence of protecting the environment, soldiers who sit in Kachin's state assembly proposed making parts of Tanai "restricted areas". Sometimes, conflict flares up as a result of a dispute between local warlords. An ethnic armed group allied with the KIA in neighbouring Shan state recently staged a bloody attack on a casino run by militiamen close to the army.

Civilians caught in the crossfire bear the brunt of it all. The Kachin Women's Association Thailand, a charity, says that soldiers use civilians as human shields and minesweepers. The Burmese army refuses to create new camps for displaced people, even though that would make it far easier to help them.

Outraged by the army's belligerence, a group of Kachin youths held protests in Myitkyina. The army sued the organisers for defamation—a crime punishable by up to two years' imprisonment. Anti-war demonstrations spread to other cities including Yangon, the commercial capital, attracting young, urban Burmese from the Bamar majority as well as ethnic minorities. "We've been suffering from civil war for too long," says one participant. Police have broken up these protests; some 40 people are being prosecuted for taking part.

Aung San Suu Kyi, Myanmar's de facto leader since 2016, says peace is her priority. She has organised grand conferences and delivered speeches about unity. But little has changed on the front lines. That is mainly the army's fault. Under the constitution drafted by the generals, the civilian authorities do not control the armed forces or the police. But her government still looks hapless. Khon Ja, a Kachin activist, points out that the country's peace negotiator is Ms Suu Kyi's former personal doctor, and that the chief minister she put in charge of Kachin state is a former dentist. A local MP describes him as a nice man, but says he avoids confronting the army.

The civilian government has more authority than it admits. Politicians could intervene in the court cases against peaceful demonstrators and MPs could trim the army's budget. At the very least Ms Suu Kyi could denounce the army and call for an end to the attacks instead of keeping silent. In the past she has even praised the army's "valiant effort" to stabilise the region. The arrival of the monsoon next month is likely to be more help to anguished Kachins.

A new low

Islamists in Indonesia deploy their own children in suicide attacks

Three families blow themselves up in a series of bombings in the city of Surabaya

May 17th 2018 | JAKARTA

ALL terrorist attacks are sickening, but some more so than others. On May 13th a family of suicide bombers killed 13 people and wounded more than 40 others in attacks on Christian churches in the city of Surabaya in eastern Java. The father drove a car packed with explosives into one Sunday service. His two sons, aged 16 and 18, struck a second. The mother and two daughters, aged just 9 and 12, blew themselves up at a third. It was Indonesia's deadliest terrorist attack since 2005 and the first to involve women or child bombers.

Later that day another family apparently plotting a similar attack accidentally killed themselves at their home near Surabaya. The next day a third family wounded 10 people when they blew themselves up at the gates of Surabaya's police headquarters. The father, mother and two sons were killed but an eight-year-old daughter survived. CCTV images showed her stumbling around after the blasts. And on May 16th an assailant ran over a policeman in Sumatra. Four sword-wielding accomplices were shot dead.

Joko Widodo, Indonesia's president, condemned the attacks as barbaric. They have heightened fears of a resurgence of Islamist terrorism in Indonesia. Police say the father involved in the Surabaya church bombings was the local head of Jemaah Ansharut Daulah, or JAD, a loosely organised militant network that supports Islamic State. He led a religious study group attended by all three families where he showed gruesome *jihadi* videos. IS claimed to be behind the attacks, although contrary to initial reports, none of the bombers had trained with it in Syria.

The authorities are now racing to reassure the world that the country is safe ahead of the Asian Games in August in the cities of Jakarta and Palembang, and the annual meetings of the IMF and World Bank in October on the island of Bali. The bombings came less than a week after Islamist militants at a high-security prison outside Jakarta killed five guards during a 36-hour uprising, for which IS also claimed responsibility. Police have arrested or killed at least 20 suspected JAD terrorists in an ongoing sweep.

Sidney Jones of the Institute for Policy Analysis of Conflict, a think-tank in Jakarta, says that the Surabaya attacks underline the need for improved surveillance. She describes existing programmes to rehabilitate IS sympathisers, including some 500 Indonesians Turkey has sent home on suspicion of seeking to cross into IS-controlled parts of Syria, as "rudimentary". Analysts warn that returnees could bring back more deadly methods of terror.

That would be a reversal after Indonesia's success in crushing the network responsible for a horrific bombing in Bali in 2002, in which 202 people were killed. Recent attacks have appeared amateurish by comparison, although the latest ones attest to a degree of co-ordination and planning not seen for more than a decade. The home-made explosives used in them were also more powerful than those used in other recent bombings.

Jokowi, as the president is universally known, has pledged to strengthen the country's terrorism laws by decree if parliament does not do so by June. Revisions were proposed shortly after a terrorist attack in Jakarta in 2016 but have languished in the legislature ever since. Critics say the vaguely worded revisions, including ones that could allow a larger counter-terrorism role for the military, would be counterproductive. Ms Jones says efforts to prevent terrorism need to target areas where militants are known to be active, and aimed at women and teenagers as well as men: “The danger is that, after the initial shock, the public slips back into believing that the problem is over,” she says.

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From paddles to puddles

Australia’s biggest river is running dry, despite plans to save it

Parched farmers blame lax enforcement of sensible rules

May 19th 2018 | TOLARNO STATION

PADDLE steamers once chugged up and down the Darling, the main tributary of the Murray river, ferrying wool from remote farms to the port of Adelaide. The Murray-Darling basin, which is larger than Ethiopia, gives life to Australia’s arid interior (see map). But these days the Darling is reduced to a putrid standstill with alarming regularity. Parts of it disappear altogether at times, a phenomenon which was almost unprecedented before this century. Robert McBride, whose parched sheep station in the state of New South Wales depends on its flow, estimates that 600km of the lower Darling will run dry this year.

This is just the kind of disaster that should have been averted after Australia launched an ambitious plan to preserve the river in 2012. The four states that depend on the Murray and its tributaries had been fighting bitterly over its contents. Since the 1970s enormous farms growing irrigated crops such as cotton and nuts had spread across the basin. When a catastrophic drought struck in the early 2000s, the mouth of the river almost ran dry. So politicians thrashed out a plan to conserve the river, while sustaining the farms and communities that depend on it.

Australia already had an elaborate system for trading water rights, allowing farmers to buy or sell entitlements according to their need in any given season. The idea of the Murray-Darling Basin Plan was to reduce water consumption by at least 2,750 gigalitres a year, either by purchasing water licences from farmers who were willing to sell them or by funding projects which could deliver “equivalent” outcomes—for instance, by making irrigation systems more efficient. So far, the government has spent over A$8bn ($6bn), and in theory cut usage by two-thirds of the target. Yet, somehow, the river is still at a low ebb.

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The first independent review of the plan, published last year by the Wentworth Group of Concerned Scientists, found "no evidence yet to demonstrate improvement across the basin as a whole". Another report, by the authority which administers the scheme, concluded that irrigation in the basin's upper reaches was still depriving those farther downstream, like Mr McBride, of water. Richard Kingsford, a scientist in Sydney, says that the plan's targets were not ambitious enough in the first place. But it also seems that more water is being siphoned from the stricken river system than was intended.

Theoretically, water saved with taxpayers' money should stay in the river. But not all of it does: the Wentworth Group says state governments use several tricks to "retard" that process. Victoria hoards water in dams. New

South Wales has altered local water-management schemes along the Darling’s tributaries, allowing irrigators to pump out more. This means that liquid purchased by the government in Queensland is guzzled back up again when it crosses the state border, explains Jamie Pittock, a member of the group.

Illegal extraction is a second problem. Farmers are meant to use meters to monitor how much they pump. But last year, cotton irrigators in New South Wales were accused of tampering with their machinery to mask how much they were taking. Two families face charges associated with breaches of their licences. There is also concern that money which was supposed to fund projects that would conserve the Murray-Darling is being misspent, allowing irrigators who have sold water to the government to replace it with flows to which they are not entitled. One big cotton farm is currently under investigation.

Wide-scale abuse has been possible because states and local governments have failed to enforce the rules. Last year, New South Wales’s top water bureaucrat was caught on tape offering to share confidential information with irrigation lobbyists. (He was referred to the state corruption watchdog.) From the shelter of his veranda, Mr McBride fumes that “the greatest man-made destruction in Australian history is being condoned by New South Wales and the federal government.”

The federal government has handed oversight of the plan to the farm-friendly National Party, the junior partner in the governing coalition. Since then, critics claim, regulatory oversight has slackened. The Environmental Defenders Office NSW, a pressure group, notes that there is no legal bar to stacking the board of the authority in charge of the plan. Four of its six members have links to the irrigation industry.

Parliament recently ordered the publication of details of a series of “buy-backs” of water rights. In one case, the government spent A$78m—almost twice the sum recommended by its own researchers—on a water licence belonging to an agricultural company, Webster. The purchase was not put to a public tender. Webster had taken over Tandou Limited, which owns the property in question, only 18 months earlier. Nick Xenophon, an independent senator at the time, complained that the plan was being “systematically undermined”.

This month the Senate approved an amendment to the plan which lets communities in the southern part of the basin consume more water. The extra consumption is supposed to be offset by 37 “efficiency-saving” projects. New South Wales had threatened to abandon the plan altogether if the amendment failed. But the Wentworth Group questions whether the projects will really deliver the promised savings; it believes that only one of them is watertight, as it were.

Communities which rely on irrigation detest the plan because it threatens their livelihood. Yet their thirst hurts farmers downstream. Indigenous tribes who imbue the river with spiritual significance say that their elders are dying with it. Scientists worry about the loss of fish and birds. The Coorong, an important wetland near the river’s mouth, has been polluted with salt and algae as the river’s flow diminishes. David Paton, an ecologist, has spent decades monitoring its fairy terns. Their numbers are a quarter of what they were in the 1980s. “We’ve pushed this system to the point of collapse,” he laments, “and we’re watching the species go to extinction.”

Hope comes in the form of greater accountability. Overwhelming evidence of theft and mismanagement has led to more prosecutions. New South Wales has established a new regulator, and South Australia has launched a royal commission to look into breaches of the plan. If state governments walk away, the national government could, by law, enforce the rules instead—if it were so inclined.

Forewarned on disarmament

North Korea reminds the world why past peace talks have failed

It says it is having second thoughts about giving up nuclear weapons

May 17th 2018 | SEOUL

THE sun smiled down on the demilitarised zone between the two Koreas on April 27th, the day Moon Jae-in, South Korea’s president, met Kim Jong Un, the North Korean leader, for a strikingly warm summit at which they agreed on the “complete denuclearisation” of the peninsula. On May 16th the weather was very different, and so was the news. Thunderstorms battered Seoul as the North announced that it was cancelling high-level talks with the South to which it had agreed barely 24 hours earlier. It also threatened to pull out of a summit between Mr Kim and Donald Trump, America’s president, scheduled to take place in Singapore on June 12th.

The North gave two reasons for its ire: long-scheduled military exercises between America and South Korea, to which it had previously acquiesced (although it may have been surprised by the involvement of Stealth fighters, which could be used in a “decapitation” strike, and B-52s, which can carry nuclear bombs), and America's insistence that it must unilaterally forswear nuclear arms—the very condition on which America agreed to talks in the first place. Statements relayed by the official news agency made it clear that economic assistance would not be sufficient recompense for nuclear disarmament, as Mr Kim seemed to suggest only last week.

Mr Trump's eagerness to make history in front of the global media will not have escaped Mr Kim. Nor will southerners' desire for peace. In South Korea, the bolt from the blue did not seem to dent popular optimism. On social media hardly anybody reproached Mr Kim. Many expressed sympathy. "Kim Jong Un is right. We shouldn't push North Korea into a corner," ran one popular comment.

South Korea's unification ministry said the North's about-face was "regrettable". Mr Moon's office did not even go that far, claiming the move was "just part of the process". The White House said it had received no indication that the Singapore summit would not go ahead.

North Korea says the summit can proceed only if America is "sincere" about improving relations. But it is the North's sincerity that has always been in question. At the very least, the kerfuffle is a reminder that until a few months ago, Mr Kim was seen as untrustworthy and belligerent. There is little reason to imagine he has changed.

Banyan

At last, a cause to unite all Malaysia's ethnic groups

It was a Malaysian tsunami that swept out the old government, not just a Malay one

May 17th 2018

IT IS tempting to interpret the drama of the past week—in which the United Malays National Organisation (UMNO) and its allies, which had run Malaysia for 61 years, crashed from power—as the result of the interaction of three former colleagues in UMNO.

Without the extreme greed of UMNO's Najib Razak, the fallen prime minister, the country would not have so readily turned against his corrupt and ruthless party. Without the return to politics of the new prime minister, Mahathir Mohamad, the 92-year-old who had dominated UMNO and the country for decades before retiring in 2003, the opposition could not have persuaded so many voters to follow his lead and desert UMNO in the general election on May 9th. And without the quicksilver brilliance of Anwar Ibrahim, who was jailed under Mr Najib on trumped-up sodomy charges but who re-emerged into the limelight on May 16th with a royal pardon, there would have been no momentum for change. Mr Anwar had been planning for this for 20 years.

The urbane Mr Najib, President Donald Trump's "favourite prime minister", presided over the looting of billions of dollars from a state investment fund, 1MDB, according to America's Department of Justice. Nearly $700m appeared in his own bank accounts, it says; some went on bling that subsequently appeared around the First Lady's neck. As corruption grew, so did the abuses. Mr Najib suppressed investigations into lost funds, hounded opponents, and gerrymandered elections. He went to great lengths to ensure victory and appeared shell-shocked by the result, presumably because his unctuous courtiers did not make clear the jeopardy he was in. This week police once loyal to him searched the house where he sits awaiting arrest.

The hero of the moment is the comeback kid. Dr Mahathir had helped found UMNO in, oh, 1946. It was during his 22 years as prime minister that the party's reputation for cronyism, high-handedness and pandering to the ethnic-Malay majority was honed. But for Dr Mahathir, who has reinvented himself as a democrat (or a "listening dictator" as he likes to joke), the excesses of his former protégé were too much. Last year he folded his breakaway party, Bersatu, into the motley, multiracial, left-of-centre opposition, Pakatan Harapan, or Alliance of Hope.

Of the coalition's three main parties, Bersatu is the smallest. It won only 12 seats, compared with 48 for Mr Anwar's People's Justice Party (PKR) and 42 for the Democratic Action Party (DAP), which appeals to middle-class ethnic Chinese and Indians. Yet the election is Dr Mahathir's. He represented, as Bridget Welsh of John Cabot University in Rome puts it, a "safe landing" for those in the system worried about the repercussions of betraying it.

On May 16th Dr Mahathir's exertions to form a cabinet were overshadowed by Mr Anwar's release. While Dr Mahathir is Pakatan's "chairman", Mr Anwar is its real leader. He plans to re-enter parliament and take over as prime minister—but only after a couple of years, Dr Mahathir insists.

When Mr Anwar emerged, Dr Mahathir was there to greet him. In the 1990s Mr Anwar had been his assumed successor. But when he began resisting Dr

Mahathir's unorthodox response to the Asian financial crisis and, much worse, denouncing cronyism, Dr Mahathir had him beaten and jailed. There is a touch of the martyr in Mr Anwar. But his reappearance this week underscored not only a dogged will to power but a bottomless capacity to absolve when necessary.

The two men's relationship will now be the chief topic of speculation in politics. Mr Anwar says he will take a back seat for now. Dr Mahathir, he says, is "no great reformer. But he can be expected to mend a lot of wrongs, a lot of the excesses: the judiciary can be respected, the media can be free…My role will be essentially to be the voice of conscience. If ministers get new wives and live in opulence, then you can expect me to be more critical." Big transformations, he implies, will have to wait until his turn.

There are other, far more numerous protagonists, of course, and a week after the vote millions are still loth to scrub off their personal memento: the purple ink on their index finger. The election result, many insist, was not a "Malay tsunami". Rather, it was a Malaysian one. When Mr Najib plugged the money holes by handing land and contracts to firms linked to the Chinese state, many felt he was selling out the country. For the first time voters intentionally came together across religious and ethnic divides.

One campaign promise was to bring Mr Najib to justice. But the coalition's first reform was to suspend the tax on goods and services from June 1st. Introduced in 2015, it is the first conspicuous levy many poor Malaysians have ever had to pay. Maybe the Najib-era larceny was so large that the new government really can, as it claims, make up the $5bn in forgone revenue with less graft and more competitive bidding for procurement.

The coalition's experience of running several of Malaysia's 12 states augurs well—the new government is not wholly green. What is more, notable agreement exists around the road map. In going after Mr Najib, more emphasis is put on due process than on settling scores. The talk is of overhauling a supine judiciary and strengthening parliamentary oversight. One adviser to Mr Anwar even worries that unless UMNO, now in disarray, refashions itself as a nimble opposition, the new coalition might fall for the "seductions of power" and reforms might slow.

Restoration drama

Such sentiments are striking for Malaysia's new insurgents. They seem to reflect not so much a desire to turn the world upside down as to return to an earlier era of settled law, fair judges and democratic accountability that survives in the national imagination. It is why Malaysia is bucking a broader shift to authoritarianism. At heart, the sentiments reflect less a revolution than a restoration. And, despite the coalition's inevitable bickering, that restoration has a good chance of working out.

China

- **Language: A change of tone** [Fri, 18 May 02:51]
- **Football: Long-term goal** [Fri, 18 May 02:51]

A change of tone

China is becoming more tolerant of some regional Han languages

The Communist Party wants to be seen as a champion, not a destroyer, of traditional culture

May 17th 2018 | BEIJING

LI SIYI tucks her hair behind her ears and takes a deep breath. The high-schooler and aspiring journalist sits in a mock television studio in a basement of China's most prestigious broadcasting university, practising scripts of the sort that she will soon have to tackle as part of its entrance exam. When the time comes examiners will grade her poise and delivery. They will also assess the quality of her *putonghua*, or "common language", the official version of Mandarin that is supposed to represent its purest form. The pronunciation is based on the Beijing dialect, but even natives of the city, like Ms Li, find it tricky to attain the flawless accent that newsreading requires.

The languages spoken by ethnic-Han Chinese, who are more than 90% of the population, belong to half a dozen main groups (see map). Since the collapse of China's last imperial dynasty in 1911, successive regimes have been obsessed about popularising just one of them: Mandarin. The Communist Party has been particularly zealous in its promotion of the language. In 2000 about half the population was reasonably fluent in it. The proportion is now higher than 70%, thanks partly to migration from the countryside into cities, which has compelled those moving from non-Mandarin areas into Mandarin-speaking ones to learn the official tongue. The government wants 80% to have a good command by 2020.

The problem is that China is one of the most linguistically diverse countries in the world, with about 130 ethnic-minority languages as well as its Han ones. Of the Han languages, Cantonese is spoken by around 60m people in Hong Kong and neighbouring Guangdong province. Some 80m Hans speak one of the Wu languages, among them Shanghainese. Languages of the Min family are used by around 70m people along the south-eastern coast.

The mandarins' mandate

But as officials see it, a monolingual China is more likely to be a strong and unified one. They are also reluctant to accept that Han China might be an amalgam of cultures as varied as Europe's. They prefer to call the Han languages "dialects", even though some are as different from each other as Romance languages such as French and Spanish. (Chinese people, however, use the same written language, a Mandarin-based non-phonetic form that those who are literate all understand). In 2000 the country passed its first national law on standard Chinese. It said people were free to use their own languages, but it reinforced long-standing policy that Mandarin be used in schools, government offices and in the vast majority of broadcast media in Han-majority areas. (The rules for non-Han people notionally give greater protection to their minority languages.)

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At the same time, however, China's leader, Xi Jinping, also wants to boost the party's appeal to Chinese nationalists at home and abroad by presenting the party as a champion of traditional culture—not the systematic destroyer of it, as it was in Mao's day. Mr Xi stresses the importance of China's ancient heritage almost as much as communism. In a speech on May 4th to mark the 200th anniversary of the birth of Karl Marx, he said the party must not only "imbue core socialist values", but also promote "fine traditional Chinese culture".

Officials now accept that this requires showing off the country's traditions in all their diversity. In 2015, three years after he came to power, Mr Xi visited the village in Shaanxi province where he had lived during the Cultural Revolution of the 1960s and 1970s. His use of local dialect to introduce villagers to his wife became headline news in China (he is the first Chinese leader since the Communists took over in 1949 whose Mandarin is unaccented).

Also in 2015 the State Language Commission launched a five-year project to record and protect China's "language resources". This involves cataloguing languages used at 1,500 sites as well as online. Wang Lining of Beijing Language and Culture University says it is the biggest such survey in China for decades. It has already resulted in a 20-volume work on China's "linguistic culture", published last December, complete with QR codes that readers can scan to access online audio recordings of regional tongues.

In 2020 the scheme will enter a new phase, in which researchers try to use the material they have collected to help speakers of regional languages. Ms Wang says one idea is that the data be offered to developers of local-language software for voice-controlled products. Han languages are benefiting from all this attention. Not long after Mr Xi took over in 2012, the authorities in Shanghai launched a campaign to promote their local tongue in kindergartens. Officials have encouraged a revival of regional forms of Chinese opera, performed in their original languages. This year organisers of the annual spring-festival gala on national television tried to include more southern accents in order to deflect accusations that the much-watched variety show has a northern bias.

The government has come to accept that support for local languages can bring political and economic rewards. It may, for example, help China’s efforts to woo overseas Chinese, says Li Wei of University College London. China’s trade in South-East Asia depends on contacts with ethnic Chinese in that region, many of whose ancestors did not speak Mandarin.

Party leaders appear to believe that China’s cultural “soft power”, including local language, can be used to persuade members of the global Chinese diaspora to support policies that are favourable to the party, and even to win over people in Taiwan. Jason Lim of the University of Wollongong in Australia notes that the party has been dubbing propaganda videos into Hokkien, which is used in Taiwan as well as elsewhere in Asia.

But the government’s support for local languages is still tempered by a suspicion of localism and the long-term threat it might pose to national unity. In 2010 officials in Guangdong province proposed replacing some local-language broadcasts with Mandarin ones. Cantonese speakers took to the streets of the capital, Guangzhou, in protest. The authorities backed off, but in 2014 they implemented a modified version of the plan. Some people worry that for all its talk, the government wants to wipe out other Han tongues. (Don’t even ask Tibetans and Uighurs how their languages are getting on.)

For a while, the internet appeared to offer hope. But officials are stepping up efforts to suppress “lowbrow” material online, especially video. Local languages, which are often used in such content, have become collateral damage. Supporters of regional tongues still have to fight for small concessions such as local-language announcements on buses and trains. They have to rely on the ability of local officials to resist uniformity-demanding superiors. For most Chinese, only one way of speaking still enjoys the full backing of the law.

Long term goal

A Chinese football club seeks to be the new Barcelona

Local pride, local talent, and no chants in Mandarin

May 17th 2018 | GUANGZHOU

IN A modest stadium built into a hillside at Yuexiu Park in Guangzhou, around 10,000 fans were supporting their club on a recent evening by waving blue flags, beating drums and shouting encouragement to their team in the local Cantonese tongue. The club, Guangzhou R&F;, plays second fiddle in this huge southern city to its more illustrious crosstown rival, Evergrande, which has many more fans and a much larger stadium. But the owners of R&F; (it stands for "rich and force", the meaning of the two Chinese characters that form the name of its sponsor, a property company) think they know how to turn the club into a winner. In a country where officials are often suspicious of regionalism, club bosses are trying to appeal to the pride of Cantonese speakers.

Football in China is in a sorry state. The country has qualified only once for the World Cup, in 2002, when it was quickly knocked out without scoring a goal. The main national league has been plagued by corruption, match-fixing scandals and a middling standard of play. But China's leader, Xi Jinping, has a dream. In 2011, a year before he came to power, he said he wanted China to win the World Cup. As president he has turned that idea into a sporting priority.

Many Chinese clubs have responded by buying foreign talent. They have not always got what they paid for. Early this year Carlos Tevez, a star Argentine striker, left Shanghai Shenhua. He was reportedly paid tens of millions of dollars, but arrived out of shape, scored only four goals and sometimes did not even bother to run during matches. Guangzhou R&F; is trying a different approach. "We don't want to rely on foreign players," says Nicky Wong, the club's vice-chairman (though Sven-Goran Eriksson, a Swedish former manager of the England team, was head coach in 2013-14 and the current manager is Dragan Stojkovic, a Serb). Instead, it is investing in academies for young players in Guangzhou and other parts of Guangdong province, of which the city is the capital.

Mr Wong cites the example of Japanese clubs, which 20 years ago started a similar effort to end their reliance on foreign players and cultivate local talent. Mr Wong also points to Barcelona. At the peak of its success earlier this decade, he notes, the Spanish club had a high proportion of local players and played a philanthropic role in the local community. "Our long-term plan is to develop that kind of local bond with our fans," he says. More than one-third of R&F;'s current squad are from Guangdong. That is higher than the proportion of home-province players in most other clubs in the Chinese league, says Mr Wong.

Cantonese, a language rooted in Guangdong, is a help. Mr Wong says it is used for most of the club's business. Fans like to know that many of the players can understand their chants, unlike those foreigners or people from other parts of China. But the comparison with Barcelona might give pause to football officials in Beijing. Regional pride in Catalonia, of which Barcelona is the capital, led to a referendum on independence.

Middle East and Africa

- **Burundi's referendum: Back to the old days** [Fri, 18 May 02:51]
- **Zimbabwe: In a while, Crocodile** [Fri, 18 May 02:51]
- **Zimbabwe: Flights of fancy** [Fri, 18 May 02:51]
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Pierre pressure

Burundi’s president is now “Supreme Eternal Guide”. Retirement is out

Pierre Nkurunziza exemplifies a dismal trend for abolishing term limits

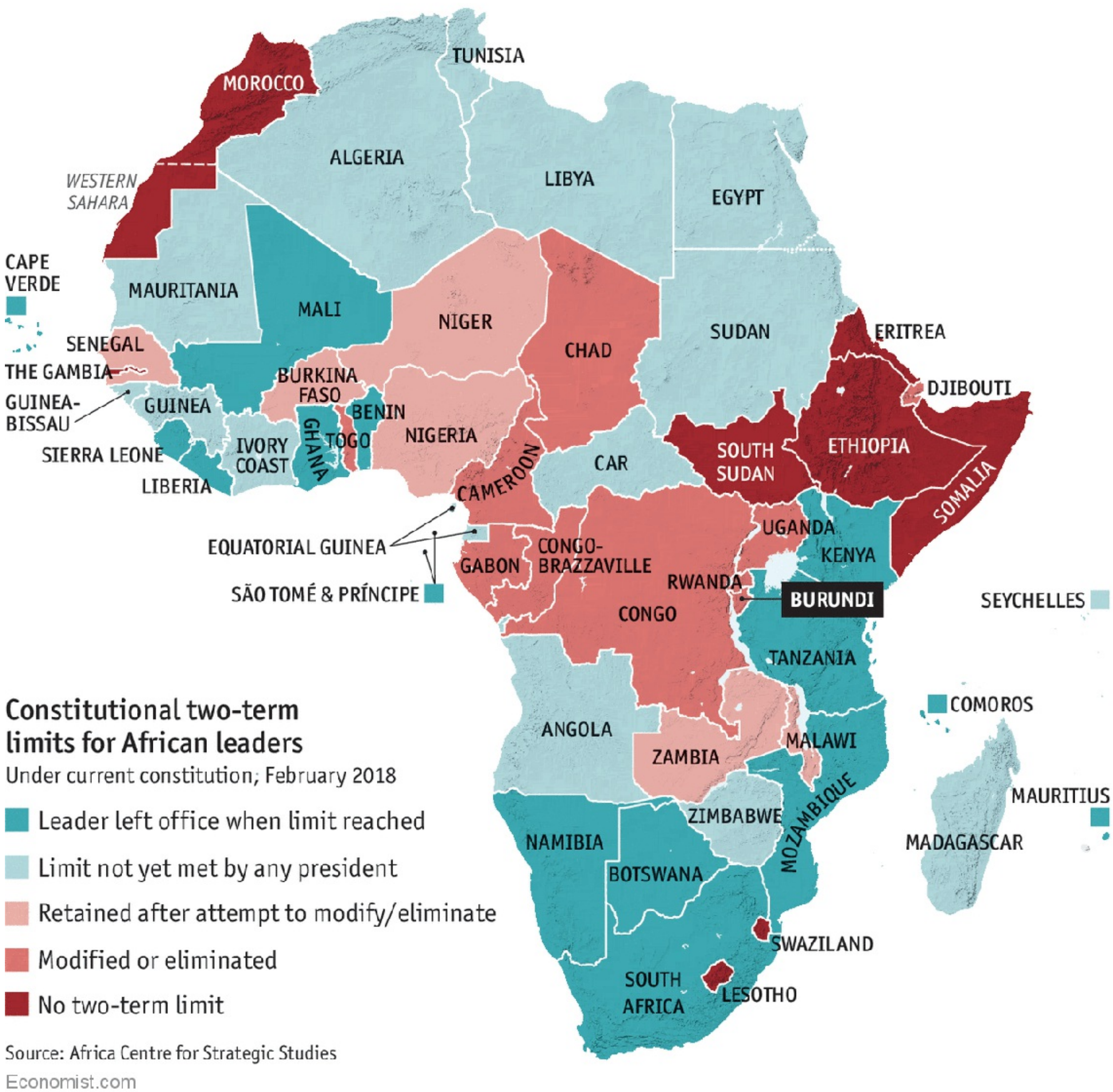
May 19th 2018 | NAIROBI

AS OMENS go, it is not a good one. In Kinama, a district in north-east Bujumbura, the cobble-stoned capital of Burundi, residents found the body of a man floating in a field of rice on May 8th. His head was missing; his heart had been torn out. Stuck to his chest was a message written in Kirundi, the language of most Burundians: “Traitors are punished.”

Violence has broken out in Burundi ahead of a referendum on May 17th to change the constitution to allow Pierre Nkurunziza, a former rebel who has been president since the end of the civil war in 2005, to stand for office again in 2020. On May 11th, 26 people were killed in the north-west of the country in an attack by rebels who crossed in from the neighbouring Democratic Republic of Congo. Three days later an opposition activist who had been campaigning against the change was murdered in the street by a crowd of young pro-government militiamen.

Many Burundians expect the constitutional amendment to pass comfortably (no matter which way they actually vote). Having named himself "Supreme Eternal Guide" of the country in March, Mr Nkurunziza could then stay in office until 2034. The referendum in Burundi highlights the steady erosion of term limits in recent years across central Africa (see map). Over the past decade half a dozen countries have ignored or revoked laws limiting presidents to no more than two terms in office.

It also represents the final death of the Arusha accords that ended the civil war, created a blueprint for democracy and mandated power-sharing between Hutus and Tutsis, the two main ethnic groups, whose fighting has torn Burundian politics apart since independence in 1962.



Burundi’s latest crisis began in earnest in 2015, when Mr Nkurunziza decided to run for a third term. His party, the CNDD, which is descended from the Hutu rebel group he led during the civil war, argued that under the constitution his first term did not count. He had been appointed by parliament, not elected, you see. Two months before he was re-elected, his government was briefly overthrown in a coup while he was on a trip to neighbouring Tanzania. In the year afterwards, Burundi was shaken by violence. Opposition supporters (or those merely suspected of being so) were arrested or went missing. Almost half a million people have fled to neighbouring countries. Rights groups say 456 were assassinated in 2017 alone.

Gunshots and grenades are a rarer sound in Bujumbura than they were two years ago, say residents. But repression continues. “Many citizens today live in fear, even if they do not say so aloud,” says Monseigneur Joachim Ntahondereye, president of the Burundian Council of Bishops. The church is one of the few institutions to have spoken out against the constitutional change. Independent journalism has been all but banned; this month, the BBC and Voice of America transmitters were shut down. Most foreign publications have been denied accreditation.

Particularly worrying is the gradual ethnic polarisation of the army. It had been rebuilt under the Arusha accords with quotas for Hutus and Tutsis at all levels of its officer corps, to win the trust of both groups. Yet many of the officers who dominated before 2005, most of them Tutsi, have been forced to retire or posted abroad on peacekeeping missions in places such as Somalia and the Central African Republic. Some officers have been murdered. Meanwhile, rebels who served in Mr Nkurunziza’s force—mostly Hutus—have risen up the ranks. The constitutional amendment opens up the possibility of doing away with ethnic quotas, allowing Mr Nkurunziza to make the army and police completely dominated by Hutus.

The economy has been crushed. GDP per person has fallen every year since 2015, even as the population has risen by around 10% to about 11m. Almost three-fifths of Burundians are “chronically malnourished”, according to the UN’s World Food Programme. Hunger has worsened of late, as the government has increased taxes to pay for the referendum. The only growing industry has been smuggling gold from Congo, where Mr Nkurunziza is said to have allies in the remnants of the genocidal Hutu militias that fled Rwanda after the massacres there in 1994. Fears are growing that a proxy war between Burundi and Rwanda (whose president, Paul Kagame, is a Tutsi) is reigniting in Congo.

There is little hope of outside intervention halting the crisis. The Tanzanian government played midwife to the Arusha accords. Yet today Tanzania itself is sliding into authoritarianism. Its president, John Magufuli, an ally of Mr

Nkurunziza, has tried to force Burundian refugees back to their original country. Without regional support, foreign powers such as the European Union are unable to do much. They have already played their strongest card by cutting most aid.

Democracy is struggling in other parts of the region, too. In Congo Joseph Kabila will probably stand as his party's candidate in presidential elections this year, despite having finished his second and supposedly final term in 2016. In Rwanda Mr Kagame was re-elected last year after changing the constitution to let him stay in power until 2034. In Uganda Yoweri Museveni, who has run the place for 31 years, first abolished term limits in 2005; last year, the 73-year-old also abolished a presidential age limit of 75. That will allow him to run for a sixth presidential term in 2021.

The erosion of term limits bodes ill. Where they have been observed, they are generally associated with a sharp decline in armed conflict, according to the Africa Centre for Strategic Studies, a think-tank in Washington funded by the American government. Where they are ditched, the opposite may prove to be the case. Presidents should be temporary, not eternal.

Going cashless, Zimbabwe style

Zimbabwe’s new president may not be able to fix the economy

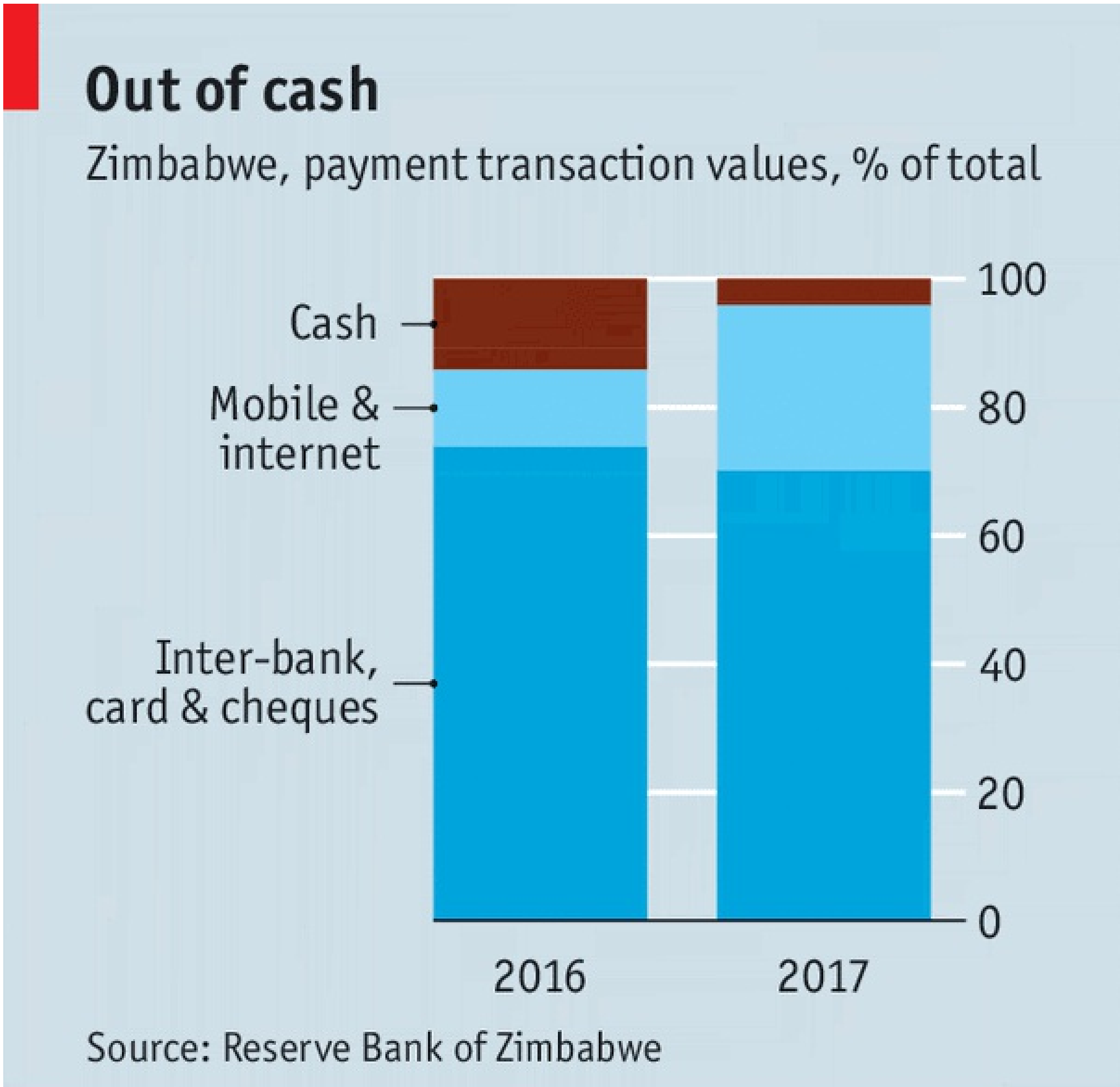
Thanks to his predecessor, his country has all but run out of cash. Restoring trust will be hard

May 19th 2018 | HARARE

UNTIL recently Priscilla Magaya was an administrator in a printing firm in Harare, Zimbabwe’s sunny capital. Today she spends her days on the side of a street, clutching a thick bundle of different banknotes. A few weeks ago, after two years of not paying her wages, her employer went bust. Ms Magaya turned to money trading, swapping real American dollars for Zimbabwe’s confusing profusion of local paper. For $100 in actual greenbacks, buyers get $120 in bright green “bond notes”—a Zimbabwean currency introduced in 2016 that is meant to be pegged to the dollar—or $140 in mobile money, which is also meant to be on a par with real dollars. Her earnings are “not something that I can survive on”, she says, but she has no other option.

Two years ago money in Zimbabwe was simple: everyone used the American dollar, introduced in 2009 after hyperinflation destroyed the Zimbabwean version. Since then, however, banks have run out of real dollars because the cash-strapped and unscrupulous government grabs them in exchange for all-but-worthless IOUs. Zimbabwe is becoming the world's first cashless economy, but not in a good way. ATMs are empty. Banks allow customers to withdraw just $20 a day, not in real dollars but in local bond notes. Long queues form each morning. Most people rely on electronic bank transfers or mobile money to pay their bills, usually at a hefty premium.

All this loopiness was originally the fault of Zimbabwe's former president, Robert Mugabe, who was ousted in a coup last year after 37 years in power. Can his successor, Emmerson Mnangagwa, restore sanity? It will not be easy. The fiscal deficit was a daunting 11% of GDP in 2017. Unpaid doctors and teachers are striking. Businesses are folding like useless banknotes. Elections are due by August. The ruling party is itching to splurge cash on pre-ballot handouts and, perhaps, voter intimidation.



Economist.com

Mr Mnangagwa has spent the past few months jetting around the world, usually wearing a Zimbabwean-flag scarf over his suit, trying to raise money. So often does he say "Zimbabwe is open for business" that it has become a meme. Though he claims to have secured some $11bn of promises of foreign direct investment, many doubt that it will amount to much. Since the coup "things have actually got worse," says Tendai Biti, an opposition activist and former finance minister who served in the government of national unity after disputed elections in 2009. Prices have gone up as real dollars have become even more scarce.

Zimbabwe used to rely on farming (especially tobacco) for foreign exchange. Mr Mugabe wrecked the country's largest export industry by grabbing land from white farmers and handing it to cronies who often knew little about farming. As agricultural output collapsed and jobs disappeared, the economy nosedived. Monthly inflation hit 80,000,000,000%, by one estimate. Worthless $100trn notes from that time are now used as bookmarks.

Since 2009 the economy has recovered somewhat. Farming has grown again, partly thanks to the leasing of farms back to their previous owners, and partly thanks to the replacement of the old currency by the dollar. But Zimbabwe still cannot feed itself. Despite bumper rains, more than 1m people may not have had enough to eat earlier this year, according to USAID, America's aid agency. And the cash crunch hits rural areas particularly hard. "I am getting nothing out of farming," says a 43-year-old tobacco farmer who gives his name as Cloud. He must travel almost 50km from his home to buy anything with the electronic money in which he is paid.

Mr Mnangagwa's best hope is that after he wins the elections he can persuade international lenders, such as the IMF, to renew Zimbabwe's lines of credit, which were cut under Mr Mugabe. Foreign investors could also bring in more hard currency: Zimbabwe has plenty of gold and platinum, much of which isn't being exploited.

But much more will have to change before Zimbabwe can really be called open for business. Under Mr Mugabe, legions of ruling-party loyalists were hired as civil servants and endless irksome rules were written so they could demand bribes not to enforce them. As formal businesses have shut or gone underground, tax collection has plummeted. Zimbabweans have moved from offices and factories into informal jobs such as hustling. Roads have crumbled and many of the best-educated workers have emigrated. Ms Magaya tentatively predicts that things will get better. But she worries that "it will take as long to fix the country as it took to destroy it." In the meantime, she is hoping perhaps to move to South Africa.

Flights of fancy

Zimbabwe launches a second state-owned airline

The first one is so indebted its planes are impounded when they land abroad. Will the second be any better?

May 17th 2018

HAVING one loss-making state-owned airline is bad enough. What, then, of a government that wants two?

Earlier this year Zimbabweans were startled to learn that the government had concluded a secret $70m deal to buy four second-hand Boeing jets from Malaysia to form the core of a new national airline, Zimbabwe Airways. This venture is supposed to compete with Air Zimbabwe, the flag carrier, which ran up huge debts thanks to poor management and ex-President Robert Mugabe's habit of commandeering its planes so his wife could shop abroad.

The government hopes to stimulate tourism and business by reopening long-haul routes that are closed to Air Zimbabwe, whose planes can be impounded as soon as they land on foreign runways. It suspended flights to London's

Gatwick airport in 2011, for instance, after one of its planes was seized over an unpaid debt. It has since been banned from European skies because of concerns over the safety of its creaking planes.

Critics questioned the secrecy and the price paid for the new planes. The government had claimed for months that the new airline was a private initiative, funded by Zimbabwean investors living abroad. Joram Gumbo, the transport minister, told local newspapers it had been necessary to lie because "if they had been exposed as government of Zimbabwe planes, they would have been taken by the creditors who were claiming for money." He also revealed that "the man in charge of Zimbabwe Airways" is Mr Mugabe's son-in-law.

Officials see the new airline as a panacea for the economy. That seems unlikely. It will be pitted against rivals offering reliable connecting services via their hubs in South Africa, Kenya, Ethiopia and the United Arab Emirates. Airlines based in those countries have the upper hand on numerous fronts, among them economies of scale, network synergies and more frequent flights. Zimbabwe Airways will have only one advantage: the ability to fly between Harare, the capital, and destinations in Europe and Asia without boring stopovers. Yet there is probably not nearly enough direct traffic to fill its planes.

That Zimbabwe hopes to subsidise not one, but two airlines ought to raise a red flag for international lenders who are being asked to write off its debts.

Milk sheikhs

Why Qatar is raising cows in the desert

The Saudis refuse to sell them milk, so the world's richest country is making its own

May 17th 2018 | AL KHOR

STEP inside, and it could be a scene from the English countryside or the American heartland: one hundred well-fed dairy cows spinning slowly on a circular milking parlour. But outside there are no green fields, only sand. Baladna ("Our Country") is a dairy farm in the desert, 50km from Doha, the Qatari capital. Behind the milking house is the din of construction. Hundreds of labourers are working to expand the farm, building new barns and installing fans and misters to cool them. "None of this was here a year ago," says John Dore, the Irishman who manages the place.

There was no need for it. Until June Qatar imported milk from Almarai, a Saudi conglomerate. Then Saudi Arabia and three other Arab states closed their borders to punish Qatar for supporting Islamist groups and Al Jazeera, a state-owned broadcaster that criticises all the Gulf monarchies except Qatar's.

Overnight the world's richest country (measured by income per head at purchasing-power parity) was cut off from its food supplies. It first turned to Turkey and Iran. Shoppers got a crash course in Turkish: placards in the dairy aisle of supermarkets explained that "*süt*" meant milk.

Now shoppers just look for Baladna's ubiquitous logo. The farm, founded in 2013 to rear sheep, airlifted 3,400 Holsteins to Doha last year. Thousands more arrived by boat in February. Within months the farm will have 14,000 cows—and Qatar will be self-sufficient in dairy products. A litre of Baladna milk costs slightly less than eight rial ($2.20), comparable to what was once paid for Almarai milk. It also sells cheese, yogurt and *laban*, a fermented drink. The state-of-the-art facility has become an unlikely attraction for Qatar's 2.6m citizens and foreign workers. They dine in its restaurant or bring their children to picnic in an adjacent park. A share listing is planned for later this year, which could see Baladna valued at up to 2bn rials ($550m).

As the blockade nears its first anniversary, there is talk of a thaw. The Saudis thought Mike Pompeo, America's hawkish new secretary of state, would take their side. But on his inaugural foreign trip to Riyadh he bluntly told the king to lift the embargo. "We're fed up with it," says an American diplomat in one of the four blockading states. "The Qataris aren't perfect, but none of our [Gulf] allies is."

This is just talk. America may be exasperated, but it will not force the Saudis to end the blockade. And Qatar has learned to live with it. Although it burned through $40bn when the embargo began, the economy has stabilised. The spat has made Qatari firms more creative. Architects say the cement they now import from Asia is cheaper and better than the old stuff from Saudi Arabia or the United Arab Emirates.

The Saudis are determined to isolate their neighbour. Some want to do so literally, by turning Qatar into an island. In April Saudi newspapers announced a plan to dig a 650-foot-wide canal on the border, so that Qatar is surrounded by water. To annoy the Qataris even more, the Saudis would also turn part of the frontier into a nuclear-waste dump. All this would cost $750m—a steep price just to spite a neighbour. The scheme sounds far-fetched. But then again, so did airlifting thousands of dairy cows to the Arabian desert.

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A system in shock

Iran braces for economic war with America

Will the coming crunch destabilise the regime?

May 17th 2018

TEHRAN’S grand bazaar, a weathervane of politics, is on strike again. Shutdowns there foreshadowed Iran’s 1979 revolution. In 2012 they pushed the government into talks that eventually resulted in a deal, signed in 2015, that restricted Iran’s nuclear efforts in exchange for sanctions relief. And Donald Trump’s pull-out from that deal on May 8th drew an instant reaction from traders, who sense something ominous. “Tehran feels like it did before…1979,” says Pejman Abdolmohammadi, an Iranian lecturer at the London School of Economics.

Iran’s business world was already glum. America’s continued curbs on dollar transactions had muted the effect of the lifting of global sanctions in January 2016. But now, merchants say, America is moving from containing the regime to trying to change it. Mr Trump has told firms worldwide that they have three to six months to cut ties with Iran or face sanctions, too. Oil exports, which rose as a result of the deal, are already falling. Maersk, the world's largest shipping line, no longer takes orders for Iranian oil. South Korea has cut oil imports from Iran by 40%.

President Hassan Rouhani, who struck the nuclear deal, is struggling. His officials have shut currency exchanges, chased money-changers off the streets and fixed the exchange rate. But most of the foreign reserves needed to calm the market are abroad, and America is making it hard to repatriate them. On May 15th America's Treasury called the governor of Iran's central bank a financer of terrorism. The Paris-based Financial Action Task Force reports soon on whether Iran's banks heed anti-terror and money-laundering rules. This "could knock Iran off the financial system", says a diplomat.

Middle-class Iranians are sullenly cancelling foreign trips. But they always disliked the regime; worse for the clerics is the loss of their base. In December the urban poor in the provinces took to the streets, denouncing theocracy. Despite efforts to quell it, industrial action rages on. Merchants in other bazaars have also gone on strike, as have some teachers. Officials have blocked Telegram, a popular social-media app. Young Iranians are furious.

The regime is resilient, some say. Its economy is the world's 27th largest. It pumps 3.8m barrels a day of oil, and it is good at smuggling. Muhammad Javad Zarif, the foreign minister, has taken to Beijing and Brussels his ideas for dodging American curbs. They include creating a bank trading only in euros, and depositing Iran's oil takings in Europe's central banks. But getting Europeans to forfeit American markets will be hard.

Meanwhile, hardliners have Mr Rouhani in their sights. They say his deal gave up a lot for little reward. With their grip on the judiciary, the security forces and some state concerns, they are squeezing him. They have chased an adviser of his back to London and arrested many dual nationals. Some see in sanctions a chance to resume smuggling. If regime change comes, it could consist of a coup mounted by these dark and well-connected characters.

Sadr's success

A cleric who once tormented America seems to have won Iraq's election

But the Shia firebrand may not be able to form a government

May 19th 2018

MUQTADA AL-SADR is a master at tapping Iraqi discontent. The firebrand Shia cleric (pictured) directed his supporters to attack the American troops who invaded Iraq in 2003. More recently he has led campaigns against corruption and foreign influence. His supporters ransacked government offices in 2016. And in the election on May 12th they gave his nationalist bloc, Sairoun ("Marching to Reform"), the most seats in parliament. Unofficial results put it unexpectedly ahead, with 55 seats.

The bloc led by Iraq's mild-mannered prime minister, Haider al-Abadi, came second, with 51. A coalition led by Hadi al-Amari, the gruff commander of the Iranian-backed Badr Brigades, came third, with 50. The surprising result signals growing discontent with Iraq's sectarian old guard. But it is unlikely to sweep it away.

It may yet take months to determine who has actually won the election. Claims of irregularities need resolving before results are final. Parliament then has to elect a president, who must ask the largest bloc to form a government. Then the real jostling for posts begins.

Mr Sadr, who cannot become prime minister because he did not run himself, is in a strong position to be kingmaker. Although his most ardent supporters are Shias in the shantytowns of Baghdad and Basra, he won by broadening his appeal. He joined up with communist and secular parties, wooed Sunnis by praying in their mosques and published a plan for reconciliation between Islam's sects. Last year he went to Saudi Arabia to meet Muhammad bin Salman, the Sunni kingdom's powerful crown prince.

His bloc would need to form an inclusive coalition if it is to govern. In a post-election tweet, Mr Sadr named Kurdish, Sunni and Shia parties as potential allies. But he left two staunchly Shia parties with strong ties to Iran off his list: the Badr Brigades, which represents a coalition of Shia militias, and Dawa, a Shia Islamist party led by Nuri al-Maliki, a former prime minister. They could yet spoil his chances.

Mr Amari may have failed to do as well in Iraq as his Iranian-backed counterpart, Hassan Nasrallah, the leader of Hizbullah, did in Lebanon's recent election. But he still wields a lot of clout. His Badr forces dominate the interior ministry and fill the ranks of the federal police. He is close to senior Iranians, who have in the past worked behind the scenes to cobble together a government. And he has hedged his bets by meeting regularly with the American ambassador in Iraq.

Mr Amari's natural ally is Mr Maliki, whose "State of Law" faction inside Dawa fared poorly, winning 25 seats. But Mr Maliki has influence over Mr Abadi, another Dawa stalwart. There are differences. Mr Abadi does not share Mr Maliki's Shia chauvinism and has canvassed Sunni and Kurdish votes. Remarkably for a Shia, Mr Abadi's list won Mosul, the Sunni stronghold once controlled by Islamic State (IS).

All this means that Mr Abadi may emerge as a swing player. By joining Messrs Amari and Maliki, he could restore the dominance of the fractured Shia house. However, if he teamed up with Mr Sadr's *Sairoun,* he could put the country on a path towards less sectarian politics. Both camps suggest they may back Mr Abadi's bid for a second term.

In contrast to previous ballots, the election passed off without serious violence. For the first time since Iraq's transition to parliamentary democracy in 2005, Sunnis voted in large numbers for Shias. Party leaders of all hues curbed their sectarian barbs. But Iraqis are disenchanted. Only 44% voted, down from 62% in 2014. Their patience will be tested if their votes only perpetuate dysfunctional, corrupt rule.

Europe

- **Italy’s coalition talks: The wills of the people** [Fri, 18 May 02:51]
- **Spain and Catalonia: No surrender** [Fri, 18 May 02:51]
- **Sex and French: Vive la différence** [Fri, 18 May 02:51]
- **Poland and Hungary: Drinking from the same glass** [Fri, 18 May 02:51]
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The wills of the people

An Italian populist government looks likely, and risky

A coalition of the Northern League and the Five Star Movement could send the country off the rails

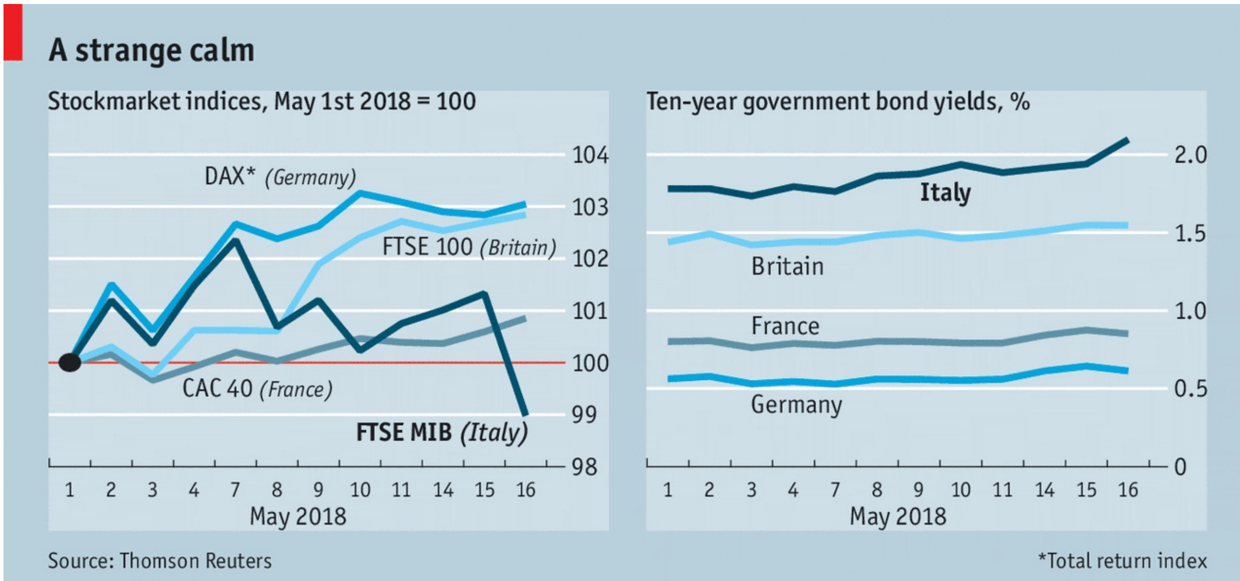
May 17th 2018 | ROME

LUIGI DI MAIO (pictured, left) is only 31, but as leader of the Five Star Movement (M5S), he is poised for a decisive role in Italy's next government. After coming first in the general election on March 4th, the M5S appeared close this week to sealing a coalition agreement with the far-right Northern League and its leader, Matteo Salvini (pictured, right). That would give Italy, and western Europe, its first all-populist government. Mr Di Maio, a university drop-out, is known for his grammatical howlers, but he can concoct a good soundbite. “Obviously, history is being written,” he declared on May 13th, as he left another round of the interminable coalition talks. “So it takes a bit of time.”

One problem the two sides had not resolved, as *The Economist* went to press, was finding a prime minister. (A possibility was that each party's choice might serve half a term.) Yet the programme on which they were toiling may indeed be historic. If they can agree, one of the European Union's most important states will have a Russophile government bent on challenging the constraints of the euro zone. An M5S-League coalition would be eccentric, idealistic, tinged with xenophobia, intolerant of corruption and economically illiberal. If the two anti-establishment parties fail to agree, the outlook will be no less uncertain. It will mean either new elections, or a technocratic government lacking the authority to implement necessary reforms.

Small wonder that signs of disquiet are emerging in Brussels. The vice-president of the European Commission, Jyrki Katainen, warned that Italy will get no exemptions from the euro zone's fiscal rules. His colleague, Dimitris Avramopoulos, hoped that the government would not change Italy's stance on migration. Mr Di Maio and Mr Salvini reacted indignantly.

Markets have begun to worry, too. On March 16th the spread in yields between Italy's ten-year government bonds and those of Germany jumped to more than 1.5 percentage points. In a statement intended to reassure investors, the two party leaders said they had decided "not to call into question the single currency". But a draft of their government programme leaked to the Italian edition of *Huffington Post*, a news website, showed that until two days earlier they had been doing just that. It called for procedures to allow member states to leave the euro and "recover their monetary sovereignty". It also foresaw the immediate scrapping by Italy of all sanctions against Russia. Far from being a threat to Western democracy, Mr Putin's domain would be a "strategic interlocutor".



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In the latest draft, the parties' most controversial proposals have been watered down. The League's electoral pledge of a flat 15% income-tax rate has acquired another band at 20%. It may be introduced only partially and gradually. The M5S wants what it calls a "citizenship income" of €780 a month, but this will apparently be available only to job-seekers and the most needy; it will not be introduced before 2019. Yet both parties still appear bent on undoing pension cuts introduced in 2011 as a sign of Italy's determination to get a grip on its public finances. That raises the question of how to avoid adding to the public debt, which stood at 132% of GDP by the end of 2017. Oxford Economics, a consultancy, thinks the pension roll-backs would run to €15bn a year. The tax cuts and citizenship income could well cost more.

Plans to finance these proposals seem shaky. The earlier draft imagined cutting five percentage points of GDP from the national debt by "selling" the Treasury's portfolio holdings to the institution that invests Italians' postal savings—which is controlled by the Treasury. Ten more points would have come from securitising and marketing publicly owned property. The negotiators have wisely dropped their assumption that the ECB would obligingly forgive €250bn in Italian bonds acquired through its programme of quantitative easing, though they hope for some debt cancellation across the euro zone.

Even more worrying is the parties' indifference to Italy's central economic weakness: low productivity growth. Few of the measures in the draft would boost competitiveness. Indeed, the earlier draft promised small businesses protection from “the liberalisation of working hours, the rapid expansion of large retailers” and the EU’s directive on deregulating services. The parties seem committed to taking on corruption. But swifter civil justice, which Italy urgently needs to secure foreign investment, does not seem to be a priority.

Until this week markets had been calmed by the economy’s relative solidity. Italy’s GDP grew by 1.5% last year and the health of its banking system has improved. The ECB is keeping the interest rates on Italy’s debt low, and much public debt is now held either domestically or in Frankfurt, lowering the risk of big price movements.

Coalition of the wishful thinkers

Another factor is the expectation that EU rules and fear of upsetting markets will deter radical change. Analysts at Unicredit, a bank, point to Portugal and Greece, where populist governments toned down their policies when faced with reality. But Italy’s new government may be an exception. The League resembles other populist-nationalist parties such as France’s National Front. The M5S is a very different creature, launched in 2009 with a mission of introducing direct democracy through online voting. As it has snowballed, it has gathered a heterogeneous mix of policies and activists from left and right alike.

One remaining area of disagreement between the two parties is infrastructure. The League would like to see big investments to create jobs. That is anathema to the environmentalist M5S, one of whose negotiators cut her teeth in a campaign to stop a high-speed rail link to France. The coalition talks have shown that Italian populism comes in radically different forms. If the marriage of the M5S and the League goes ahead, it may be stormy.

No surrender

Catalonia’s new president is a secessionist, like the previous one

Spain’s jailing of rebellious politicians has not convinced them to back down

May 17th 2018 | MADRID

IT TOOK almost five months, but Catalonia has at last chosen a new regional president. Quim Torra, the nominee of Carles Puigdemont, his separatist predecessor, was elected in the Catalan parliament by 66 votes to 65, with four abstentions, on May 14th. This means that Spain’s government will end the direct rule it imposed over one of the country’s richest regions after Mr Puigdemont organised an unconstitutional referendum on October 1st, followed by a unilateral declaration of independence. But the Catalan conflict is far from over: indeed Mr Torra (pictured), an ultranationalist, was chosen in order to prolong it, rhetorically at least.

His first act was to fly to Berlin for talks with Mr Puigdemont, who is fighting extradition from Germany on charges relating to the October events that range from rebellion to misuse of public funds. Mr Torra repeatedly stressed the “exceptional and provisional nature” of his mandate and that Mr

Puigdemont remains Catalonia's "legitimate president". He said his priority would be to "build the republic" and "elaborate a draft constitution" for Catalonia. He also called for unconditional talks with Mariano Rajoy, Spain's conservative prime minister. That was cautiously accepted by Mr Rajoy.

But a meeting of minds is not close. Over the past two years the only thing the Catalan separatists have wanted to talk about is a referendum on independence. Their other priority now is the freeing of nine political leaders jailed pending trial for flouting the constitution in the independence drive. Mr Rajoy cannot grant either wish, legally or politically. Instead the government is prepared to talk about the Catalan administration's financial and other lesser grievances.

Many in Madrid will mistrust Mr Torra's government as long as Mr Puigdemont, who precipitated Spain's deepest constitutional crisis since the return of democracy in 1978, is seen to be pulling the strings. Albert Rivera, the leader of Ciudadanos, a liberal party that leads in many opinion polls, called on the government not to lift Article 155, the constitutional clause under which Mr Rajoy dissolved Mr Puigdemont's government last autumn and called a Catalan election. Held in December, this saw the separatists retain a narrow majority of seats in the regional parliament, though they won only 48% of the popular vote.

In fact, direct rule automatically lapses as soon as Mr Torra's government takes office, probably within days. But Mr Rajoy warned the separatists that Article 155, never previously used, is now "a precedent and a procedure" and that "if necessary" it will be reimposed on Catalonia. For that he has the backing of Pedro Sánchez, the opposition Socialists' leader, as well as Mr Rivera. Government sources have said that they may still exercise control over the finances of the Catalan administration.

Mr Torra must walk a fine line. The separatist project foundered last autumn when confronted with harsh reality. Independence has never enjoyed majority support in the opinion polls. No European government wants to see the precedent of a national schism. Businesses took fright, with more than 3,000 companies moving their legal domicile outside Catalonia.

These setbacks, and the jailings, prompted divisions in the separatist camp.

Mr Puigdemont, from his voluntary exile, wants to keep up the pressure on Mr Rajoy. He three times proposed candidates for president whose investiture was thwarted because they were in jail or abroad. His main coalition partner, Esquerra Republicana (Republican Left), tired of such theatrics and called for an "effective government". While appearing not to renounce unilateral action, in practice Mr Torra may seek to remain within the law.

The separatists' main strategy remains to try to mobilise Catalans and international opinion. They have scored some victories, mainly because of the heavy-handed approach of Spain's Supreme Court to Catalan disobedience. The German court considering Mr Puigdemont's extradition has so far cast doubt on the case. Spain has since filed further evidence.

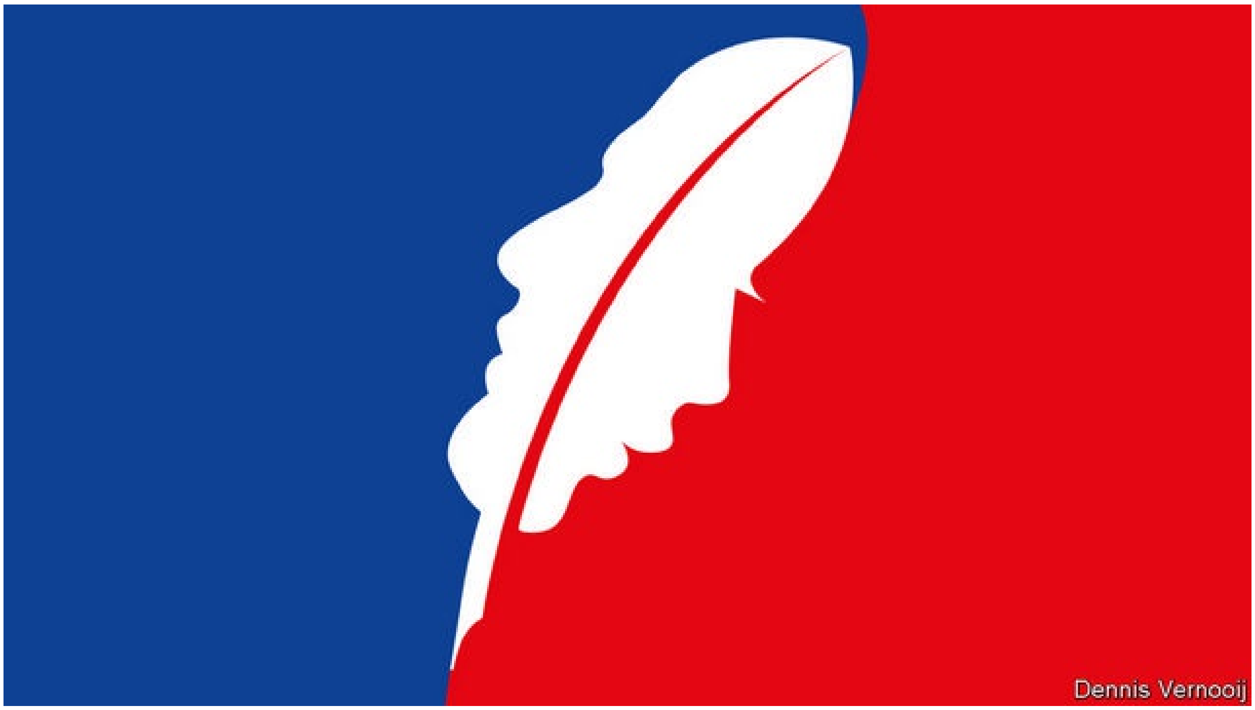
Mr Torra's appointment may sap sympathy for the separatists abroad. They have always presented their movement as open and progressive. A former insurance executive and publisher, Mr Torra comes from the right wing of Catalan nationalism. He has shown enthusiasm for Estat Català, a quasi-fascist outfit in the 1930s. He has also expressed a visceral hatred of Spaniards. In 2012 he wrote that those who live in Catalonia but do not embrace its culture were "carrion-eaters, scorpions, hyenas, wild beasts in human form". This week he apologised for these and other statements. Still, they are a propaganda gift to the opponents of nationalism.

How long Mr Torra's government may last and to what extent he will be his own man is unclear. Mr Puigdemont has suggested a fresh election in December. What is clearer is that Catalan society remains split down the middle.

Vive la différence

Language activists are trying to make French gender-neutral

Liberty, equality, brotherhood and sisterhood



May 17th 2018 | PARIS

IN FRENCH, as in English, full stops traditionally belong at the end of sentences. But lately they have been invading the middle of words. Organisers of recent university sit-ins have called on *étudiant.e.s* (students) to join the blockades. Pressure groups urge their *militant.e.s* (activists) and *adhérent.e.s* (members) to take part in rallies. Normally, the forms of these nouns ending with "es" are feminine; those with just an "s" are masculine. The optional "e" between full stops attempts to make them unisex. It is all part of *l'écriture inclusive*, or inclusive writing—a defiant response to charges of French linguistic patriarchy.

As every student of French knows, the traditional rule is that "the masculine form takes precedence over the feminine". So an adjective that refers jointly to masculine and feminine nouns—*des garçons et des filles intelligents* (clever boys and girls)—agrees only with the masculine one (adding just an “s” in the plural, not an “es”). This principle has long been implicit in the use of masculine nouns to cover feminine cases too. *Un sénateur* (senator) traditionally refers to both men and women who occupy the office.

Such practices vex feminists. A group of 314 teachers issued a public appeal a few months ago against a grammatical tradition that amounts to “the domination of one sex over the other” and makes women invisible. Eliane Viennot, who describes herself as a literature *professeuse* (professor), recalled that such rules were codified only in the 19th century. In 1480 Madeleine de France, Charles VII’s daughter, described herself as an *autrice* (female author). The pre-Napoleonic French language referred to a *charpentièr*e (female carpenter) or *doctoresse* (woman of letters). Indeed, Quebec recommended the use of feminised forms for job titles in 1979. Today, French advocates of gender-neutral language would also prefer the adjective to obey a rule of proximity, and agree with the gender of the nearest noun in a sentence. In the example above, this would lead to *des garçons et des filles intelligentes*.

Needless to say, the linguistic purists are aghast. Last October the Académie Française, founded by Cardinal Richelieu in 1635, issued a “formal warning” against *l’écriture inclusive*, calling it an “aberration” and declaring the French language in “mortal danger”. Such was the controversy that Edouard Philippe, the prime minister, whose government has made sex equality a priority, felt obliged to step in. Affirming that he was all for the “battle against stereotypes”, he called nonetheless for a compromise. All public-sector job titles would henceforth be feminised. So a female *chef de cabinet* (head of staff) is now *une cheffe*, and a female *préfet* (prefect) is *une préfète*.

Yet Mr Philippe drew the line at the encroaching dot. He ruled that all official job adverts should call for “*un candidat*” or “*une candidate*”, so as to encourage both male and female applicants. All references to *candidat.e.s*, however, will remain strictly *interdit.e.s*.

Drinking from the same glass

Viktor Orban's visit to Warsaw showcased an illiberal alliance

Hungary and Poland are challenging the EU's commitment to liberal democracy

May 17th 2018 | WARSAW

A BIT of Polish doggerel from the 18th century, when Polish and Hungarian nobles fought together against the Russian empire, maintains that Poles and Hungarians are "brothers, both of the sword and of the [wine] glass". The Hungarians have a similar rhyme. Lately this friendship has experienced a revival that goes beyond a common interest in fighting and drinking. The two countries' ruling parties, Poland's Law and Justice (PiS) and Hungary's Fidesz, both disdain liberalism, disregard the independence of the judiciary and reject the European Union's plans for resettling refugees from the Middle East. They also protect each other in Brussels, where their policies have drawn the ire of the European Commission.

On May 14th Viktor Orban, Hungary's prime minister, visited Warsaw on his first foreign trip since winning re-election in April. It was a triumphal visit for Mr Orban, whom PiS has long admired. In 2011 Jaroslaw Kaczynski, PiS's chairman and Poland's de facto leader, said he was "convinced that the day will come when we will have Budapest in Warsaw". Since coming to power in 2015, PiS has led Poland in the illiberal direction charted by Fidesz. It has packed the supreme court and turned the public media into a government propaganda channel, echoing earlier changes in Hungary.

Mr Orban has gone further down the road to autocracy. On May 15th the Open Society Foundations, a liberal philanthropic group, announced that Hungary's "repressive political and legal environment" had grown so bad that it would shift its Budapest operations to Berlin. (The group's billionaire founder, George Soros, was targeted by Fidesz in a xenophobic campaign during the election.) Yet the Poles are moving in the same direction. On May 11th police in the town of Pobierowo raided an academic conference on Karl Marx to check whether it "propagates totalitarian content". The interior minister later apologised.

For the EU, the two governments' actions are a headache. The European Commission has instituted so-called Article 7 proceedings against Poland over its changes to the legal system, which give the executive and legislative branches authority to appoint and remove judges. The proceedings could lead to sanctions if Poland does not back down. But Mr Orban has vowed to block such sanctions. Now the commission is trying a new approach: in its upcoming seven-year budget, it plans to cut EU funding to countries where the rule of law is at risk. Hungary and Poland, both among the largest net recipients of EU funds, are most likely to be affected. During Mr Orban's visit, the Poles and Hungarians agreed to try to block any such move towards conditionality in EU funding. Mr Orban has threatened to veto the budget.

Both governments are here to stay. Mr Orban's victory in April was a landslide. "We have replaced a shipwrecked liberal democracy with a 21st-century Christian democracy," he said on May 10th. (The EU, he added, must give up its "delusional nightmares of a United States of Europe".) PiS, too, leads in the polls. The commission has given the Polish government until June 26th to come up with satisfactory changes to its judge-nobbling rules. But with his political position secure, and the support of his Hungarian brother, it is hard to see why Mr Kaczynski would retreat.

Dance dance revolution

Young Georgians fight for their right to party

Tbilisi is getting hip, and traditionalists feel threatened

May 17th 2018 | MOSCOW

BACHO CHALADZE, a DJ, had just settled into his set at Cafe Gallery, a nightclub in Tbilisi, when a group of unwelcome guests burst through the door. "They rushed in with rifles and masks," he recalls. "They ran to me to turn off the music"—at that moment, a bass-heavy track by Fumiya Tanaka, a Japanese producer. Nearby at Bassiani, a cavernous club in the bowels of a football stadium, a similar scene unfolded as armed Georgian police stormed in, pushing patrons against the walls and the floor. As Kate Beard, a photographer visiting from London, puts it: "The vibe got very dead very quickly."

The government said the raids on May 12th targeted drug dealers, in response to at least five recent drug-related deaths. Yet the standoff, Mr Chaladze says, is about something bigger: a struggle between Georgian traditionalists and a growing movement of social liberals in Tbilisi. (Both tendencies are represented inside the ruling party, Georgian Dream.) A new, Westernised generation “want to express themselves not only by dancing, but through different lifestyles,” says Ghia Nodia, a professor of politics at Ilia State University in Tbilisi. “It’s not a teenage rebellion stage—they are beyond that.”

Many young people in Georgia saw the raids as an assault on their culture. The clubs have become islands of tolerance for nonconformists, sexual and otherwise, in a country that remains prudish and patriarchal. Just hours after the raids, thousands gathered outside the Georgian parliament to protest under the slogan “We Dance Together, We Fight Together”, demanding the resignation of the interior minister and prime minister, along with reform of the country’s harsh drug laws. The march turned into a rave that ran through the weekend, with loudspeakers on the steps of parliament filling the street with house and techno music. “It felt like Paris must have in ’68, just without the clashes,” says Mariam Pesvianidze, a filmmaker.

On Sunday afternoon, counter-protesters with shaved heads arrived, wearing masks, to spoil the fun. “Bassiani and Gallery are gay clubs, where drugs are being sold and the youth are recruited in illegal activities,” said Dimitri Lortkipanidze, a leader of Georgian March, an ultranationalist group. With the country “on the cusp of civil confrontation”, as President Giorgi Margvelashvili later put it, police separated the groups. The interior minister came out to apologise for the police brutality, quelling the protests—for now.

The clubbers have allies. Tourism is a fast-growing industry in Georgia, generating nearly 7% of GDP in 2017. The government promotes Georgia as a hip destination for millennials, and Tbilisi’s nightlife is “part of the experience”, says Maia Sidamonidze, a former head of Georgia’s national tourism administration. Bassiani has been hailed by Resident Advisor, a trend-setting music website, as one of the world’s best clubs, drawing comparisons to Berghain in Berlin. After the raids, support poured in from DJs who have played there. “Bassiani stay strong!” wrote Ben Klock, a German techno artist.

Some in the government have warmed to the club culture. Tbilisi’s new mayor, Kakha Kaladze, a former footballer for AC Milan, campaigned on backing clubs and has established an official post for developing the nightlife economy. (Some think the raids were a message to Mr Kaladze from rivals inside Georgian Dream.) The son of Bidzina Ivanishvili, Georgia's richest oligarch and de facto leader, is a rapper who advocates liberalising drug laws; the day after the raids, he released a new song called "Legalise". Coincidentally, hours before the raids Mr Ivanishvili, who had long ruled the country from the shadows, took back the post of chairman of the Georgian Dream party.

Video of the rave spread internationally on social media, especially in the former Soviet Union. Sergii Leshchenko, a reformist MP in Ukraine whose wife is a popular DJ, called it "an example of how *sovok* (the Soviet mindset) has been definitively defeated in the heads of the young generation" in Georgia. Some Russian liberals admired their bravery. "If thousands of people had started a rave outside the Duma, the consequences would have been grim," says Elena Gracheva, a Muscovite who was visiting when the protests erupted.

In Tbilisi, activists have threatened to return to the streets if officials do not liberalise drug policy and allow the clubs to reopen. The battle, like the music, looks set to go on.

Charlemagne

Europe has few good options for dealing with Donald Trump

If America’s president does not value allies, they cannot make him

May 17th 2018

REMEMBER “Love Actually”? Back in 2003, in the heat of the Iraq crisis, British hearts were lifted by Hugh Grant’s portrayal of a prime minister publicly humiliating a bullying American president. In 2018 Donald Trump’s decision to withdraw from the nuclear deal with Iran is inspiring Europeans to their own moments of Grantian *hauteur*. “Do we want to be vassals who obey decisions taken by the United States while clinging to the hem of their trousers?” asked Bruno Le Maire, France’s finance minister. German diplomats are spitting blood. One magazine urged Europe to join the anti-Trump “resistance”.

If that seems a trifle overcooked, the strength of the fury shows the value of the Iran deal for Europeans. In one neat package it diminished a security threat, bolstered multilateralism and strengthened the transatlantic bond. The Europeans fought desperately to assuage Mr Trump’s concerns, and earned only humiliation. Their current efforts to stop him slapping tariffs on their steel and aluminium exports next month may be similarly doomed. The twin pillars of Europe's place in the world are the multilateral rules-based order and the transatlantic alliance. Mr Trump seems to be forcing Europeans to choose between them.

For now, the path seems clear. Meeting this week in Sofia, Europe's leaders agreed they would try to keep the nuclear deal alive (see article). The options include countermeasures like a "blocking regulation" to shield European firms investing in Iran from American sanctions. Whether they will succeed is an open question; for many European companies, the American market is too important to risk. (Germany exports about as much to North Carolina as to Iran.) On the trade row, some European governments think the current spat can be flipped, judo-like, into talks about eliminating the tariffs which Mr Trump dislikes on cars and other goods; others doubt it. But all agree that if his metals tariffs take effect, Europe must hit back.

If all this hints at a new readiness to get tough, it is in part because other tactics have flopped. Emmanuel Macron, the so-called "Trump whisperer", tried flattery; he was ignored. Angela Merkel's softly-softly approach found only Trumpian derision. Mr Trump paints the European Union as a plot against American interests and has urged its disintegration. These days European diplomats mutter that only the hard-nosed seem to get results from Mr Trump. Europe is rich and capable. Perhaps it is time to acknowledge that America can be an adversary as well as a partner. Should matters between Europe and America escalate, says Mark Leonard of the European Council on Foreign Relations, a think-tank, "It's not clear to me that America would win."

But there are dangers in the "Love Actually" approach. It seems self-defeating to try to defend the multilateral order using the same divisive tactics as Mr Trump. The WTO, perhaps Mr Trump's next target, is already tottering; it might not survive an escalation between the world's two largest trading partners. America's withdrawal from the Iran deal leaves the Europeans awkwardly lining up with China and Russia to offer sweeteners to the regime in Iran—a serial human-rights violator and source of regional instability. The need to convince the Iranians to stay in the deal means there is no leverage to make them end their missile programme or their regional troublemaking, as Europe had been trying to do before Mr Trump walked away. Most of all, Europe still depends on the American security guarantee. It should think hard before offering Mr Trump an excuse to jettison it.

Such are the dilemmas thrown up for Europe when America comes First. And while Mr Trump has never hidden his allergy to multilateralism, today his cabinet has fewer dissenting voices. The "adults in the room" on whom the Europeans had pinned their hopes, grey-haired generals or businessmen with an affection for diplomacy and stability, have largely been turfed out in favour of men like John Bolton, Mr Trump's national security adviser, who has urged regime change in Iran and thinks rules are for wimps. Things will not get better under this administration.

Trump 2.0

Yet it would be myopic to blame The Donald alone for the sense of transatlantic drift. The end of the cold war, and growing threats elsewhere, set America on a different geopolitical course. Even Barack Obama, who believed in alliances and knew how to appeal to Europeans' vanity, wanted to pivot America towards Asia. It is hard to imagine a president who would not. Mr Trump's successors may not share his aversion to partnership. But nor will they preside over a return to the status quo ante.

So as Donald Tusk, president of the European Council, hinted this week, it is time for Europe to attend to its own yard. Mr Trump has already spurred some gentle defence co-operation inside the EU; it can be stepped up without undermining NATO. Germany is going backwards on military spending, but it has at least learned, in Mr Leonard's phrase, to "weaponise" its economy in disputes with Russia and Turkey. Mr Macron can lead a fresh European diplomatic offensive in the Middle East; the regional tensions which a collapse of the nuclear deal could unleash make that an especially urgent task. Even Mrs Merkel has come to understand that disasters abroad have consequences at home. On trade the EU has been striking deals with partners like Canada and Japan that will boost growth and spread European standards.

But maintaining unity is difficult when many European countries, especially in the east, are not convinced that they must line up with their own continental partners in geopolitical affairs. Only last week three governments vetoed a planned EU statement condemning Mr Trump’s decision to move America’s Israeli embassy to Jerusalem. Standing up to Mr Trump feels intoxicating, but Europe’s options are limited by its own divisions and dependence. If America drops its end of the international order, Europe lacks the strength to support the entire structure alone.

Britain

The great transformation

Corbynomics would change Britain—but not in the way most people think

Criticism of Labour's plans has focused on its fiscal and monetary ideas. Its proposals to "democratise" the economy are far more radical

May 17th 2018

JOHN MCDONNELL has been on a tea offensive. Labour's shadow chancellor of the exchequer spent three decades on the party's left-wing fringe before he was thrust to its top in 2015, following the surprise election of Jeremy Corbyn as Labour's leader. Now Mr McDonnell, who lists among his hobbies "fermenting [sic] the overthrow of capitalism", has been touring the City of London and taking tea with bankers to disabuse them of their fears. "They expect to meet a raving extremist who is about to nationalise their company and send them on a re-education course somewhere up north," he told financiers during a speech at Bloomberg's headquarters in London last month.

The audience laughed. But the prospect of a far-left government led by Mr

Corbyn and Mr McDonnell is not the joke it might have seemed 18 months ago. Labour deprived the Conservatives of their majority in a general election last year. Polls now have the opposition snapping at the heels of the flailing Tories, who are hopelessly bogged down in Brexit negotiations. What precisely would Labour's leaders do to Britain's economy if they got into power?

Tory MPs warn that Mr Corbyn wants to drag Britain back to the 1970s, when left-wing Labour governments jacked up taxation and spending and made a hash of managing the economy. Some of them say he would turn Britain into Venezuela—whose government under Hugo Chávez he praised—only minus the oil and the sunshine. Labour sometimes sounds outright hostile to capitalism. "When they [bankers] say we're a threat, they're right," Mr Corbyn boasted in November in a video that swiftly went viral. Mr McDonnell has previously advocated nationalising the banking system; in 2013 he declared that he was a Marxist.

At other times, however, the duo's economic plans don't sound drastically more radical than those of Labour's previous, centre-left leader, Ed Miliband. The party's manifesto last year was more moderate than expected. "If I was putting forward these ideas in Germany, I'd be called depressingly moderate, depressingly old-fashioned," Mr Corbyn has said.

Marx brothers?

Piecing together Corbynomics is difficult, not least because it has evolved during Mr Corbyn's time in charge of Labour. The gulf between the Labour leadership's past positions and the milder proposals in the manifesto means that enormous uncertainty hangs over what a Corbyn-led government would do in office. But it is already clear that Corbynomics is not what Labour's opponents believe. It owes more to little-known 20th-century economists than it does to Karl Marx. And its radicalism, which is real, lies in the area that has so far attracted least attention.

Economic programmes comprise three big things: monetary policy, fiscal policy and structural reforms. The Conservatives' attacks on Corbynomics have focused on the first two categories.

There is plenty of radical thinking about monetary policy going on in leftist circles. Followers of Bernie Sanders, a socialist senator who challenged Hillary Clinton for the Democratic presidential nomination in 2016, have leapt on "modern monetary theory". MMTers believe that because currency is a creature of the state, governments enjoy more financial freedom than they recognise. They can spend without first collecting taxes and borrow without fear of default.

The eyes of Mr McDonnell's advisers would bulge at the suggestion that they adhere to MMT. Though Mr Corbyn entertained wacky policies in the early days of his leadership—including "people's quantitative easing", which amounts to printing money to fund public investment—the message today is orthodox. Labour is toying with the idea of altering the Bank of England's mandate, to make it more like the Federal Reserve's, in which unemployment is targeted in addition to inflation. It is also thinking about moving parts of the bank to Birmingham, a cosmetic change. For those on Labour's left, the party's reticence is frustrating. "Labour have never 'got' monetary policy," moans one prominent left-wing thinker.

If that all sounds fairly small-bore, so is much of Labour's fiscal policy. The primary objective is to undo much of the fiscal austerity that Conservative-led governments have implemented since 2010. Labour would raise annual day-to-day spending by about £45bn ($61bn), ultimately bringing it back to where it was in 2015. A rise in corporation tax from 19% to 26%, restoring it to its level in 2011, is the biggest tax measure. A "national transformation fund" would raise public-sector net investment from around 2% of GDP to 3%, the highest sustained level in four decades. These policies add up to Labour's most left-wing programme in many years. But last year's election suggested that voters thought the Venezuelan comparisons didn't quite ring true.

The other Austrian economist

In fact, fiscal and monetary policy turn out to be the least radical parts of Labour's economic plan. "Keynesianism is not enough," wrote James Meadway, now Mr McDonnell's economic adviser, in 2015. The problem with the British economy, as Labour sees it, is not a few too many years of austerity or over-tight monetary policy. "There are no quick fixes," added Mr

Meadway. The third plank of Corbynomics, therefore, involves structural reforms, proposals for which have been fleshed out since the general election. Here the most interesting ideas are to be found.

From 1979 Margaret Thatcher launched an assault on the structure of Britain's economy and society. Guided by the works of Friedrich Hayek, and in particular his "Road to Serfdom", published in 1944, her governments cut the size of the public sector and blitzed trade unions. They instilled a culture of individualism and self-reliance in Britons.

Those in the Labour leadership want a repeat of 1979, except with a resurgence of the collective, rather than the individual. Previous Labour governments largely focused on redistribution. Mr Corbyn wants to overhaul the institutional structure of the economy, argue Joe Guinan and Martin O'Neill, two influential left-wing thinkers, in a forthcoming edition of *Renewal*, an academic journal. Speaking to the *Sunday Times* in 1981, Thatcher declared: "Economics are the method; the object is to change the heart and soul." The Corbynites have something similar in mind.

To understand how Labour intends to change Britain's heart and soul, consider the works of another Austrian who wrote a book in 1944. Karl Polanyi was part of a group loosely known by historians as the "moral economists". The typical socialist critique of capitalism is that it produces poverty and inequality, argues Tim Rogan of Cambridge University. The moral economists' critique was socialist, but in a different way. They focused on something abstract and difficult to measure: the spiritual and moral decline that is said to accompany capitalism.

Polanyi aimed his critique at economic liberals. According to him, they believe that market exchange and self-interest are how societies naturally organise themselves. But other principles have underpinned societies throughout history, too, including reciprocity, honour and loyalty. If societies focus just on market exchange, Polanyi said, resistance (what he calls the "counter-movement") inevitably follows.

Polanyi was writing shortly after a tumultuous period of global history. Liberals of the early 20th century had believed that integrated global markets, propped up by the gold standard, would endure for ever. But in Polanyi's view, economic liberalism came at a cost. Free global trade put many firms out of business. Adhering to the gold standard required governments to impose painful austerity measures. As people moved around in search of work, family bonds were broken and friendships made shallower. All this, he argued, ultimately provoked a reaction in the form of fascism.

The solution, in the moral economists' view, was not to get rid of markets entirely, as Marxists would advocate. Instead, it was to soften them. That meant giving workers more bargaining power and influence over economic decisions. It meant constraining the power of finance. And it meant removing certain aspects of society from market exchange altogether. To those who objected that all this would cause GDP to fall or unemployment to rise, the moral economists countered that the country would gain in other ways.

The thinking of the moral economists has a rich tradition in the Labour Party.

R.H. Tawney, an English economic historian, was a favourite of many Labour MPs in the 1940s. Tawney, in a manner similar to Polanyi, argued that capitalism encouraged greed and thereby corrupted everyone. The "alternative economic strategy" of the 1970s, promoted by Tony Benn, a Labour MP and mentor of Mr Corbyn, has echoes of the moral economists. According to a 1981 issue of *Marxism Today*, it was popularly perceived as "a programme for greater state control of the economy". In fact, Benn "stressed the need for democracy and popular involvement in economic planning."

This is the intellectual tradition in which Mr Corbyn and Mr McDonnell developed. Publications by Mr McDonnell when he was an obscure backbench MP, now stored on dusty shelves in the British Library, have moral economy written all over them. "[F]ar from making people happier, the net effect of consumer capitalism is to reinforce individualism at the expense of health and well-being because it only offers the illusion of control," he wrote in one. He spoke at a conference celebrating Tawney in 2016. According to Mr Corbyn's friends, he learnt most of his economics from Benn. When Mr Corbyn says that "it cannot be right …that profits extracted from vital public services are used to line the pockets of shareholders," the echoes of the anti-utilitarian approach of the moral economists are loud.

Labour has also realised that Britain seems to be having its own "counter-movement". Many feel increasingly uneasy about the deregulation and privatisations that have occurred since the 1980s. More than three-quarters of Britons back the renationalisation of water, electricity, gas and railways. The Brexit referendum saw millions of people choose to risk their economic prosperity for what they saw as a chance to "take back control" from faceless technocrats in Brussels.

From Polanyi to the present

This context makes it easier to understand exactly what today's Labour Party proposes, and why. Last year a report commissioned by Mr McDonnell, called "Alternative Models of Ownership", fleshed out ideas for what Labour thinkers refer to as the "democratisation" of the economy.

One element involves nationalisation—but, Labour says, of a different kind from that which Britain saw after the second world war. Guided by the thinking of Herbert Morrison, a Labour minister, post-war nationalisation relied heavily on expert groups managing industries and services in the national interest. These groups were "too distant, too bureaucratic and too removed from the reality of those at the forefront of delivering services," Mr McDonnell said in a recent speech. The result of the Morrisonian model, according to the report for Mr McDonnell, was "a small private and corporate elite [with] little democratic scrutiny or debate around their operation." This analysis mirrors Polanyi's of the Soviet Union. A centralised system of economic management, he said, took power away from ordinary people.

Labour therefore proposes a different sort of public ownership. Local authorities, trade unions and workers, all of whom are seen as more responsive than expert panels to local needs, would play a greater role in the management of services. Councils would help run regionally owned utilities, for instance. "[N]ational state ownership of the grid and infrastructure of electricity and gas sectors could be combined with local, regional and community ownership," the report says.

An embryonic version of these energy proposals has already taken effect in Nottingham, where Labour runs the city council. In 2015 the council set up a not-for-profit gas and electricity supplier, Robin Hood Energy, which also sells across the country under other councils' local brands (Angelic Energy, in Islington, counts Mr Corbyn as a customer). Robin Hood Energy takes risks—the council lent it £11m—and reinvests any rewards. Its prices compare well with those of private rivals. "We are reinventing the wheel of municipal socialism," says Steve Battlemuch, the councillor who sits on the firm's board.

Preston, in north-west England, is a laboratory for other aspects of Corbynomics. Under an agreement with the local council, large public institutions such as the university bias their procurement towards providers in the local area. For Matthew Brown, the councillor who started the scheme, it is about taking back control of public resources. "It democratises the capital," he says. If elected to Downing Street, Labour would get the government to use its colossal procurement budget for policy goals, demanding that suppliers pay the living wage (a voluntary amount slightly higher than the statutory minimum wage) or cap bosses' pay at 20 times that of the median worker, for instance.

Another part of "democratisation" involves promoting worker control over private businesses. Worker-owned and -managed companies are rare in Britain. Less than 1% of workers are members of co-operatives. Most people do not understand what a co-op is or how to set one up—though they like the look of John Lewis, the retailer owned by its workers, which is often cited by politicians trying to build support for co-ops. (Even David Cameron, a former Conservative prime minister, praised the chain.)

Labour goes further. It has promised to give workers a "right to own", allowing them the first chance to buy their company if it is sold. The party has also said it will make it easier for co-ops to acquire finance, lack of which is one of the main things that holds them back. Co-ops cannot list on stockmarkets, since they are owned by their workers. And banks are loth to lend to what is an uncommon form of business, with difficult-to-understand ownership structures. Labour's proposed "national investment bank", a new lender that could capitalise itself by issuing £20bn of government bonds a year, may be used to funnel money their way.

Corbynomics' cost

These plans would incur some hefty upfront costs. When it comes to nationalising privately held utilities, Mr McDonnell says that Parliament would determine the price to be paid for the companies' holdings. In practice it might not be so simple. Nationalisation for less than full market value could trigger compensation claims by investors. And determining that value would be tricky. To nationalise the water industry, for instance, might cost anywhere from £14bn (according to Bernstein, a research firm, using Labour's preferred methodology) up to £90bn (according to the Social Market Foundation, in a study commissioned by the industry). Whatever the cost, it is risky for a country with a large current-account deficit to mess around with foreign investors. Capital could flee at the prospect of more compulsory purchases.

When it comes to the long-term effect of the nationalisation policy, there is little evidence either way whether publicly or privately run utilities perform better. The private sector has not always proved up to the job: on May 16th the government announced that it would bring train services on the East Coast Mainline back under public control, following the failure of the private franchisees. Yet Britain's utilities and services such as the railways were hardly a byword for efficiency in their state-run days. Who owns and operates them may matter less than how they are regulated, something on which Labour has so far said little.

The bigger question-mark over Labour's plans to "democratise" the economy is whether they would really put ordinary people in charge. Distant, out-of-touch private managers could simply be replaced by distant, out-of-touch public bosses or by party apparatchiks. Removing the focus on economic returns might make it easier to justify doling out jobs or contracts to political allies. Buying local, as Preston does, is protectionist, a bit like banning imports. A local supplier may win a contract over a better one in the next-door town. If every council did this, Britain as a whole would be poorer.

As for co-ops, it is worth asking why they have never taken off as a way of organising companies in any country. Even in Italy, sometimes cited as a place where they have thrived, by one estimate only 4% of workers are in co-operatives. Subsidised lending would risk propping up unprofitable outfits.

Although worker-ownership of business gives ordinary people a greater stake, it also concentrates risk. Workers' investments, as well as their salaries, become wrapped up in the companies they work for. Would a Corbyn government or local authority allow such businesses to fail, as they must if the economy is not to be weighed down by zombie firms?

These are the questions to ask of Corbynomics. And Labour's critics should keep in mind the philosophical underpinnings of these policies. As far as their supporters are concerned, criticising the plans for their inefficiency misses the point. Just as warnings that Brexit would make people poorer failed to deter those who longed to claw back power from Brussels, those same arguments against Mr Corbyn's programme may not persuade voters determined to "take back control" of the economy.

In for a pound

Britain is increasingly willing to cosy up to nasty regimes

Brexit leaves the country in need of new friends

May 17th 2018

WHAT the crowd lacked in size, it made up for in noise. Fifty or so people waved Turkish flags and shouted their support for Recep Tayyip Erdogan as he gave a speech at a think-tank in London. Protesters responded with placards covered in a sinister image of the Turkish president and chants of "Erdogan, terrorist!" The aim was to show that he "is not welcome in the UK", said Elif Gun, a young activist. "He is the killer of Kurds."

That is not a view shared by the British government. Mr Erdogan's state visit on May 13th-15th included a stiff press conference with Theresa May and a meeting with the queen. The tour aimed to cultivate a blossoming relationship. In contrast to other Western powers, Britain was quick to offer the Turkish government its support after an attempted coup against it in 2016, and has remained quiet over human-rights violations. It now hopes to benefit, with a number of arms deals in the offing.

Tony Blair's government toyed with the idea of an "ethical foreign policy", before giving in to economic imperatives. Mrs May's has shown little regard for such concerns. Since the vote in 2016 to leave the EU, the government has published a slew of policy papers promising renewed engagement with the wider world, under a "Global Britain" slogan. In practice, this has proved difficult. In the past year Britain has lost an embarrassing vote at the UN (over the Chagos islands) and failed to send a judge to the International Court of Justice for the first time in the court's history. Ironically, its greatest success has been in the EU, where Mrs May convinced 18 countries to expel Russian diplomats after the poisoning of an ex-spy in Britain.

Much attention is thus focused on strengthening bilateral relations. Doing so has often required ministers to bite their tongues. In Africa Britain has scrambled to improve relationships with some of the continent's worst human-rights offenders. Sudan's president, Omar-al Bashir, has been indicted for genocide by the International Criminal Court (ICC), but Britain now has a "strategic dialogue" with the country, and in December hosted a Sudan trade forum in London. It is leading a charge to embrace the new president of Zimbabwe, Emmerson "the crocodile" Mnangagwa, who many believe will prove little better than his predecessor, Robert Mugabe. Britain is promoting debt write-offs for Zimbabwe in exchange for commitment to reform.

Last year Liam Fox, the trade secretary, buttered up another president who has attracted the attention of the ICC, Rodrigo Duterte of the Philippines, who is being investigated for crimes against humanity committed during his war on drugs. Drumming up trade, Dr Fox wrote in a Philippine newspaper that Britain had a strong relationship with the country, built on "shared values and shared interests." As well as visiting South-East Asia, diplomats are spending lots of time in the Gulf.

Foreign governments are well aware of Britain's new predicament. As Mr Mnangagwa told the *Financial Times*, "Brex… how do you call it? Brexit. Yes, it's a good thing because they will need us…What they've lost with Brexit they can come and recover from Zimbabwe."

This is uncomfortable for some cabinet Brexiteers. During the referendum campaign, Michael Gove, a leading Leaver, accused the EU of "appeasement" regarding Turkey, where, he argued, "democratic development has been put into reverse”. Around the same time Boris Johnson described Mr Erdogan as a “wankerer”—to rhyme with Ankara—and suggested that he had had sex with a goat, in an entry for a poetry competition (he won £1,000). Alas Mr Johnson, now foreign secretary, was on an urgent overseas mission this week, and unable to meet the president.

Tessa Jowell, 1947-2018

Tessa Jowell, Olympian politician

A minister who brought the games to London and quietly reshaped Britain

May 17th 2018

IT WAS in the garden of 10 Downing Street that Tessa Jowell made her mark. The then culture secretary had demanded a meeting with Tony Blair, the prime minister, to argue that London should bid for the Olympics. A sceptical Mr Blair did not want a pricey, risky project to burden his legacy. But she won him round: “This is a country that should always have the highest ambition,” she argued. Without Lady Jowell (as she later became), who died of brain cancer on May 12th aged 70, there would have been no London 2012.

The Olympics painted a neat caricature of Britain during the Blair era: open, global and successful, even if expensive and over-budget. It was a Britain that Lady Jowell helped to shape. It was on her watch as health minister that Sure Start centres, which provide child care and advice to new parents, were introduced. Archaic, illiberal drinking laws that banned serving alcohol in pubs after 11pm were scrapped, and gambling restrictions were loosened at her behest, too. “We will give adults the freedom they deserve and yobs the tough treatment they deserve,” she said.

Stanley Kubrick’s “Spartacus”, which she saw aged 14, was one of the formative influences of her socialism. Born in London, she studied at Aberdeen and Edinburgh universities before returning south and working as a councillor in north London in the 1970s, as Labour began its wilderness years. She entered the Commons in 1992 and played a prominent role in the governments of both Mr Blair, to whom she was politically devoted (she once joked that she would “jump under a bus” for him) and Gordon Brown. She had a knack for working across political divides, both within the Labour Party and across the aisle with the Tories.

This skill stemmed from a trait rare in the upper echelons of politics: she was fantastically nice. Mr Blair declared baldly that she had “simple human decency in greater measure than any person I have ever known”. We can vouch for this: in 2015 Lady Jowell joined the board of The Economist Group, to which she brought a deft understanding of human dynamics and a great capacity to bring people together. Even when she was ill she joined almost every board meeting by phone.

She spent the final months of her life campaigning for better treatment of brain cancer. Her speech on the subject in the House of Lords in January won a rare standing ovation. The day after her death, the government announced an extra £20m ($27m) for research into the disease. It was a final flourish. “She had an extraordinary, successful career in politics,” her husband, David Mills, said. “Then somehow after this disease struck she added another 25% to it.”

The B-road to Mecca

Britain’s rural Muslims are a minority within a minority

But work opportunities, the resettlement of refugees and the internet are bringing Islam to the countryside

May 17th 2018 | STORNOWAY

BRITAIN’S newest mosque has neither a dome nor a minaret. Only a crescent on the gate and a heap of shoes outside the door suggest the pebbledash cottage is any different from its neighbours. Yet worshippers and curious locals peeping in on its first Friday prayers—just before the holy month of Ramadan, which began this week—have no difficulty finding the place. Word travels fast on the Isle of Lewis, population 21,000, a blustery Scottish outcrop which has traditionally churned out tweed and hardy evangelical Christians. The island’s 60-odd Muslims sit cross-legged on the carpet, facing towards the sea and Mecca, 3,400 miles beyond. Aihtsham Rashid, a Leeds businessman who raised funds for the mosque, welcomes the crowd: “There’s plenty of Irn-Bru for everyone.”

The vast majority of Britain’s 2.8m Muslims live in cities; half are in

London, Birmingham and Bradford. By contrast, nobody described themselves as Muslim in 4,781 of the 11,000-odd parishes of England and Wales, at the last census. In a further 1,130 parishes, there was only one Muslim in the village. But small numbers have gradually spread across the country. Bradford, where Muslims now make up a quarter of the population, did not have a mosque until 1960. Now, there are perhaps 2,000 around Britain, from Yeovil to Inverness. The census recorded three Muslims on the Scilly Isles. “We’re cropping up everywhere,” says Lutfi Radwan, a Muslim farmer from Oxfordshire.

The first to move to the countryside were entrepreneurs. Most Pakistanis and Bangladeshis who came to Britain after the second world war were drawn to existing Muslim communities around cotton mills or dockyards. But a few ventured farther in search of profit. Many of the country’s Indian restaurants are run by Bangladeshi Muslims, says Talha Ahmad of the Muslim Council of Britain (MCB).

Butta Mohammed, one of the first to move from Pakistan to Lewis, sold clothes out of a suitcase when he arrived in the 1940s. His nephew, Nazir Ahmed, saved enough to open a shop and by the mid-1980s was employing nearly 100 people in a dozen businesses including a cash-and-carry, supermarket and a hardware shop. “I got on very well in life,” he says. Some rural Muslims are doctors or academics tempted by provincial postings, or relatively rich professionals who move to commuter towns.

The newest arrivals have less fortunate backgrounds. The government is resettling Syrian refugees in rural areas as well as cities. One family from Aleppo, who envisaged Big Ben as they flew to Britain, were moved to Aberystwyth. Others were sent to Wiltshire or the Isle of Bute. Six Syrian families now live on Lewis: one man, who lost his daughter and three grandchildren in the war, was joined by his son, who lives in Germany, for the mosque’s first prayers.

The internet makes it easier for far-flung Muslims to keep their faith. Children can use apps to learn to read the Koran, and one twentysomething on Lewis watches preachers on YouTube. It is also easier to get hold of halal food. Some order it online; a Lewis businessman who used to ask a slaughterhouse for permission to kill his own animals now waits for a monthly delivery from Glasgow. Abdul-Azim Ahmed, who has studied Britain's mosques, thinks rural ones put more effort into maintaining their websites and social-media feeds to find new worshippers.

For Mr Ahmad of the MCB, these mosques reflect a growing confidence among rural Muslims. That they are given planning permission suggests an increasing recognition that "Islam is very much part of British society". At the Lewis mosque, a uniformed cop helps herself to curry and two women come from a charity shop "to see what's going on". One non-Muslim bows her head as the men pray; another presses £5 ($6.75) into the palm of a Muslim friend, saying she was hoping to find a collection plate. John MacLeod, who has written a history of religion on Lewis, says islanders who once protested against Sunday ferry sailings are mostly "welcoming to indifferent" about the mosque. "There's certainly no sense that overnight we'll be turned into Islamabad."

Bagehot

The monarchy is at its strongest in years, unlike the government

The royal wedding is the latest fillip for the “dignified branch” of the constitution

May 19th 2018

A ROYAL wedding is as good a time as any to conduct an audit of the British constitution. Walter Bagehot, the editor of *The Economist* in 1860-77, argued that the constitution was divided into two branches. The monarchy represents the “dignified” branch. Its job is to symbolise the state through pomp and ceremony. The government—Parliament, the cabinet and the civil service—represents the “efficient” branch. Its job is to run the country by passing laws and providing public services. The dignified branch governs through poetry, and the efficient branch through prose. Today, the dignified branch is adapting to an age of populism much better than the efficient branch.

Twenty-odd years ago it looked as if the monarchy was in an advanced state of decomposition. The ill-starred marriage of Prince Charles and Diana

Spencer undermined the monarchy's claim to unify the country through dignity. The couple's squabbles divided supporters of Diana from a much smaller group of supporters of Charles, and provided the tabloid press with a rich (and sickening) diet of gossip. The queen capped it all with her handling of Diana's death. She said nothing for five days, burning decades of goodwill with her silence.

The Charles and Di debacle was one of several. Prince Andrew and his ex-wife, Sarah Ferguson, were derided as "Airmiles Andy" and "Freebie Fergie". The queen and Prince Philip looked out of place in "Cool Britannia". Prince Charles's determination to marry Camilla Parker Bowles, with whom he had conducted an affair while married to Diana, further alienated the public.

At the same time, the efficient branch went from strength to strength. Tony Blair and Gordon Brown modernised the Labour Party and went on to modernise the state, giving the Bank of England its freedom, devolving power to Scotland, Wales and Northern Ireland and spring-cleaning government departments. The efficient branch even had to step in to save the dignified branch from itself. Mr Blair pronounced Diana "the people's princess" as the queen remained in her Scottish castle, and persuaded the palace to set up a committee to look at the Crown's future.

Today the situation has been reversed. The efficient branch is in its worst state since the 1970s. The two main parties have been captured by their extremes. The prime minister lacks authority. Westminster has been rocked by scandals about sexual harassment and bullying. The Home Office is in turmoil. The government is preparing for Brexit, its most complicated task since the second world war, without a majority in the Commons or a consensus in its own ranks.

Brexit has confronted the efficient branch with an existential crisis. By calling the referendum, David Cameron not only betrayed the efficient branch's guiding principle (that you keep the most difficult decisions for yourself) but also opened the door to a populist revolt. The efficient branch now has an agonising choice: implement a policy that it believes to be foolish, or frustrate the "will of the people". Hence the paralysis—and the preoccupation with damage-limiting fudges.

The dignified branch, by contrast, is thriving. The queen represents stability in an unstable world, as well as unity in a polarised one. She has spent 66 of her 92 years on the throne and has survived 12 prime ministers and innumerable political crises. The royal household has done a good job of moving Prince Andrew and his ilk into the background and replacing them with a new generation. Prince William and Kate Middleton look exactly like the dignified mannequins that Bagehot's constitution demands.

The marriage of Prince Harry and Meghan Markle is likely to be another brilliant chapter in this story of renewal. There are blemishes; Ms Markle's family look almost as strange as the Windsors. But the happy couple nevertheless offer the dignified branch a chance to reinvent itself for a more multicultural and touchy-feely age. Ms Markle is a mixed-race American divorcee. As an actress, she has had the ideal training for her odd new career. Harry combines an easy charm with a sense of vulnerability, talking openly about undergoing therapy to recover from the horrors of his upbringing, particularly his mother's death.

God save the queen

The dignified branch nevertheless has a problem waiting in the wings, in the form of the future Charles III. A new book by Tom Bower, "Rebel Prince", paints an unflattering picture of the world's oldest intern. Charles is both entitled and whiny. He lives in six houses but complains about his lot. He is astonishingly selfish, fretting about global warming while travelling by private jet.

The really worrying thing about Charles is not that he is a weak man but that he is a surprisingly strong one. He has a wacky but well-worked-out philosophy: New Ageism meets neo-feudalism. He has a record of getting what he wants. He forced a reluctant establishment to accept the "horsey home-wrecker", Camilla, as his wife. He takes on what he regards as vested interests, berating architects for building carbuncles, opposing genetically modified crops and savaging modern educational theories. He has advanced his causes by writing to politicians and lobbying behind the scenes. This would be manageable if his beliefs were all barmy. The problem is that some of them, like his environmentalism, have proved both popular and prescient.

Being both determined and right is a wonderful thing in a politician but a dangerous one in a constitutional monarch—particularly when determination shades into pigheadedness and rightness comes with a hefty dose of foolishness. Charles would be well advised to spend the rest of his internship digesting Walter Bagehot's great book, "The English Constitution", which lays out, in pellucid prose, not only what a modern monarch should do but also what he shouldn't. Otherwise, he may find himself doing to the dignified branch what the referendum has already done to the efficient.

International

- **University rankings: Higher and higher education** [Fri, 18 May 02:51]

Degrees of success

How global university rankings are changing higher education

They favour research over teaching and the sciences over the arts

May 17th 2018

EARLIER this month Peking University played host to perhaps the grandest global gathering ever of the higher-education business. Senior figures from the world's most famous universities—Harvard and Yale, Oxford and Cambridge among them—enjoyed or endured a two-hour opening ceremony followed by a packed programme of mandatory cultural events interspersed with speeches lauding "Xi Jinping thought". The party was thrown to celebrate Peking University's 120th birthday—and, less explicitly, China's success in a race that started 20 years ago.

In May 1998 Jiang Zemin, China's president at the time, announced Project 985, named for the year and the month. Its purpose was to create world-class universities. Nian Cai Liu, a professor of polymeric materials science and engineering at Shanghai Jiao Tong University, got swept up in this initiative. "I asked myself many questions, including: what is the definition of and criteria for a world-class university? What are the positions of top Chinese universities?" Once he started benchmarking them against foreign ones, he found that "governments, universities and stakeholders from all around the world" were interested. So, in 2003, he produced the first ranking of 500 leading global institutions. Nobody, least of all the modest Professor Liu, expected the Shanghai rankings to be so popular. "Indeed, it was a real surprise."

People are suckers for league tables, be they of wealth, beauty, fame—or institutions of higher education. University rankings do not just feed humanity's competitive urges. They are also an important source of consumer intelligence about a good on which people spend huge amounts of time and money, and about which precious little other information is available. Hence the existence of national league tables, such as US News & World Report's ranking of American universities. But the creation of global league tables—there are now around 20, with Shanghai, the Times Higher Education (THE) and QS the most important—took the competition to a new level. It set not just universities, but governments, against each other.

When the Shanghai rankings were first published, the "knowledge economy" was emerging into the global consciousness. Governments realised that great universities were no longer just sources of cultural pride and finishing schools for the children of the well-off, but the engines of future prosperity—generators of human capital, of ideas and of innovative companies.

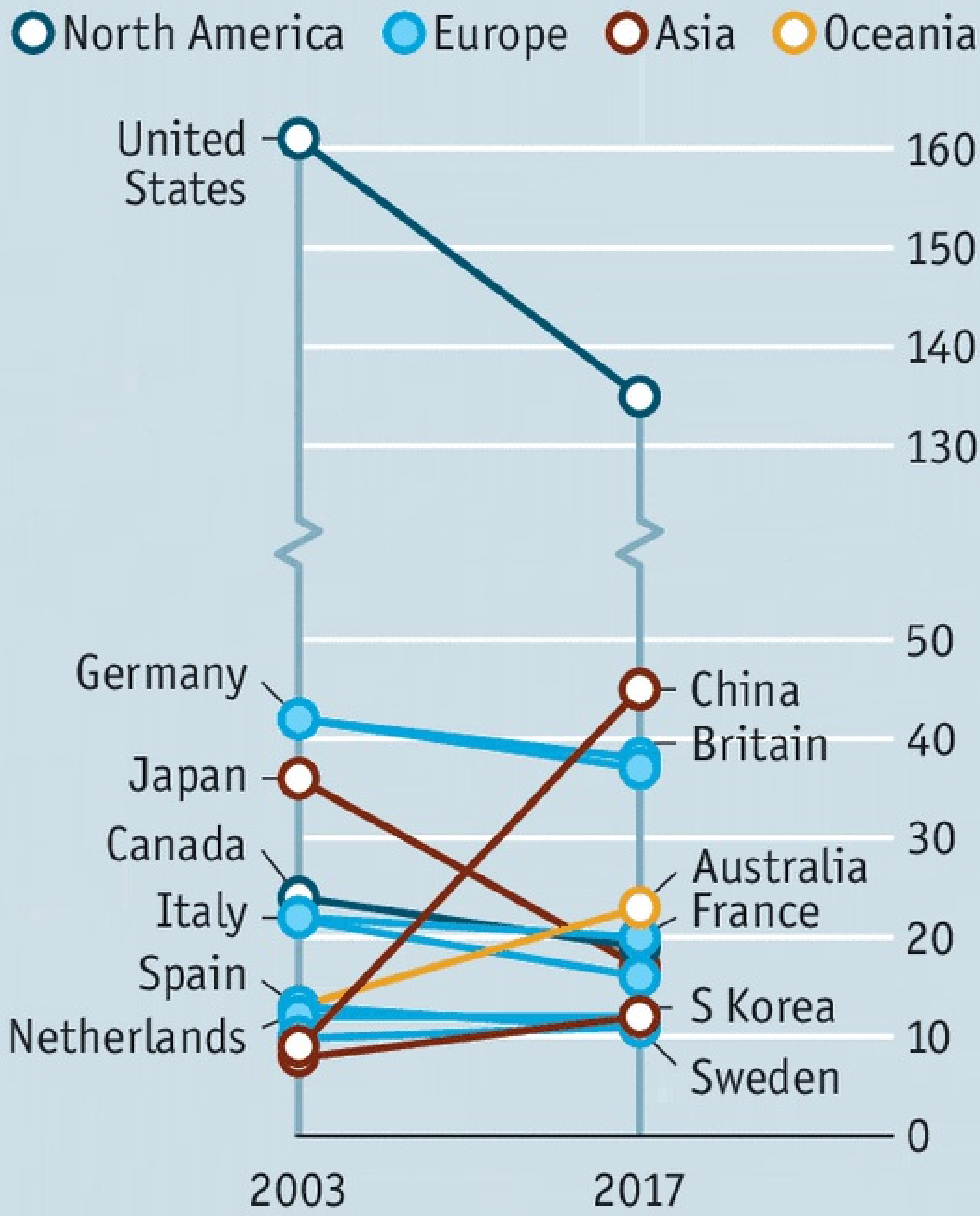
The rankings focused the minds of governments, particularly in countries that did badly. Every government needed a few higher-educational stars; any government that failed to create them had failed its people and lost an important global race. Europe's poor performance was particularly galling for Germany, home of the modern research university. The government responded swiftly, announcing in 2005 an *Exzellenzinitiative* to channel money to institutions that might become world-class universities, and has so far spent over €4.6bn ($5.5bn) on it.

Propelled by a combination of national pride and economic pragmatism, the idea spread swiftly that this was a global competition in which all self-respecting countries should take part. Thirty-one rich and middle-income countries have announced an excellence initiative of some sort. India, where world rankings were once regarded with post-colonial disdain, is the latest to join the race: in 2016 the finance minister announced that 20 institutions would aim to become world-class universities. The most generously funded initiatives are in France, China, Singapore, South Korea and Taiwan. The most unrealistic targets are Nigeria's, to get at least two universities in the world's top 200, and Russia's, to get five in the world's top 100, both by 2020.

The competition to rise up the rankings has had several effects. Below the very highest rankings, still dominated by America and western Europe—America has three of the THE's top five slots and Britain two this year—the balance of power is shifting (see chart). The rise of China is the most obvious manifestation. It has 45 universities in the Shanghai top 500 and is now the only country other than Britain or America to have two universities in the THE's top 30. Japan is doing poorly: its highest-ranked institution, the University of Tokyo, comes in at 48 in the THE's table. Elsewhere, Latin America and eastern Europe have lagged behind.

The academic ladder

Number of universities in the top 500, by country*



Source: ShanghaiRanking Consultancy

*With at least ten in the top 500 in 2017

Economist.com

The rankings race has also increased the emphasis on research. Highly cited papers provide an easily available measure of success, and, lacking any other reliable metric, that is what the league tables are based on. None of the rankings includes teaching quality, which is hard to measure and compare. Shanghai's is purely about research; THE and QS incorporate other measures, such as "reputation". But since the league tables themselves are one of its main determinants, reputation is not an obviously independent variable.

Hard times

The research boom is excellent news for humanity, which will eventually reap the benefits, and for scientific researchers. But the social sciences and humanities are not faring so well. They tend to be at a disadvantage in rankings because there are fewer soft-science or humanities journals, so hard-science papers get more citations. Shanghai makes no allowance for that, and Professor Liu admits that his ranking tends to reinforce the dominance of hard science. Phil Baty, who edits the THE's rankings, says they do take the hard sciences' higher citation rates into account, scoring papers by the standards of the relevant discipline. But that is only a partial solution: much social-science and humanities output comes in the form of books rather than papers, which the rankings do not count. Moreover, researchers in those subjects tend to write in local languages. The rankings count only work in English.

The hard sciences have benefited from the bounty flowing from the "excellence initiatives". According to a study of these programmes by Jamil Salmi, author of "The Challenge of Establishing World-Class Universities", all the programmes except Taiwan's focused on research rather than teaching, and most of them favoured STEM subjects (science, technology, engineering and mathematics). This is no doubt one of the reasons why the numbers of scientific papers produced globally nearly doubled between 2003 and 2016.

The rankings may be contributing to a deterioration in teaching. The quality of the research academics produce has little bearing on the quality of their teaching. Indeed, academics who are passionate about their research may be less inclined to spend their energies on students, and so there may be an inverse relationship. Since students suffer when teaching quality declines, they might be expected to push back against this. But Ellen Hazelkorn, author of "Rankings and the Reshaping of Higher Education", argues that students "are buying prestige in the labour market". This means "they want to go to the highest-status university possible"—and the league tables are the only available measure of status. So students, too, in effect encourage universities to spend their money on research rather than teaching.

The result, says Simon Marginson, Oxford University's incoming professor of higher education, is "the distribution of teaching further down the academic hierarchy", which fosters the growth of an "academic precariat". These PhD students and non-tenured academics do the teaching that the star professors, hired for their research abilities, shun as a chore. The British government is trying to press universities to improve teaching, by creating a "teaching-excellence framework"; but the rating is made up of a student-satisfaction survey, dropout rates and alumni earnings—interesting, but not really a measure of teaching quality. Nevertheless, says Professor Marginson, "everybody recognises this as a problem, and everybody is watching what Britain is doing."

A third concern is that competition for rankings encourages stratification within university systems, which in turn exacerbates social inequality. "Excellence initiatives" funnel money to top universities, whose students, even if admission is highly competitive, tend to be the children of the well-off. "Those at the top get more government resources and those at the bottom get least," points out Ms Hazelkorn. That's true even in Britain, which, despite not having an excellence initiative, favours top universities through the allocation of research money. According to a study of over 120 universities by Alison Wolf of King's College London and Andrew Jenkins of University College London, the Russell Group, a self-selected elite of 24 universities, get nearly half of the funding for the entire sector, and increased their share from 44.7% in 2001-02 to 49.1% in 2013-14.

The rankings race draws other complaints. Some universities have hired "rankings managers", which critics argue is not a good use of resources. Saudi Arabian universities have been accused of giving highly cited academics lucrative part-time contracts and requiring them to use their Saudi affiliation when publishing.

Intellectual citizens of nowhere

Notwithstanding its downsides, the rankings race has encouraged a benign trend with far-reaching implications: internationalisation. The top level of academia, particularly in the sciences, is perhaps the world's most international community, as Professor Marginson's work shows. Whereas around 4% of first-degree students in the OECD study abroad, a quarter of PhD students do. Research is getting more global: 22% of science and engineering papers were internationally co-authored in 2016, up from 16% in 2003. The rankings, which give marks for international co-authorship, encourage this trend. That is one reason why Japan, whose universities are as insular as its culture, lags. As research grows—in 2000-14 the annual number of PhDs awarded rose by half in America, doubled in Britain and quintupled in China—so does the size and importance of this multinational network.

Researchers work together across borders on borderless problems—from climate change to artificial intelligence. They gather at conferences, spend time in each other's universities and spread knowledge and scholarship across the world. Forced to publish in English, they share at least one language. They befriend each other, marry each other and support each other, politically as well as intellectually. Last year, for instance, when Cambridge University Press blocked online access to hundreds of articles on sensitive subjects, including the Tiananmen Square massacre, at the request of the Chinese government, it faced international protests, and an American academic launched a petition which was signed by over 1,500 academics around the world. CUP backed down.

The rankings race is thus marked by a happy irony. Driven in part by nationalistic urges, it has fostered the growth of a community that knows no borders. Critics are right that governments and universities obsess too much about rankings. Yet the world benefits from the growth of this productive, international body of scholars.

Special report

Special report

Opening the gates

Chinese travellers of all sorts have become ubiquitous

China’s decision to let its people travel abroad freely is changing the world. James Miles argues that it is changing China, too

May 17th 2018

“THIS COMRADE IS politically reliable and has no criminal record.” Applicants for a Chinese passport once anxiously awaited these words. Scrawled on a form by a bureaucrat, they meant an end in sight to weeks or months of torment that involved queuing through the night, being sent from pillar to post in pursuit of documents, having your loyalty to the Communist Party checked, being grilled about your purpose and sources of funding, and having to slip cigarettes to sullen officials. Not many people got to see those precious words, or the four Chinese characters that followed them: *tongyi chuguo* (permitted to go abroad).

Aspiring travellers in Communist-ruled China had to run this Kafkaesque obstacle course until the early 1990s. But in the past quarter-century a country once almost as paranoid as North Korea about keeping its people within its borders has dramatically changed course. Whereas for much of the 1980s the number of trips abroad taken by Chinese citizens was in the tens of thousands a year, the current figure is well over 130m. The reasons for travelling range from tourism and study to business and migration. By 2020 the total could reach 200m a year, officials estimate—the equivalent of nearly one in seven of the country's population.

Much has been written about how China's rise as a global economic, political and military power is changing the world. This special report is about another side to the story: the extraordinary number and variety of Chinese people who are going abroad—and then mostly returning. It will examine the effect of this unprecedented flow on the travellers themselves, on their host societies and ultimately on China itself.

Since the 1980s people have been moving around the globe in ever-growing numbers. The reasons have ranged from the collapse of communism in the Soviet Union and eastern Europe and the opening of borders in the European Union to the growth of middle classes across the developing world and the flight of millions from conflict and poverty. But China's contribution to this mass movement has eclipsed all others.

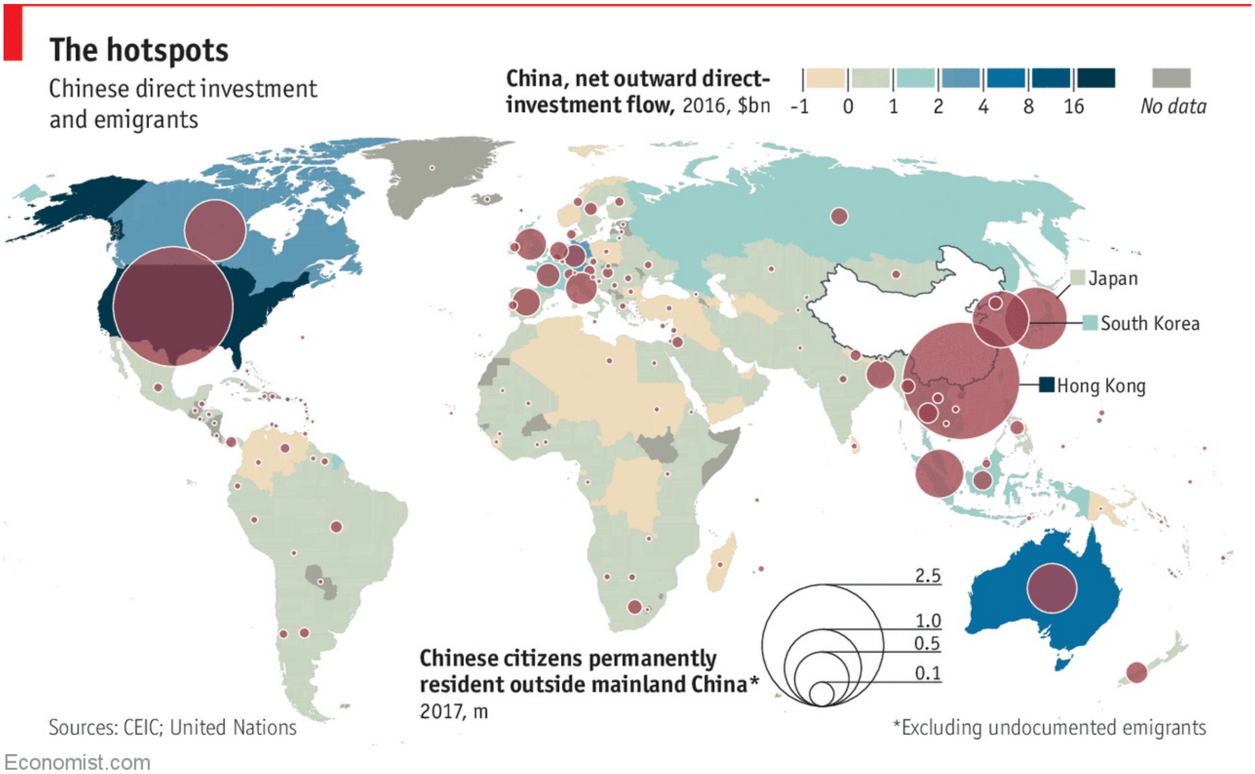
Its people are making a striking difference the world over. On university campuses in Sydney Chinese students fill lecture halls and research labs. In California's Silicon Valley Chinese scientists make up a big share of tech firms' brainpower. In the medieval Italian city of Prato thousands of Chinese toil in clothing factories. In small towns in Namibia Chinese traders peddle cheap wares. Big-spending tourists from China snap up luxury brands in Mayfair in London and the Champs Elysées in Paris.

Forty years ago, when Deng Xiaoping "unfastened the great gate of reform and opening", as officials often put it, it was far from clear that this would ever happen. Deng's idea of opening was warily to admit some foreign tourists and businesspeople and, on an even tighter rein, journalists. He saw this relaxation as an economic and diplomatic necessity. A more normal relationship with the West, including visits by Westerners, was an essential salve for China's Mao-battered economy.

Deng also saw some benefit in sending more Chinese students to universities abroad to acquire technical know-how at state expense, but he never envisaged an outflow on the scale seen since. “There are those who say we should not open our windows, because open windows let in flies and other insects,” Deng reportedly said in 1985. “But we say, ‘Open the windows, breathe the fresh air and at the same time fight the flies’.” As it turned out, swatting insects took up a lot of his time.

Fortunately for China, the Communist Party was sometimes prepared to take risks. This was evident in three main areas. The first was reforming the economy. In the 1990s leaders ignored the complaints of conservatives and pushed ahead with the closure or sale of tens of thousands of state-owned enterprises. With the rapid growth of private business, the shift of many state employees into these new jobs and the migration of tens of millions of people to find work in cities, the party lost much of its once all-controlling network of workplace cells (it is still struggling to build a new one). But the reforms helped to catapult China into the ranks of global economic powers.

The second big risk was taken by Deng’s successor, Jiang Zemin: embracing the internet. Mr Jiang may not have realised in the 1990s how much this new technology would change the world (who did?). But it was still a gamble for a party that was determined to control the spread of information. And it paid off: China became a global leader in information technology, and the party remained in power.



The third gamble was to open the country's gates and allow people to leave. The exodus started haltingly but steadily gathered pace. Since 2007 the number of visits abroad made by Chinese people has more than tripled. To cash in on China's tourism boom, many countries have greatly eased their visa requirements. Some have also opened their doors to rich Chinese migrants by giving them permanent residency, at a price.

Bonanza or excess?

For many people in host countries, the growing presence of Chinese people is a bonanza. But it is also fuelling resentment, sometimes tinged with racism. Residents of Australian cities fret about soaring property prices, which they attribute to Chinese demand. In parts of Africa people grumble about competition from Chinese shopkeepers or construction firms. Italians sound off about a perceived threat to their textile industry from Chinese migrants, many of them illegal.

Political and security fears come into the picture, too. Across the West concerns are growing that universities rely too heavily on fee income from Chinese students, exposing the institutions concerned to the risk of espionage in high-tech labs and ideological interference by the Chinese state. In February the director of America's FBI, Christopher Wray, called China "not just a whole-of-government threat but a whole-of-society threat". Noting the activities of what he called China's intelligence "collectors", he said that "it's not just in major cities; it's in small ones as well. It's across basically every discipline." Some governments worry that having millions of its citizens abroad will encourage China to boost its military power.

Western politicians might show more enthusiasm about this wave of Chinese visitors if they thought that the travellers, once returned home, would transform their country with liberal ideas they had picked up abroad. But evidence of this is scant. As Xi Jinping, China's leader, clamps down ever harder on civil liberties, flexes his muscles in the South China Sea and squeezes foreign firms for intellectual property, a more global China does not seem to be getting any easier for the West to deal with. And for its people, familiarity with Western ways appears to be breeding mainly contempt.

Yet this report will argue that it is far too early to assess the full impact on China of this large-scale movement of people. It will look at the tens of millions of Chinese tourists who are flocking to Western countries every year and sending back images and accounts of their impressions to countless millions back home; the hundreds of thousands of students who head annually to Western universities for their first taste of intellectual freedom; the tens of thousands who head abroad to eke a living in factories, shops and restaurants (and dream of making a fortune); and the hundreds of thousands of wealthy Chinese who shuttle between two rich worlds—the affluent suburbs of Western cities, where they snap up expensive properties, and the boomtowns of China, where they fill boardrooms.

Travellers returning from abroad, and the ideas they bring with them, have played a crucial role in the country's tortuous history, especially since the 19th century. The recent flow has been greater than anything seen before. In the long run, Deng may turn out to have been right to worry about political flies.

→ Cash or WeChat?: China's insatiable appetite for foreign travel

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report/21742375-chinas-decision-let-its-people-travel-abroad-freely-changing-world-james-miles

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Special report

Cash or WeChat?

China’s insatiable appetite for foreign travel

What would the world’s tourist industry do without the Chinese?

May 17th 2018

IT IS SAID to be the second-most-popular destination for Chinese visitors to Britain after Buckingham Palace, yet Liu Xiaoming, China’s ambassador to the country since 2009, jokes that he has refused invitations to take part in tree-planting ceremonies there. The attraction is Bicester, a town in Oxfordshire of little note for tourists except for its shopping centre, called Bicester Village (pictured). It is a kilometre-long strip of more than 160 clapboard outlets selling luxury brands at a discount: Boss, Gucci, Salvatore Ferragamo, Versace and many more.

Mr Liu’s excuse for not visiting Bicester, as he informed a think-tank audience in 2011, is that “China is a developing country” and it would not be right for him as its ambassador to promote the shopping mecca. Still, last year the outlets received some 6.6m visitors, about the same as the British

Museum, of whom about half were foreigners. Half of those were from China—including diplomats, in their unofficial capacity. Without China, Bicester would not be what it is today. As trains approach Bicester Village station, passengers are alerted in Mandarin.

A middle-aged Chinese bureaucrat on a week-long trip to Britain shows off several bags filled with shirts from Charles Tyrwhitt and a jacket from Burberry. He says he has spent more than £1,000 ($1,400). Another Chinese visitor, a retired professor of art, has splashed out over £200 on T-shirts from Boss. A woman from the central Chinese province of Hunan shows a couple of bottles of Estée Lauder skincare lotion that she picked up for £190—one for herself, another for a friend. They all say the goods they have bought are much cheaper than they would be in China, helped by a weak pound and rebates of value-added tax for foreign visitors.

According to Global Blue, a tax-free-shopping firm, Chinese visitors bought more than one-quarter of all the tax-free products sold in Britain last year. Their spending was up by nearly one-third on the year before. To make life easier for them, Bicester Village has recently introduced facilities to pay through WeChat, a Chinese social-media and payments platform. Chinese travellers abroad often grumble about other countries' backwardness in electronic payments. Their own big cities are almost cashless.

Life's big luxuries

Economically, there is no doubt that the surging numbers of Chinese travellers abroad are changing the world. Most conspicuously, they are becoming the main props of luxury brands. McKinsey, a consultancy, says Chinese people account for one-third of global spending on luxury goods. Between 2008 and 2016 they were responsible for three-quarters of the growth in such spending, the firm reckons. Much of this is done outside China, where prices are often lower than at home, but McKinsey says that even when prices are similar, nearly a third of Chinese shoppers still prefer to buy luxury items abroad. According to the UN's World Tourism Organisation, in 2016 they spent a total of more than $260bn, more than double the amount forked out by Americans abroad and about one-fifth of all global spending by international tourists. Only a decade earlier Chinese tourist spending had accounted for a mere 3% of the world's total.

The spending numbers for recent years should be treated with caution. Gavekal Dragonomics, a research company, says official figures may be misleading because they include people who are not strictly tourists. It reckons that spending by recreational travellers alone in 2015 may have been less than $175bn, about 30% lower than the official figure for spending by all kinds of travellers abroad.

But even if many of the Chinese visitors are not really tourists, they are certainly spending. And they are increasingly interested in buying not just goods but luxury experiences or costly adventures off the beaten track. The number of Chinese tourists visiting Antarctica, for example, is now second only to those from America. There were more than 5,100 of them in the tour season of 2016-17, up from just over 1,000 in 2011-12.

And this is just the beginning. Less than 10% of Chinese currently hold passports, compared with more than 40% of Americans in 2017. By the end of this decade the number of passport-holders in China is expected to double to 240m, predicts Ctrip, a Chinese travel company.

For all its ratcheting up of political controls at home, the Communist Party does not seem concerned about the effect of exposing so many of its people to freer societies abroad. Officials may calculate that Chinese rich enough to travel abroad are unlikely to be impressed by the achievements of democratic systems. Infrastructure in many Western countries is often shabbier than in China, homeless people abound in big cities and crime is a constant risk. “I went to New York and I thought, this isn’t as good as Shanghai,” says a Chinese businessman.

China’s one big worry about the surge of outbound travel is that it could damage its image. Holiday destinations hear plenty of complaints about the noisiness of Chinese tourists and their disregard of local customs. In Hong Kong, locals staged several protests against tourists from the Chinese mainland in 2014 and 2015. Partly in response, the number of mainland visitors to Hong Kong plummeted. Officials often hand out leaflets at airports telling travellers how to behave in other countries.

Another fast-growing group of Chinese visitors abroad, students, are more alert to the social and political environment they find themselves in—but that does not necessarily make them appreciate liberal democracy.

→ A formative experience: For China’s elite, studying abroad is de rigueur

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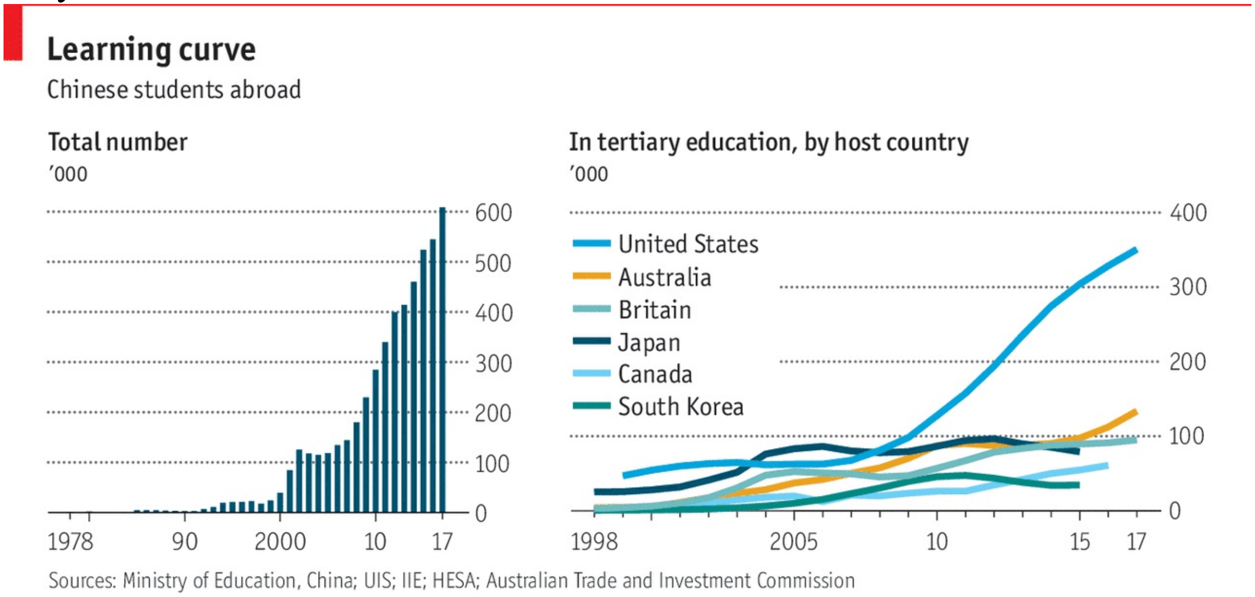
Special report

A formative experience

For China's elite, studying abroad is de rigueur

Chinese students flock to the West, but many are unconvinced by what they find

May 17th 2018



Economist.com

IN MANY WAYS Zhang Dayin, a 30-year-old doctoral student of finance at the University of California, Berkeley, is living the American dream. He grew up in a small town in the eastern Chinese province of Jiangsu, the son of a disabled seller of lottery tickets. A decade ago he became the first person in his family to go to university—Renmin University in Beijing, one of the country's best. The capital's affluence impressed him.

Five years later, having embarked on a master's degree in Beijing, he got another break: a chance to study for a spell at Berkeley. "It was a dream for every kid," he says. "You have to go to America." He toured the icons of American culture: Hollywood, Wall Street, the statue of Abraham Lincoln in Washington, DC. He liked it all so much that he decided to apply to do a PhD at Berkeley, where he has been since 2014.

Mr Zhang is one of more than 5.2m Chinese who have gone abroad to study since Deng Xiaoping launched his "reform and opening" policy in 1978. The numbers are surging. In 2017 more than 600,000 Chinese headed abroad to university, four times the figure a decade earlier, bringing the number studying at that level outside China to nearly 1.5m.

The main destinations are English-speaking countries, with America way ahead. Between 2006 and 2016 the number of Chinese students at universities there increased fivefold, to more than 320,000. They make up nearly one-third of foreign students at the country's universities. And they contribute more than $12bn annually to its economy, according to America's Department of Commerce.

The demand in China for education in the West, and the ease with which wealthier Chinese can secure it, has been a boon for many educational establishments. In America, cuts in state-government support have made public universities increasingly reliant on foreign students who pay the full fee. At Berkeley that is more than $45,000 a year for undergraduates.

The number of Chinese students enrolling at Berkeley, as at many other American universities, has climbed steeply. Last year there were nearly 2,300 of them, more than six times as many as in 2007. They accounted for well over one in three of the total number of foreign students, up from less than one in seven a decade earlier. About one in 11 new students at the University of California's campuses is now from China, and that does not include those born in China but permanently resident in America when they applied.

Soft power personified

On the face of it, this should be a windfall for American soft power. Well over 300,000 of the brightest young minds in China are spending a good proportion of their formative years enjoying the freedom of campus life in America, with ready access to all the information that censors once denied them.

American optimism about the power of education to make foreign students more like Americans has a long history. "I can think of no more valuable asset to our country than the friendship of future world leaders who have been educated here," said Colin Powell, America's then secretary of state, in 2001. Yet American officials and scholars find it hard to demonstrate any clear diplomatic benefits from having educated some 2m Chinese in America since the late 1970s. Among them have been children of several Chinese leaders of the reform-and-opening period: Deng's son Deng Zhifang, Jiang Zemin's son Jiang Mianheng, Hu Jintao's daughter Hu Haiqing (by some accounts) and Xi Jinping's daughter Xi Mingze (who graduated from Harvard in 2014). Even so, in the past decade relations between China and America have become ever more distant and strained.

Students who went to America in the 1980s did show promising signs of enthusiasm for Western democracy. After the suppression of student-led unrest in 1986, more than 1,000 of them wrote a letter of protest against their government. In 1989, after the crushing of far more widespread pro-democracy demonstrations, they marched on American streets to vent their anger at the bloodshed. Most took up an offer of permanent residency made by the American government to Chinese studying there at the time. And most reckoned that China was backward and repressive, whereas America was rich and free.

China's economic take-off in the 1990s, however, began to change those views. Students arriving in America since then have voiced mixed feelings about democracy and free markets, and how useful they might be for China. At Berkeley, Mr Zhang has his doubts. "The whole world is getting confused," he says, sitting in a coffee shop in nearby San Francisco. "Which system is good, which system is bad? There's a lot of criticism of democracy in America and Britain. China is doing really well."

Mr Zhang sees much to like: America's tolerance, its respect for disabled people like his father. But he tells relatives that America is no paradise. "China is a big country and has so many people. I know that if it doesn't have a strong government it's very hard to control," he says. "Probably our party is right for China."

The nationalism displayed by Chinese students abroad—sometimes in the form of unquestioning support for their government's policies—has been causing disquiet in the West, on two main counts. The first is that students' objections to views at variance with the Communist Party's might stifle academic debate. The other is that the party might attempt to tap into this nationalism through Chinese student organisations and mobilise such groups to protest against activities that the party dislikes.

Several incidents in the past year support such concerns. In 2017 the Chinese Students and Scholars Association (CSSA) at the University of California, San Diego, protested against the university's decision to invite the Dalai Lama to the campus to speak at a graduation ceremony. At the University of Maryland, the CSSA posted a YouTube video denouncing a Chinese student who had praised America's "fresh air" and "freedom" in a graduation speech (and criticised the lack of both in China). In Australia, four cases of students criticising their teachers for appearing to slight Chinese people caused a political storm about the spread of Chinese political influence. At Durham University in England some Chinese students, and the Chinese embassy, protested against a debate titled "This House sees China as a threat to the West", and the participation of a supporter of Falun Gong, a Chinese sect that was outlawed by the party nearly two decades ago.

But most Chinese students are not flag-wavers for the party's cause. Many say they have little if any contact with their CSSA branches, and bridle at the suggestion that they might take political direction from them. Most show pride in China's economic growth, but some also express doubts about the way the party rules. Examples include its tight controls over the internet and Mr Xi's recent scrapping of the two-term limit for the presidency. According to the *New York Times*, Chinese students at several university campuses in America put up posters protesting against Mr Xi's decision.

Fifty shades of nationalism

Moreover, the apparent nationalism of Chinese students may be less strong than many suppose. In a paper last year, Alastair Iain Johnson of Harvard University said polling data from Beijing showed a decline in nationalism since about 2009. He also concluded that younger respondents were less nationalistic than older ones.

Fran Martin of the University of Melbourne has been tracking the responses of about 50 female Chinese students to their experiences in Australia since 2015. She is scornful of the idea that they are tools of their government, and describes their patriotism as “ambiguous”. Some of the participants in her study told her they became more patriotic after arriving in Australia. But some students she has met also asked her about the unrest in 1989. “They were really receptive to hearing about it,” she says. “They were clearly open to thinking it was wrong” of the party to crack down in the way it did.

The very presence of so many Chinese students on Western campuses demonstrates that their nationalism is complex. Some are there because their families have little faith in the party. Growing numbers of wealthy Chinese are anxious to secure a foothold abroad and think that sending a child to study there could help. A report in 2012 by Hurun, a Shanghai-based research firm, said that of 2.7m Chinese citizens who made over $1m a year, 85% intended to send their children abroad to be educated. The West, for all its failings, is seen as a safe haven both for their money and, if necessary, for themselves.

→ Citizens of the world: Why many rich Chinese don’t live in China

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Special report

Citizens of the world

Why many rich Chinese don’t live in China

Wealthy Chinese increasingly choose to live abroad

May 17th 2018

A STRAIGHT TRACK through a wood, and a guard hut at the end of it, is all there is to “China City of America”. A sign on a flimsy barrier says, “Do not enter”. It is hard to imagine that if the developer, a Chinese emigrée, has her way, this rural nook in the Catskill Mountains of upstate New York might one day become a sprawling complex of residential properties, China-themed entertainments, a casino, shops, restaurants, offices, an exhibition hall and educational facilities covering hundreds of acres. That, at any rate, was Sherry Li’s original plan, unveiled in 2013. Her aim was to attract 1.5m visitors annually to a “Chinese-concept Disney” that would transform the struggling economy of this sleepy area about two hours’ drive north-west of New York City.

Crucially, it would also attract Chinese investors. The project, Ms Li hoped, would be approved under the American government's "EB-5" scheme, which offers permanent residency in the United States to foreigners who put at least $500,000 into rural projects that create at least ten American jobs; or who invest $1m into other developments. In effect, this means you can buy the right to live in America. The greatest demand is from China. About 75% of those who qualify for the scheme are Chinese.

The desolate track is evidence that Ms Li has made little progress with her project. It has encountered stiff resistance from local environmentalists, who fear it would threaten protected wetlands. She has scaled back her plans. The current aim is to build a private college offering vocational courses in subjects including nursing, cooking and business, as well as accommodation for some 2,500 students and more than 270 staff—still big, but not quite such a potential crowd-puller. The funding plan remains the same, however. The Thompson Education Centre, as it is known, aims to become an EB-5 project. It is looking for money from rich Chinese.

Catering to the visa needs of would-be wealthy émigrés is big business in China. Several Chinese companies promote Ms Li's still non-existent centre on their websites. Remarkably, a flattering article about it is even displayed in Chinese on the government's main news portal, China.com.cn. Investors in the scheme, it gushes, will find emigrating to America "so easy". Those two words are written in English.

There seems to be plenty of potential demand. America has an annual quota of 10,000 visas for EB-5 investors. In November the number of applicants on the waiting list stood at more than 30,000, nearly 90% of whom were from China. Canada had a similar scheme, but scrapped it in 2014 after it became heavily oversubscribed by wealthy Chinese. The American one has come under growing scrutiny since it emerged that Nicole Meyer, the sister of President Donald Trump's influential son-in-law, Jared Kushner, had touted her connections with the Trump family when trying to attract investors to an EB-5 project during a trip to China last May.

In 2017 more than 46% of Chinese with fortunes between 10m and 200m yuan ($1.3m-26.3m) were thinking of emigrating, according to a survey by Hurun, the research company in Shanghai. In a joint survey with Visas Consulting Group, a Canadian firm, more than three-quarters of respondents mentioned their children’s education as a reason. Nearly one in six pointed to the political environment in China, and almost one in five said they were hoping to protect their assets.

The rise of the ethnoburb

The insecurity of wealthy Chinese, and their craving for Western education for their children, is evident in the rapid growth of whole communities of them in the suburbs of big Australian, American and Canadian cities. Hurstville in Sydney, Box Hill in Melbourne and Richmond in San Francisco, as well as Richmond in Vancouver, are places for which 20 years ago Wei Li, an academic now at Arizona State University, coined the word “ethnoburb”: prosperous city districts where recent migrants from China form a large share of the population.

Such places also point to a contradiction in the story of China’s own development. Despite more opportunities at home, growing numbers of those who can afford it seem to want to leave. Even China’s state-owned media admit this. “The passion shown by China’s super-rich for settling down abroad and obtaining overseas passports has reached a record high,” said *China Daily*, an official English-language newspaper, in 2014.

The lecture halls of Australian universities provide more visible evidence. In subjects that score highly in the Australian government’s points-based system for acquiring permanent residency, such as accountancy and information technology, the share of students from China is always much larger than in subjects that do not. The number of Chinese students in Australia increased by 17% last year, to 140,000. Apart from the quality of the education, and less fierce competition for places than at China’s best universities, there is another powerful draw: the relative ease with which foreigners who have graduated in Australia can become resident there.

In Sydney, Monika Tu, the founder of Black Diamondz Property Concierge, specialises in selling expensive houses to rich Chinese. She says she sees little impact from China’s recent clampdown on the movement of capital abroad, or from the government’s efforts to stop corrupt officials from fleeing the country with their wealth. Growing numbers of her clients are young Chinese who have made their fortunes in the country’s booming tech industries. They see bargains to be had in what is often jokingly referred to as *tu Ao* (coarse Australia). Beijing and Shanghai are “much more expensive than Sydney”, says Ms Tu.

Many poorer Chinese, too, are attracted by life abroad. The country’s economy may be booming, but for people from rural China, settling and prospering in a big Chinese city can often be as hard as going to work in a foreign country, sometimes even harder. Internal migrants in China are often treated as second-class citizens. Too tough in Ningbo? Try Namibia.

→ A long way from home: Chinese workers and traders in Africa

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Special report

A long way from home

Chinese workers and traders in Africa

Growing numbers of Chinese see opportunities in the developing world

May 17th 2018

ON THE EDGE of Walvis Bay, a port town in Namibia sandwiched between the Atlantic Ocean and endless sand dunes, the offices-cum-residential-quarters of the China Harbour Engineering Company (CHEC) look like a barracks. Electrified barbed wire tops the surrounding wall. A Chinese manager explains that "we have military-style management."

The grim complex, with its rows of single-storey tin-roof accommodation blocks, is home to several hundred Chinese workers. They are building a new container terminal in Walvis Bay and an oil-storage facility just outside the town. They are taken to and from the construction sites in company buses and must apply for permission to leave their barracks. "They have very little interaction with local society," says the manager.

The rise in the number of Chinese people in Africa is striking

Across Africa, state-owned companies like CHEC are opening up new frontiers in China's global economic expansion. They often recruit local workers. CHEC's boss, Feng Yuanfei, says about half the staff at Walvis Bay are Namibians. Many locals are also employed at the Husab uranium mine, a vast opencast operation surrounded by desert and scrub about 70km (45 miles) north-east of Walvis Bay, which at around $5bn is one of China's biggest investments in Africa. According to UNCTAD, a UN agency, the amount of Chinese investment in the continent nearly tripled between 2010 and 2015, to $35bn. McKinsey reckons there are thousands of Chinese businesses in Africa employing millions of locals.

But it is the rise in the number of Chinese people in Africa that is striking. Many are temporary residents employed by state-owned companies, like those working on the harbour in Walvis Bay. In recent years their number has ranged from 181,000 in 2011 to 264,000 in 2015. Far more numerous are the Chinese who have set off for Africa to set up their own businesses as shopkeepers, restaurateurs and traders.

In his book, "China's Second Continent", Howard French calls this influx "one of the most important and unpredictable factors in China's relationship with Africa". Numbers are hard to pin down, but writing in 2014 Mr French estimated that 1m had arrived in just a decade. The whole of Namibia has a population of only about 2.5m, scattered across an area more than twice the size of Germany. Mr French thought it might have the highest concentration of Chinese people in any African country. In his book he quoted common estimates of 40,000, but the number is now likely to be lower than that.

Chinese businesspeople across Namibia complain of an economic chill, and some are thinking of leaving. The country's economy fell into recession last year. Unemployment is sky-high. Namibia's own currency has suffered from global investors' jitters about South Africa's, to which it is pegged. This has made it more expensive for Chinese traders to import products from China for sale in Namibia.

But many Chinese doggedly carry on. Even remote towns have "China shops", as locals call them: small stores filled with cheap, basic household goods made in China and run by Chinese. Locals may not have much cash to spare, but the prices are low and the shops are popular. The traders often employ locals to deal with customers, but on a recent weekday in Karibib (population about 5,000), 190km north-west of the capital, Windhoek, the Chinese owners of the town's two China shops were on duty. Both were young men from the southern Chinese province of Fujian. Both were despondent. One of them used to do business on the Angolan border and says many of his colleagues there have left for other countries. "I hear Zimbabwe is good now," he says wistfully. But he does not talk about returning to China. Many Chinese traders say their country may be thriving, but the competition there is vicious. Africa still holds promise.

Some Namibians wish the Chinese would go home, wondering how they ever established such a strong foothold in trades that should be dominated by locals. Local media ask why so many Chinese workers have been brought in to work on big construction projects, and why Chinese companies win so many contracts to build things—including government buildings. They also point to the harm the incomers cause to wildlife. China has been trying harder recently to help stop the slaughter of elephants in Namibia and elsewhere in Africa. Last year it banned the sale of ivory. But although the sale of rhino horn has long been illegal in China, the poaching of rhinos for sale to Chinese gangs continues.

Mutual antipathy

Beneath the surface, racial tensions simmer. "So tired of these foreigners coming to Namibia and ruining our beautiful country," was one of the politer comments by locals on Facebook in response to a report in 2016 in *Namib Times*, a newspaper based in Walvis Bay, about the arrest of three Chinese people for alleged possession of live pangolins, an endangered species. Last July the paper reported on a protest by local workers who had failed to get jobs at CHEC's projects in the area. This started a stream of xenophobic tirades on Facebook. "This is no longer Namibia, it's China," said one.

Conversely, Chinese people in Namibia often speak disparagingly of "blacks" (*feizhouren*, the Chinese for African, is online slang for a loser). The manager of a Chinese-owned factory in Walvis Bay is exasperated by endless protests and strikes by his local workforce. "They are so lazy. You give them more money and they still don’t work harder,” he says. “Where in China it takes three hours to do a job, here it takes 30.”

The mutual antipathy is not confined to Namibia. As Mr French observes, grumblings about the Chinese presence in Africa are rife among ordinary people, even as their governments encourage and support it. Phil ya Nangoloh, the head of NamRights, a human-rights group in Windhoek, accuses China of “looking for *Lebensraum*” and practising “neo-colonialism” in Africa. He notes rumours that the new harbour at Walvis Bay could one day become a base for China’s navy. The Chinese, he says, are “operating literally above the law”.

Similar mutterings about Chinese immigrants can be heard in Europe. By the European Union’s reckoning, in 2011 (when the most recent census was conducted) around 820,000 people born in China were living in the EU. That, notes the European Commission’s website, was 40% more than the number of EU residents born in America.

→ Tuscan whine: Long-term Chinese immigrants in Italy

Special report

Tuscan whine

Long-term Chinese immigrants in Italy

An influx of Chinese migrants is reshaping an Italian manufacturing centre

May 17th 2018

THE CITY OF Prato, in the hills of Tuscany, is as Italian as the region's Chianti. It is also the heart of the fashion industry, where fine fabrics are made for brands such as Gucci and Armani. "Made in Italy" is still a label proudly displayed. But many of Prato's factories are now owned, and staffed, by Chinese.

Within the 14th-century walls of Prato's old town, Chinese tourists take snaps of the Romanesque cathedral and the picturesque castle of Frederick II, a 13th-century Holy Roman Emperor. Some Chinese call this "kung-pao-chicken tourism" because the characters for that globally popular dish, *gong bao ji ding*, sound like syllables in the Chinese words for palace, castle, church and town hall—the staples of any Chinese visitor's tour of Europe.

Via Pistoiese leads north-westwards from an ancient gate into a different world: the real Prato, a city of textiles, clothing and Chinese people of a different kind. Since the 1990s Chinese have been drawn to Prato not by its medieval architecture but by the same forces that in the 1960s and 1970s brought poor migrants from southern Italy: demand for labour in the city's factories. Prato now has one of the biggest concentrations of recent Chinese immigrants in Europe. The official population count in 2017 was nearly 20,700, almost double the number a decade earlier, but estimates vary widely because many of the residents are illegal immigrants. These days the four most common surnames in Prato are Chen, Hu, Lin and Wang.

Coastal connections

Origin of Chinese emigrants

By province, 2015, % of all emigrants

Source: National statistics

Economist.com

More than 80% of Prato's Chinese residents come from a single coastal city, Wenzhou, and its rural hinterland—a region with a long history of overseas migration and therefore a global network of kinships to which migrants can turn for support. Indeed, Wenzhou and its environs are the source of the majority of Chinese who have moved to Europe in recent years, write Loretta Baldassar, Graeme Johanson, Narelle McAuliffe and Massimo Bressan in their book, "Chinese Migration to Europe".

Around Via Pistoiese the occasional abandoned building that was once an Italian-run factory can still be seen. Some locals have blamed the Chinese for the demise of such workshops and for pushing Italians out of work, especially after the global financial crisis in 2008. The following year the city elected its first right-wing mayor since the end of the second world war, Roberto Cenni, who had campaigned on a platform of getting tough on immigration, especially what his supporters called the "Chinese invasion". His successor, Matteo Biffoni, elected in 2014, is from the centre-left, but he still grumbles about the Chinese in Prato. "They don't relate to Italian people," he says. But he says it would be wrong to try to push them out.

The arrival of Chinese factory owners and their workers has saved Prato from the fate of some places in the rich world that suffered badly as a result of competition from developing economies like China's. Prato's Italian-owned textile firms took a hammering (though not a fatal one) from low-cost production in China itself, not from the arrival in Prato of Chinese rivals in the same line of business.

The power of pronto

The immigrants developed a new industry known as *pronto moda*. This involved importing cheap fabrics, mainly from China, and turning them into fashion garments at lightning speed to keep up with fast-changing styles. Even as the number of textile firms in Prato fell from more than 9,400 to below 3,000 in the two decades to 2011, the number of clothing manufacturers more than tripled to nearly 4,400, three-quarters of which had Chinese owners. In 2015 Chinese firms accounted for more than half the value added by Prato's textile and clothing firms, according to Tuscany's Regional Institute for Economic Planning.

The growth of Chinese-run, Chinese-staffed industries in Prato has created a growing Chinese middle class. It includes not only the factory bosses but owners of the shops, restaurants, hairdressers and travel agents that line the streets of Prato's Chinese district. But many of its members feel settled in Italy only up to a point.

In her forthcoming book, "Tight Knit: Global Families and the Social Life of Fast Fashion", Elizabeth Krause notes that half of the children born in Prato since 2009 have been foreign, yet many of those whose parents are Chinese are sent to China for schooling, even though they would be entitled to free education in Italy. Ms Krause calls this "a strategy of keeping options open". Cultural bonds, and the growing wealth of the motherland, are powerful forces to pull them back.

→ Turtles and seagulls: What happens when Chinese students abroad return home

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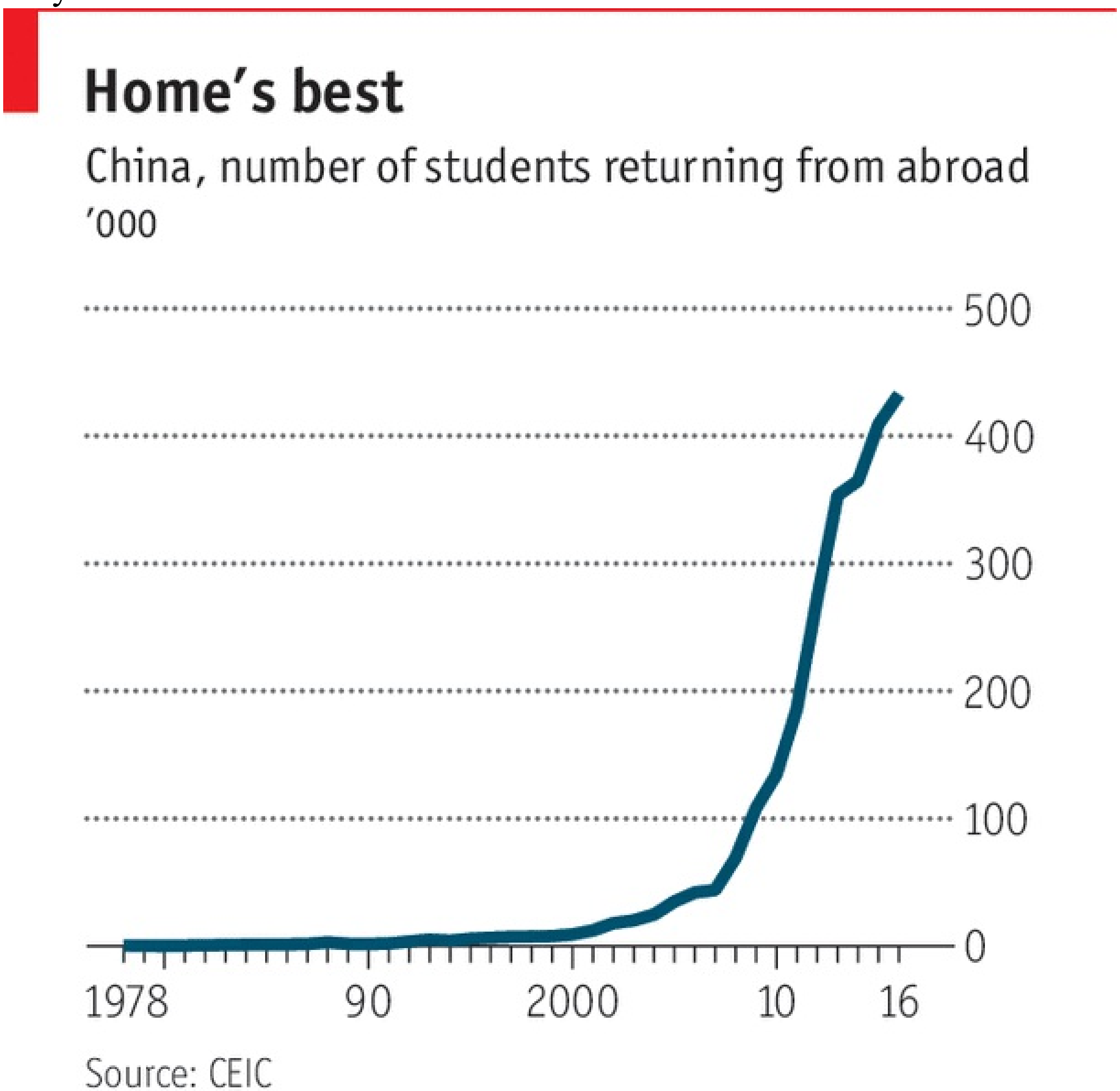
Special report

Turtles and seagulls

What happens when Chinese students abroad return home

Growing numbers of Chinese are heading back home after studying abroad

May 17th 2018



Economist.com

JIMMY ZHONG IS a Beijinger who speaks English with an American accent and wears a baseball cap. Sitting in his tatty office in the Chinese capital, he recalls the heady days of life in Manhattan after finishing his degree in maths and computer science at Emory University in Atlanta, Georgia. By then he was already rich, having sold his first company—an online marketplace enabling students to sell class notes—for $40m. He was in New York to help build another internet startup which he had co-founded during his third year at university—a forum for students to buy tutorial help. The money was rolling in.

"I lived on the 54th floor, with a balcony. It was great," says the boyish, fast-talking 24-year-old. Silicon Valley, to which he had made a weekly trip while at college to pursue his sideline as a tech entrepreneur, had seemed boring by comparison. "Once you make some money in Manhattan, it's heaven," he says.

In early 2017, missing home, he went to spend the lunar-new-year holiday in Beijing. He had heard about the opportunities there, about startup companies such as the bike-sharing firms Ofo and Mobike that had grown into billion-dollar businesses in just a couple of years. But when he started talking to people, "I realised, what am I doing in New York City? It's a complete waste of time."

And so began his new ventures. One is a Beijing-based startup, Dora, that deals in self-service kiosks such as photo booths. Mr Zhong says it already has 300 employees and is worth $100m. He is now focusing on another one, IOST, based in Singapore, which is developing software involving blockchain, the cryptographic technology behind bitcoin. Most of Mr Zhong's partners are Chinese educated at American universities.

The Chinese government is not a fan of bitcoin: it worries that such crypto-currencies could undermine the country's financial stability. Last year it shut down exchanges in China where they were traded. But the country recognises the huge market potential for the underlying technology as an enabler of secure transactions. As in other digital domains, such as artificial intelligence, China is sparing no effort to establish itself as a world leader, so the government badly wants more people like Mr Zhong to return.

They are doing so in droves, many of them drawn back to China by a boom in tech-related business. In 2016 more than 430,000 people went back to China after finishing their studies, nearly 60% more than in 2011. In the same period, the numbers leaving rose by less than 40%. China's official news agency, Xinhua, called this one of the biggest return flows of talent in any country's history: the "magnetic effect" of China's rise as a global power. About one-sixth of "sea turtles", as returnees are jokingly known in Chinese (the words sound the same), take up IT-related work, according to a survey published last year by the Centre for China and Globalisation (CCG), a think-tank in Beijing, and Zhaopin, a job-search website. Most of the 150 or so Chinese companies listed on NASDAQ were launched by returnees.

Officials have also offered them sweeteners: generous allowances to move back to China, as well as housing, health care and other benefits. "Today's world not only has the West's American dream but the East's Chinese dream as well," wrote Li Yuanchao, a now-retired party leader, in an article in 2012. Months later Xi Jinping became the Communist Party's chief and made "Chinese dream" his slogan. Chinese abroad, living the Western sort, were to be part of it.

Officials say about 80% of Chinese students now return after finishing their studies, compared with less than one-third in 2006, but the figures are hard to verify. Some may go back to China for a short period and then leave again. Some, known as "seagulls", flit back and forth between East and West. But the trend is clear.

The success of China's plan to create world leaders in cutting-edge industries, known as "Made in China 2025", will depend on returnees. And indeed they make up nearly half of the "core talents" involved in developing artificial intelligence in China, according to ChinaHR.com, a recruitment website. Growing numbers of them have not only been educated in America but have also gained crucial experience there.

Some Chinese companies are offering big remuneration packages to lure tech talent from America. The financial sector and its regulatory bodies are stacked with returnees. Most venture capitalists in China have studied in the West. Zhou Xiaochuan, who stepped down as China's central-bank governor in March, studied in America in the late 1980s. His successor, Yi Gang, has a

PhD from the University of Illinois and was a professor at Indiana University.

Slow march through the institutions

Less than 4% of those who return after studying abroad enter the civil service, according to the survey by CCG and Zhaopin. But returnees are a growing presence even at the highest levels of the government and the party. Cheng Li of the Brookings Institution reckons that at least one-fifth of the 370-odd members of the party's current Central Committee, appointed last October, have spent at least a year on a foreign campus, mostly in the West. That is twice as many as ten years earlier, he calculates.

Also last October, for the first time in the history of the party's rule, its most powerful body, the seven-member Politburo Standing Committee, gained a member who had spent time at a Western university: Wang Huning, a former academic who has been playing a central role in crafting the party's ideology. In the 1980s Mr Wang was a visiting scholar at the universities of Berkeley, Michigan and Iowa. Of the 25 members of the Politburo, three others are also returnees and hold important portfolios: Chen Xi, the chief of personnel; Yang Jiechi, President Xi's chief adviser on foreign affairs; and Liu He, Mr Xi's chief economic adviser.

In the coming years, as the recent wave of returnees moves up through the ranks, the numbers at the very top may well continue to grow. And members of the party elite who have not spent time on Western campuses will be increasingly likely to have been educated by people who have. The Communist Party's main training centre for senior officials itself is recruiting returnees. All this is hard to square with China's ever greater disdain for the West, its leadership's growing hostility to Western values and its public's tendency to respond to perceived slights by Westerners with chest-thumping nationalism. But looking further ahead, it is possible to take a more sanguine view.

→ The next sunrise: Ideas from abroad take time to percolate

Special report

The next sunrise

Ideas from abroad take time to percolate

What history tells us about the long-term effect of ideas from abroad

May 17th 2018

SUN YAT-SEN WAS staying at a grand hotel in Denver, Colorado, at the start of the uprising in 1911 that led to the collapse of 2,000 years of imperial rule. The local *Rocky Mountain News* was on the side of the English-speaking baptised Christian who wore European-style suits and saw Jesus as a "revolutionary" like himself. The newspaper described Sun as an "Americanised Chinaman of the most advanced type". He was soon to become the first president of his country's new republic.

The uprising was the product of infection from the West. Its leaders at home were radicals who had returned from study overseas and set up cells that linked up with disaffected military officers. While abroad they had soaked up the language of liberalism and constitutional rule. One inspiration was Japan, which had Westernised its politics in the late 19th century. Sun had spent time studying there, learning the meaning of Western words like *minzhu* (democracy) and *ziyou* (freedom) which had recently entered the Chinese language via Japanese. *Geming*, the new word for revolution, was another of those borrowings.

For all the radicals' efforts, Western-style democracy never really took hold in China. In 1913 Song Jiaoren was assassinated after being elected prime minister in the country's first attempt at democratic polls. China slipped back into despotism, warlordism and (following an invasion by Japan) all-out civil war. But the West continued to provide inspiration. Chinese nationalists hated the Western powers for handing German territory in China to the Japanese after the first world war. But they also believed that China's weakness was a product of what they saw as the country's own backward culture.

Sun Yat-sen was an English-speaking baptised Christian who wore European-style suits and saw Jesus as a "revolutionary" like himself

For some, the thinking of a 19th-century German, Karl Marx, whose ideology had inspired Russians to overthrow their own imperial system and create a republic that seemed to work, was just what was needed. Among the Chinese Communist Party's earliest members were Deng Xiaoping and Zhou Enlai. They both joined the party in the 1920s while in France on a "work-study" programme that involved much toil and little education. The grimness of this experience turned them, and many other participants, into eager recruits for the communist cause.

The Kuomintang (KMT), which ran a ruthless dictatorship until the Communist Party overthrew it in 1949 and established another one, also took lessons from the Russians. Sun sent Chiang Kai-shek to study in Moscow in 1923. Chiang broke with the Soviets four years later after gaining control of China, but did not become a fan of liberalism. His fear of the potential damage it could cause in China, were it to take hold there, had much in common with the anxieties of subsequent Communist rulers, including Xi Jinping today. The nationalism Chiang tried to incite to keep liberalism at bay is echoed in Mr Xi's China, too.

But American thinking retained a powerful allure. As John Pomfret, an American journalist, notes in his book, “The Beautiful Country and the Middle Kingdom”, hundreds of people, many of them educated in America, “became the conscience of their nation in opposing the tyrannical ideologies” of the KMT and the Communists from the 1920s to the 1940s. And as Mr Pomfret also points out, it was a “red-blooded mid-western Yankee”, Edgar Snow, whose pro-communist journalism inspired many others to tilt towards that camp. Snow’s book, “Red Star Over China”, first published in 1937, was the first that many urban Chinese intellectuals heard of the rural guerrilla, Mao.

Much the same is true in China today. Liberals have been largely silenced. Liu Xiaobo, a Nobel peace prizewinner, was the best-known campaigner for democracy among those who returned from Western campuses (after a spell as a visiting scholar in America and Norway in the 1980s). He died last year in custody, having spent more than a decade locked up for his efforts. But there are many less-well-known liberals—civil-rights lawyers, house-church leaders and NGO workers—who keep up their low-key efforts to blunt authoritarianism’s impact despite the party’s efforts to crush them.

A long game

It is certainly true that many others draw inspiration from the West’s latter-day Snows—people who argue that liberal democracy, or American power, has had its day and that China is the new model and rightful global leader. The huge number of people going to the West and returning has not nudged China towards democracy. On the contrary: Chinese authoritarianism looks reinvigorated. But the engagement of Chinese people with the rest of the world on such a scale is relatively new. So, too, is the return of people educated in the West in numbers far beyond anything witnessed since Yung Wing became the first Chinese to graduate from an American university (Yale) in the 1850s.

Those returning are members of a fast-growing middle class that may have little immediate interest in challenging the status quo. But thanks to the internet (and despite energetic censors) it is better equipped to do so than any social group has ever been in the history of Communist China. It would be unwise to dismiss the potential impact on China’s long-term development of the presence of such numbers of highly networked, highly educated people with little interest in the party's ideology.

To see what could happen, Mr Xi need look no further than Taiwan, where the KMT settled after its defeat by the Communists in 1949. As the island's economy took off in the 1960s and 1970s, the pattern of movement abroad under the KMT's authoritarian rule was similar to China's today. Many members of Taiwan's new middle class looked abroad, mainly to America, to send their children for study or for a less stifling place to live. At the peak of the brain drain in 1979, only 8% of Taiwanese who studied abroad returned to the island after completing their courses, wrote Kevin O'Neill in a paper published by the Migration Policy Institute.

But in the 1980s, as Taiwan became a world leader in high-tech manufacturing, many of those educated in the West began to see good job opportunities back home. They returned to become part of what was often called the "Taiwan miracle". The brain drain began to reverse. By 1987, one-fifth of executives at large Taiwanese firms were returnees, says Mr O'Neill.

That turned out to be a momentous year: the one when Chiang Kai-shek's son and successor, Chiang Ching-kuo, lifted martial law that had been in force on the island since the KMT fled there. He died the following year, to be succeeded by his protégé, Lee Teng-hui, who had studied at Cornell University. It was Mr Lee, an avowedly Christian president, who finished the job that Chiang Ching-kuo had started: turning Taiwan into a democracy. In 1996 he conducted, and won, the island's first free presidential election.

When Mr Xi took over as China's leader in 2012, many analysts wondered whether he might prove to be another Chiang Ching-kuo. This was not merely the wishful thinking of Westerners. A few months earlier a liberal intellectual, Cao Siyuan, had published an essay on his blog hosted by a Beijing-based magazine, *Caijing*, on the topic of political reform. "Some friends say it would be good if we had a leader like Chiang Ching-kuo to promote constitutional democracy," he wrote. "But no matter whether conditions are ripe for this, as citizens we should do all we can to push for it." Censors have yet to take down the essay.

Mr Xi himself shows no sign of thinking that conditions are ripe for change along Taiwanese lines. He clearly views the social forces unleashed by economic growth as a threat to his and the party's grip. Nothing that is likely to happen in China in the remaining years of his rule—and there could be many of them after his decision in March to make it open-ended—will make him feel more secure.

But when change eventually comes, it is safe to assume that the ideas of Western-educated Chinese, and of tens of millions of Chinese who have visited or worked in the West, will play a vital role in the next stage of China's political evolution. A future president of China may well, even now, be following in Sun's footsteps: packing her bags to study abroad.

Business

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What the OFAC?

For European firms, resisting American sanctions may be futile

But the Trump administration is playing fast and loose with a dangerous weapon


Brett Ryder

May 19th 2018

“DONALD TRUMP is the sort of guy who punches you in the face and if you punch him back, he says ‘Let’s be friends’. China punched back and he retreated. The Europeans told him how beautiful he was, but they got nothing.” This is how an American official-turned-executive describes the latest twists in the Trump administration’s sanctions policy, which this year has roiled business from America to Europe, Russia, China and Iran. What business leaders see, analysts say, is a punitive approach that is capricious, aggressive and at times ill-prepared. But unless companies or their governments take the fight all the way to the White House, they have little choice but to abide by the long—and sometimes wrong—arm of American law.

The capriciousness was evident on May 13th when President Trump executed a handbrake turn on ZTE, the world's fourth-biggest telecoms-equipment maker, which is strongly supported by the Chinese government. It had been brought to the brink of bankruptcy after the American government in April banned its firms from supplying it with components. That was punishment for ZTE's violation of American sanctions against Iran and North Korea and for its subsequent lies about how it censured the staff involved.

In two surprise tweets, Mr Trump said he was working with China's president, Xi Jinping, to bring ZTE "back into business, fast" and that the lifeline was part of a larger trade deal with China. American congressmen said this smacked of submission to retaliatory pressure from China.

Not only was Mr Trump's move an unusual intervention in a law-enforcement matter. It also came on the day that his national security adviser, John Bolton, threatened to punish European firms that violate new sanctions the Trump administration is imposing on Iran after withdrawing from the Joint Comprehensive Plan of Action (JCPOA), a nuclear deal implemented in 2016. In other words, a convicted Iran sanctions-buster allied to China might be let off, whereas firms allowed by European law to trade with Iran will be under the cosh—unless their leaders fight back.

Economist.com

Whether or not there is the stomach for such a battle is the question haunting businesses in Europe. French carmakers, Total, an oil supermajor, and Airbus, an aircraft manufacturer, developed stronger business ties with Iran after European sanctions were lifted in 2016. Peugeot and Renault sold more than 600,000 cars there last year. Total has signed a $5bn deal to extract natural gas in Iran, in partnership with PetroChina, a Chinese counterpart. Iran has ordered 100 planes from Airbus. SWIFT, an international bank messaging system based in Belgium that is used for business payments, reconnected Iranian banks to the global system in 2016.

Can the bloc block?

European leaders attempted this week to work out a plan for keeping the JCPOA alive without America that would enable their businesses to continue to trade with Iran. Ali Vaez, of the International Crisis Group, a consultancy, said that to keep Iran on board with an amended agreement, the Europeans may need to promise that it could keep selling its oil to them, as well as keep access to SWIFT. But in order to do that, Europe faces “a set of ugly choices”. These include threatening to impose tariffs on American imports if the Trump administration slaps secondary sanctions on European firms trading with Iran, or imposing “blocking legislation” of the kind introduced in 1996 to protect its companies from Cuba-related sanctions. “The exemption for ZTE is a good example that if the EU were to bring out the big guns…then it can negotiate exemptions,” Mr Vaez says.

But many doubt Europe’s appetite for a fight. “In my wildest dreams, I can’t imagine Europe doing it,” says Amos Hochstein, who, as a member of the Obama administration, led the move to put sanctions on Iranian oil in 2012. Patrick Murphy of Clyde and Co, a law firm, says the proposed Iranian sanctions are too different from the Cuban ones for a similar remedy.

Moreover, says Mr Murphy, in an increasingly dollarised world, businesses and banks are so worried about being shut out of the financial system that there is in fact “over-compliance” with the legal requirements imposed by America. He says this explains the sluggish pace of European investment in Iran in 2016-18, even though European sanctions had been lifted. On May 16th Total said it would unwind its investment in Iran by November unless American authorities granted it a waiver. It said it could not afford to be exposed to sanctions, which might include the loss of financing in dollars by American banks.

Firms face many other complications. According to Gibson Dunn, a law firm, America’s reliance on sanctions to tackle terrorism, nuclear proliferation, human-rights abuses and corruption has ballooned since Mr Trump took office. Last year it put about 1,000 entities on its “blacklist”, almost 30% more than in Barack Obama’s final year (see chart). The Office of Foreign Assets Control (OFAC), which enforces sanctions from Washington, has attracted unprecedented attention from Steven Mnuchin at the Treasury. “To the best of our knowledge, there has never been a treasury secretary so clearly enamoured with the sanctions tool," says Gibson Dunn.

As a result, OFAC is "incredibly stretched", says Elizabeth Rosenberg of the Centre for a New American Security, a think-tank. That makes it harder for businesses to seek clarity on the reach of sanctions. OFAC has recently lost its director, John Smith, and another senior official. This staffing shortfall may contribute to a further difficulty for business: the Trump administration has, at times, imposed sanctions without appreciating the consequences of its actions. Its crackdown on Rusal, Russia's biggest aluminium producer, in April was aimed at punishing Oleg Deripaska, a Russian oligarch, who owns it through EN+, a company recently floated in London. But it caused immediate disruption of the world's aluminium market, of which Rusal supplies about 6%.

Higher aluminium prices hurt carmakers, manufacturers of cans and other users of the metal, leading to a strong lobbying effort in Washington. Less than three weeks later, the Treasury watered down the sanctions by extending the "wind-down" period for firms to finish doing business with Rusal. It also gave EN+ a chance to save itself and Rusal from the sanctions if it sold off Mr Deripaska's stake to below 50%—provided it can find an investment bank brave enough to help it with the transaction.

Ms Rosenberg says it is the Treasury's job to anticipate what the market and political reaction will be, rather than imposing sanctions and then "walking back in the face of protests". Others say that the more sanctions are seen as "transactional", the more their credibility is damaged.

Yet however murky America's system has become, businesses are in no mood to dismiss it. Doing business in countries that have been labelled as rogue regimes is not much good for their reputations. And much as they may dislike being a tool of Mr Trump's unorthodox foreign policy, they know that they cannot disregard it.

Bad rap

Spotify kicks off a cultural shift in the music business

The music-streaming giant on May 10th removed R. Kelly and XXXTentacion from its playlists

May 17th 2018 | NEW YORK

MAKING it on to an official playlist on Spotify, a streaming service, can help turn a singer into a superstar in the way that major radio stations once could. Until recently the main criterion for inclusion was a curator's taste. Artists who have been accused of domestic violence and other serious crimes are on playlists with millions of followers, as are songs that critics find violently misogynist.

That is starting to change. On May 10th Spotify announced a new policy on "hate content and hateful conduct", and removed two artists, XXXTentacion, a rapper, and R. Kelly, an R&B; singer, from their official playlists due to allegations of abuse and mistreatment of women. Both artists deny any wrongdoing. Their music will still be available on the service, but it will not be pushed to listeners. It then quickly emerged that Apple Music and

Pandora, two other streaming services, had quietly taken similar action.

Spotify's public declaration sent ripples through the music industry, sparking questions about whether, and how, streaming companies should police their catalogues of some 30m songs. Few executives wish to speak publicly, but a veteran of both the music and streaming industries wonders whether Spotify and its peers should have the power to be "judge and jury" on which artists should be blessed or banished. One digital-media boss called the move "absolutely dumb", asking, "How do you start drawing lines?"

Most executives at music-streaming firms had not seemed to contemplate any need to do so until recently (apart from taking down songs that might violate specific rules, such as hate-speech laws in Germany). Their counterparts at the record labels have for decades looked the other way as artists accused of various crimes rocketed to the top of sales charts. Yet in the #MeToo era advocacy groups have been putting more pressure on industry executives.

Time's Up, an organisation that emerged from the #MeToo movement, had joined a recent lobbying campaign for music industry players to cut ties with R. Kelly, who has been accused of keeping underage women against their will in a sex cult. XXXTentacion is awaiting trial on charges that in 2016 he violently attacked a pregnant woman; earlier this year a video surfaced that appears to show him beating another woman in 2013 (the rapper says the video is misleading).

Spotify, which went public in April, was a particularly obvious target for activists. It is the global leader in paid music streaming with 75m subscribers and nearly $5bn in revenue in 2017. Its choice of playlist promotion is a big deal for music acts. *Billboard* magazine reports that 20-30% of Spotify's music streams come from playlists. The firm's RapCaviar playlist, which used to feature XXXTentacion, has 9.5m followers. In addition to the direct value to artists (roughly $1,000 per million streams), the extra visibility bestowed by playlists helps them with touring, record sales and label deals.

The de-listed singers and their defenders say they are being unfairly singled out. A representative for XXXTentacion issued a list of 19 other artists accused or convicted of violent or disturbing behaviour who are featured on Spotify playlists, including Michael Jackson and James Brown. This week

RapCaviar still featured Famous Dex, another artist who has been allegedly caught on video beating a woman.

It is unclear how far firms will go in de-listing artists. Many of those accused of domestic violence are in hip-hop, the most popular genre in America. Increased notoriety has drawn fans as well as deterring them. XXXTentacion hit Billboard charts for the first time months after his 2016 arrest. Dr Dre, who along with others sold Beats to Apple for $3bn and became a consultant at Apple Music, has been accused many times in the past of violence against women, though he has also shown remorse. But with the precedent now set, the pressure on streaming services to demote artists can be expected to increase.

Workers of the Galaxy, don't unite

A Samsung executive is accused of union-busting

In a country with a tradition of vibrant industrial action the biggest chaebol has little union presence

May 19th 2018 | SEOUL

ON THE face of it Samsung, South Korea's biggest *chaebol*, as the country's family-controlled groups are known, has had a good couple of months. In April it was name-checked in a report by the country's antitrust body for good progress on corporate reform. It also posted record profits for the fourth quarter in a row, thanks mainly to its booming memory-chip business as well as its Galaxy range of smartphones. But on May 15th prosecutors spoiled the mood. They raided Samsung's offices outside Seoul and arrested Choi Pyeong-seok, head of human resources at the after-sales subsidiary of Samsung Electronics, the group's main earner, on allegations that he had been involved in sabotaging labour-union activities and might destroy evidence unless he was jailed (he has not responded to the allegations).

Mr Choi's arrest is part of an attempt by prosecutors to prove systematic breaches of labour law at the company's highest levels. (Samsung says it is unable to comment, as the investigation is still going on.) Their probe began in February, when officials discovered evidence related to union-busting during a separate inquiry—into accusations that Samsung had wrongly paid legal bills for a car-parts maker allegedly owned by Lee Myung-bak, a former president.

Even though South Korea has a tradition of energetic industrial action, unions have been largely absent from Samsung. Lee Byung-chul, the empire's founder, used to say the firm would recognise them "over my dead body". Politicians and law-enforcement authorities paid little attention to claims that the firm was preventing the emergence of unions, perhaps because Samsung accounts for a fifth of South Korea's GDP.

Now they are looking more closely. The evidence that led to Mr Choi's arrest suggests that one firm in the Samsung empire had monitored the personal interests, friends and drinking habits of potentially disruptive workers and used cash bribes to stave off unionisation. That echoes documents which people have unearthed in the past. In 2013 Sim Sang-jeung, a left-wing lawmaker, made public a document which she claimed contained Samsung's guidelines for preventing the formation of unions. It recommended gathering incriminating information on workers who were considered likely to form a union, and to shut down such attempts early by using disciplinary action.

Ms Sim's allegations did not lead anywhere at the time. Although prosecutors investigated her claims, which if proven would have put Samsung in breach of South Korean labour law, they were reluctant to probe too deeply, says Park Sangin, an economics professor at Seoul National University who studies the conglomerates. The case was closed in 2015.

Mr Park reckons the current investigation will be more thorough. The corruption scandal that felled the former president, Park Geun-hye, who was jailed for 24 years last month, also embroiled Lee Jae-yong, the heir to the Samsung empire, who is serving a suspended sentence for paying bribes to Ms Park's aide in return for business favours. That scandal galvanised law-enforcement agencies, whose anti-corruption drive has the backing of President Moon Jae-in's reformist government. Expect prosecutors to keep pushing.

On a wing and a slogan

A storm breaks around AirAsia’s boss

Tony Fernandes gets caught on the wrong side of Malaysia’s election

May 17th 2018 | KUALA LUMPUR

“YOU only have one vote so use it wisely,” advised the captain of a lunchtime AirAsia flight from Singapore to Kuala Lumpur on May 9th. It was the third time he had reminded passengers of Malaysia’s election that day. Travellers delighted by the personal touch shook his hand as they disembarked. The pilot was not freelancing. AirAsia had planned to provide 120 flights with reduced fares to help Malaysians get home to vote (in the end, half of the flights were approved by the airline’s regulator). And the low-cost carrier’s political play went further than encouraging people to vote. Tony Fernandes, its British-Malaysian boss, arranged for an AirAsia plane to be painted with the slogan of the ruling coalition of Najib Razak, the prime minister at the time. Mr Fernandes also appeared in a video attributing the success of his business to the Malaysian government.

Then came the most astonishing political result in the country for 61 years, as

92-year-old Mahathir Mohamad, a former prime minister, defeated Mr Najib. On May 13th Mr Fernandes went in front of a camera again. He apologised for having “buckled” under pressure applied by the defeated administration of Mr Najib (the two men are pictured, in the centre). “It wasn’t right and I will forever regret it,” he said.

Among the explanations he offered for his behaviour, one was that his industry is tightly regulated, meaning that his airline needs to be in the government’s good books. Yet other carriers managed to stay above the political fray. Mr Fernandes may have hoped that he could improve AirAsia’s lot at Kuala Lumpur International Airport by buttering up those he assumed would win. Many of the firm’s operations are based at KLIA2, a dingy terminal with leaky loos and unappetising food.

AirAsia’s operations at home are among its most lucrative, which explains why its boss is now desperate to appease Malaysians annoyed by his antics. (The firm’s share price still dropped by a tenth the day after Mr Fernandes’s contrite display.) For good measure, he also threw some mud at the former administration, alleging that the Malaysian Aviation Commission pushed him to cancel special flights for voters, perhaps because support for Mr Najib’s Barisan Nasional is mainly in poor rural communities and people flying in might have been more likely to vote for the opposition (the commission denies having done this). Mr Fernandes also revealed that other officials wanted him to remove the chairwoman of AirAsia X, a long-haul service, for criticising the government. Investigations into the claims are planned.

The furore is unlikely to bother AirAsia for long. It is hugely successful. Grown from the ruins of a state-owned firm which Mr Fernandes bought in 2001 for 1 ringgit (about $0.26 at the time), the AirAsia group, which includes six low-cost airlines, now has over 200 planes carrying over 60m passengers annually. Customers in its other markets, such as the Philippines, Thailand and Japan, care less about political vagaries in Malaysia than they do about cheap travel.

Raising a racket

McKinsey manages to get itself sued for racketeering

A rival has accused its bankruptcy practice of misleading courts to win clients

May 19th 2018

MOBSTERS, gangsters and bent cops have all been tried under America's Racketeer Influenced and Corrupt Organisations (RICO) Act. Might consultants be next? McKinsey, a management consultancy, is being sued under the law by Jay Alix, the founder of AlixPartners, a competitor in the field of bankruptcy advice. Mr Alix alleges that McKinsey knowingly misled courts in order to land clients. The firm denies any wrongdoing.

Bankruptcy is lucrative, for those doling out the advice. According to Debtwire, a data provider, corporate bankruptcies generated $1.3bn in fees in 2016, with lawyers taking home over half, and the rest going to consultants, accountants and financiers. McKinsey is a relative newcomer: it set up its restructuring arm, which turns around companies in financial distress, in 2010. Though its share of the market is smaller than those of the top players, AlixPartners and Alvarez & Marsal, its entry has stiffened competition. Its clients have included American Airlines, Puerto Rico and a number of energy companies.

McKinsey is well-known for keeping the details of its consulting work and its clientele close to its chest. In contrast, the byword for bankruptcy work is transparency. Restructuring advisers have influence over how much creditors get paid, or which parts of the business are sold off and to whom. They might even serve as interim executives of a distressed firm. Creditors want to know that potential buyers are not taking advantage of a company already on its knees. So advisers must disclose any potential conflicts of interest to a court before they are approved to work for a firm in distress. A judge then decides if the advisory firm's connections pose a conflict, in which case it can be barred from working on behalf of the bankrupt business.

In April the *Wall Street Journal* reported that McKinsey initially disclosed an average of only five potential conflicts per case, whereas other professional-services firms divulged, on average, 171 connections. In most cases it disclosed no conflicts at all. That such a well-connected consultancy had so few potentially problematic links to declare might strain credulity. McKinsey points out that courts routinely approved its disclosures.

But Mr Alix, who no longer holds a majority stake in his firm and is suing independently of it, alleges that McKinsey deliberately hid conflicts of interest in order to gain work unlawfully, and so deprived his company of tens of millions of dollars of business. He also accuses McKinsey of offering to refer its consulting clients to lawyers, if law firms in turn referred bankruptcy work to it. He says he discussed the allegations with McKinsey executives in 2014, but decided to take no action because they promised to exit the bankruptcy business. McKinsey says the accusations are "baseless and anti-competitive", and an attempt to disparage the firm; it also denies having promised to exit the business.

Mr Alix has already devoted plenty of energy to challenging McKinsey. He bought up a stake in one of McKinsey's bankruptcy clients, Alpha Natural Resources, a coal producer, so that he could convince regulators to press the consultancy for more disclosures. McKinsey went on to disclose the names of some of its clients, including banks, that were connected to the coal company.

Mr Alix has said he wants to ensure all advisory firms operate on a level playing field. But some wonder if the RICO suit, originally designed to litigate against criminal organisations, is being used to grab headlines. Nor is it clear how Mr Alix can prove his firm was deprived of work. Even if it had made more disclosures, says Stephen Lubben, a law professor at Seton Hall University, McKinsey may not have been disqualified all the time; and if it had been disqualified, AlixPartners may not have snapped up all the work. Court cases, just like bankruptcy advice, can be messy.

Opening the floodgates

Portugal's energy giant may sell to a Chinese state-owned utility

China Three Gorges's bid to own EDP is backed by the Portuguese government, but other countries' regulators may oppose a deal

May 19th 2018 | PARIS

SHOULD Europeans worry that China Three Gorges (CTG), a state-owned firm, wants to buy EDP, a utility that is Portugal's biggest company? It is three years since one local banker, Fernando Ulrich, called Portugal "a Chinese aircraft-carrier in Europe"—back then, Chinese buyers were already snapping up stakes in "strategic" local companies as quickly as the government could privatise them. CTG's offer of €9.1bn ($10.8bn) for EDP, which was made on May 11th, will further unsettle those suspicious of China's desire to snap up European assets.

The country is unusually welcoming to investors from the east. Its national airline, TAP Air Portugal, and Redes Energéticas Nacionais, the monopoly power transmitter, both have Chinese investors. CTG is already EDP's largest owner, with a stake of 23%, after a €2.7bn investment in 2012. Now the Chinese want outright control.

To get that, CTG will probably have to raise its offer; EDP's board rejected the price offered by the Chinese on May 15th. Crucially, however, CTG won Chinese approval in advance, necessary these days given official restrictions on capital flowing abroad. Portugal's government is also relaxed, calling the Chinese "good investors". It helps that EDP's headquarters would remain in Lisbon.

Officials elsewhere may yet object. EDP has electricity or gas operations in 14 countries, including America, where it bought Horizon, a Texan wind-farm company, in 2007. Joint ventures with CTG elsewhere are sizeable. In Brazil the firms together run hydropower stations, and constitute one of the largest private energy producers. EDP makes and distributes electricity in Spain; it operates wind farms in France, Italy and Poland.

Chinese firms have been investing heavily in energy in Europe (see chart). But governments are getting twitchier about this. France and Germany have started to push for stricter screening of foreign investment, especially in sectors involving sensitive technology. Proposed deals have caused trouble in the past: two years ago another Chinese energy firm, State Grid, failed in a bid for 14% of Eandis, a public distributor of gas and electricity in Flanders, Belgium, after an intelligence service warned of threats of theft and corporate espionage from China. A counter-bid for EDP from a European buyer is possible. But that would be tricky to engineer, given the existing links between the Chinese investor and its Portuguese partner.

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CTG also faces hurdles across the Atlantic. In view of EDP's American operations, the Chinese firm needs approval from America's powerful Committee on Foreign Investment in the United States. Hoping to pre-empt objections that Chinese ownership of power generation in America threatens national security, CTG has hinted it would consider selling some assets (though it also indicated it would drop its EDP bid rather than give up too much).

Exactly what the Chinese firm hopes to gain with its takeover offer remains to be seen. Getting more access to European technology is one possible benefit. Being able to sell Chinese technology, such as the ultra-high voltage networks in which China specialises, to European buyers might eventually be another goal.

Probably more important for Chinese companies, however, is learning how Europe's liberalised energy markets work. John Seaman, who studies Chinese investors in Europe's energy sector for IFRI, a think-tank in Paris, points out that China is reforming its own energy markets, letting its firms compete more in an effort to reduce costs. "In Portugal China is looking for know-how, to drive its own energy transition [and] to learn how to integrate renewables," he says. That interpretation of events sounds benign. But it may not drown out talk of aircraft-carriers.

Speed limited

Toyota takes a winding road to autonomous vehicles

The Japanese giant's approach looks more sensible after Uber's self-driving tragedy

May 19th 2018 | PALO ALTO

UBER's fleet of autonomous vehicles has been parked up since one of its self-driving cars struck and killed a woman in Tempe, Arizona in March. That death highlighted once again the industry's rush to develop self-driving cars. Waymo, a sister company of Google, plans to launch a robotaxi service in Arizona this year. General Motors says it will launch a fully autonomous taxi service, using cars with no steering wheel or pedals, in an American city in 2019. Volkswagen will make autonomous vehicles available through its new ride-hailing service, Moia, in 2021. Ford says it will be mass-producing fully autonomous cars by then, too.

But not every carmaker is going at the same speed. Toyota, one of only three car companies that sells over 10m vehicles a year, has made no equivalent commitments. The Japanese firm is instead concentrating on using artificial intelligence (AI) and automation to make conventional cars safer and more enjoyable to drive.

The immediate aim is to extend the age at which it is safe for older people to drive themselves, by using technology that can catch their mistakes. Software that processes data from on-board cameras and radar units will watch out for impending crashes and try to stop the car before impact, or correct for the slow out-of-lane swerve of a tired driver. Other software will guide the car in slow traffic, so that drivers can relax.

Helping older drivers is a particular concern in Toyota’s home market, where over a quarter of people are over 65. But similar demographic crunches are coming elsewhere. “Imagine a car, one day, that is so good that it will never be responsible for a crash, no matter what the driver does,” says Gill Pratt, chief executive of the Toyota Research Institute (TRI), the carmaker’s research hub in Silicon Valley.

This incremental approach will not necessarily leave Toyota in the dust. As the Uber crash showed, fully automated driving is difficult, and is progressing slowly, despite the billions being thrown at it. Rodney Brooks, a roboticist who sits on TRI’s advisory board, recently predicted that no unrestricted robotaxi service would arrive in a big American city until 2032. Toyota’s caution may let it avoid waves of self-driving hype and disappointment, while still giving it the tools to develop fully autonomous cars in future.

A slower approach also lets Toyota build the high cost of gathering driving data into its existing business. Before their cars can drive in a particular area, robotaxi firms must map it in exquisite detail, manually and at great cost, by driving mapping cars around the area they wish to service. Those valuable data are used to teach AI algorithms about human behaviour in the area, as well as about road layouts.

Toyota plans to gather similar data cheaply through its fleet of consumer-driven cars (by 2025 this will number some 50m cars). Outward-facing cameras and radars, now being installed in all its new cars to make them safer, will also gather on-board data that can be used to train fully autonomous driving software. Information gathered on such a large scale will allow Toyota's AI to learn to handle traffic events that are extremely unusual, the sort which robotaxi firms gathering data in lesser quantities may never see.

Lack of "lidar" (light detection and ranging) sensors in Toyota cars could prove a hindrance, however. Lidar works by emitting pulses of laser light and watching for their reflections, thereby building a precise 3D map of the surroundings—essential for training today's automated driving software, since video and radar do not capture the environment in sufficient detail. Robotaxi firms gather lidar data in every patch of city in which they deploy their cars, but Toyota will not, for the foreseeable future, be able to do so. The firm will either need to find a way to add expensive lidar sensors to the cars it sells, or to advance its machine-learning software to the point where it can learn to drive without it.

Toyota also needs to ensure that all the cars it sells have internet connections to transmit data in real time. A new arm, Toyota Connected, is aiming for that by 2020 in the firm's two main markets, America and Japan.

All this adds up to a bet that massive scale and patience can beat being first to market. Toyota is not chasing the robotaxi dream directly. But it may nonetheless end up in the right place at the right time, and with the relevant data to cash in.

Sales from the crypt

How a few companies are bitcoining it

Bitmain, a Chinese bitcoin miner and designer of chips, made $4bn last year; Taiwan’s TSMC has also struck gold

Brett Ryder

May 19th 2018

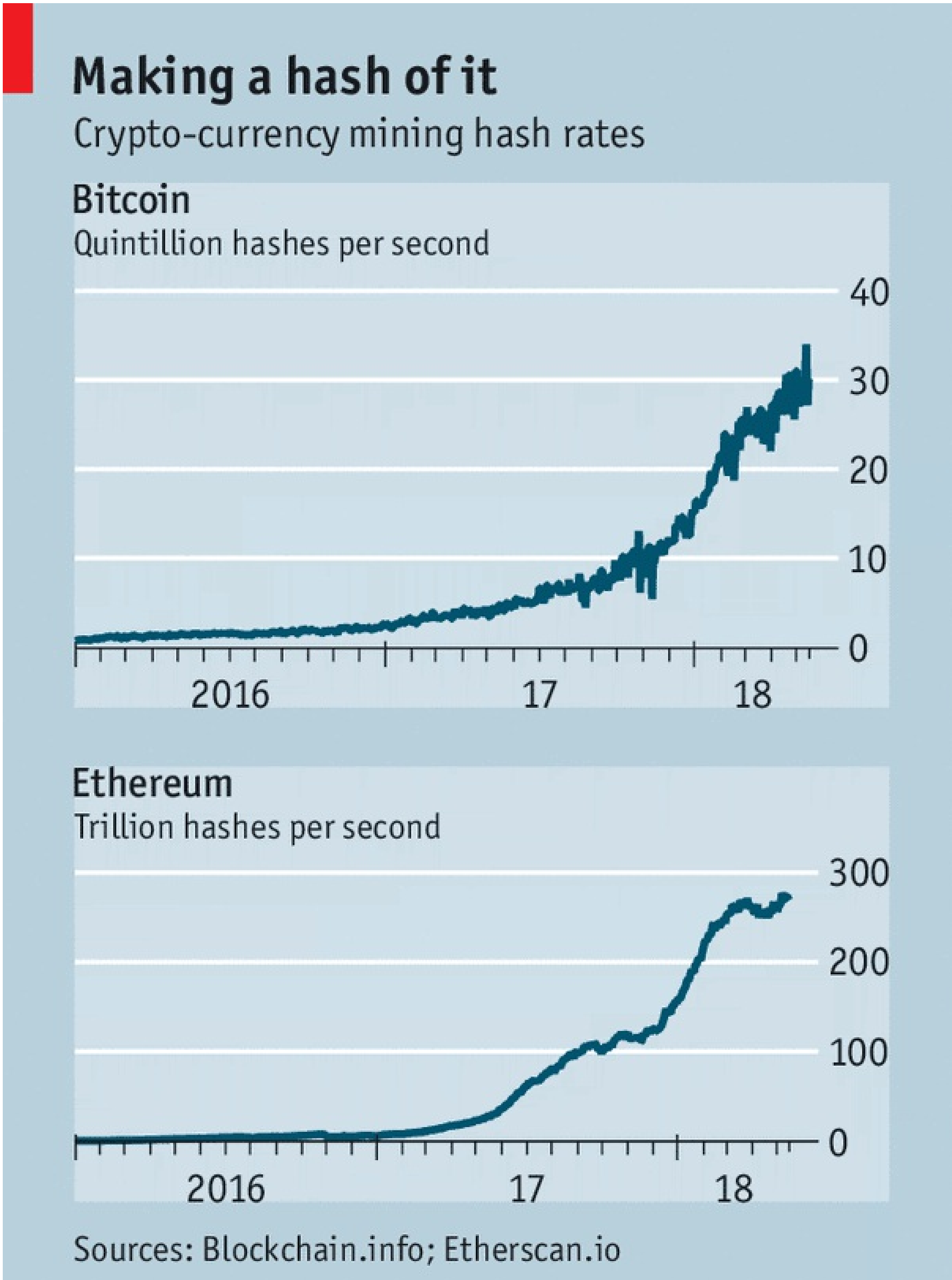
IN A recent video Jeremy Sciarappa, a YouTuber, flips the lid off a red box in his living room to reveal a silver machine the size of a shoebox, whining noisily. The contraption is an Antminer S9, sold by Bitmain, a Chinese firm. Its job is to help validate transactions conducted in bitcoin, the world’s best-known crypto-currency. Because bitcoin has no central authority, it relies on its users to keep things humming along. Those who help out are granted bitcoins, in a process called mining. The Antminer s9 is beloved of hobbyist miners worldwide. Nestled inside are 189 application-specific integrated-circuit (ASIC) chips, designed by Bitmain to solve bitcoin’s cryptographic puzzles as quickly as possible. They were made by TSMC, a giant Taiwanese semiconductor firm.

Mr Sciarappa and his fellow enthusiasts are a 21st-century version of the

“49ers”, the young men who rushed to California in 1849 to try their luck digging and panning for gold. Few hit it rich, but the businesses that helped them on their way profited handsomely. Cornelius Vanderbilt sold them steamboat tickets, for example; Levi Strauss supplied “dry goods”, including combs and bedding; and lesser-known firms sold the basic shovels that miners needed for digging.

History repeats. Bitmain is a miner first and foremost, but also sells what might be termed crypto-shovels. It is privately held, with profits thought to be around $3bn-4bn. It is one of three types of supplier to benefit from the crypto-rush.

Once upon a time you could give mining a shot with nothing more than a plug socket, some free software and a computer. But as the prices of crypto-currencies have risen, so too has the demand to mine them. Bitcoin’s design means that as more people contribute to the mining effort, its difficulty rises. That has made mining on general-purpose hardware inefficient. Since 2011 miners have used specialised gear, culminating in the super-efficient ASIC chips of the sort found in the Antminer s9. Unlike the chips in desktop PCs, which are jacks-of-all-trades, an ASIC is designed to perform a single task as efficiently as possible.



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These chips quickly solve the cryptographic puzzle needed to mine bitcoin. This requires would-be miners to combine three bits of data—a new block of bitcoin transactions, the last block on the blockchain (the ledger of transactions), and a random number—into a “hash”, or a 256-bit string of letters and numbers. The faster you guess hashes, the likelier you are to find a correct one before other miners.

Bitmain has come up with mining machines that are custom-designed for each crypto-currency’s hashing puzzle. Bitmain and Bitfury, a Canadian firm, are designing ever-cleverer ASIC chips for their products. Bitmain’s individual mining machines sell for $1,300 each on Amazon, and Bitfury will install shipping containers filled with mining machines for a price that is undisclosed but is thought to be around $1m-2m.

Not all crypto-currencies are mined in the same way, however. For bitcoin, the three data inputs to the cryptographic puzzle are relatively small but the maths problem is hard, meaning that chip design hands miners a big advantage. Bill Tai, a board member of Bitfury, says this irks some people in the crypto-community. Bitmain alone mines two-fifths of bitcoin blocks, which undermines the currency’s egalitarian ideals.

For that reason, Vitalik Buterin, the creator of Ethereum, the second-most-valuable crypto-currency by market capitalisation, tried to set things up differently. The cryptographic puzzle used to mine ether (the digital coin associated with Ethereum) involves a fairly simple maths problem, but the inputs are enormous. The hope is that this will blunt the advantage of ASICs and prevent ordinary users being squeezed out. Most of those users mine on graphics processing units, semi-specialised silicon primarily designed to generate video-game graphics, but which are good at crypto-currency mining. Those GPUs are available for just a few hundred dollars, much less than dedicated ASIC machines.

Chipping away

A few crypto-currencies, such as ether and Monero, are therefore mined using GPUs rather than ASICs. The rising share prices of the two American companies that design most of the GPUs on the market, AMD and NVIDIA, have partly tracked the hash rate of GPU-mined currencies.

Firms such as AMD, Bitmain, Bitfury and NVIDIA design their ASIC or GPU chips but do not make them. They are all customers of “foundries” such as TSMC, UMC and Globalfoundries, which manufacture chips for others. These companies are the third category of supplier firm to benefit from the crypto-boom. Last year demand from crypto-currency customers such as Bitmain accounted for $1bn of total revenues of $32bn at TSMC; demand from NVIDIA and AMD will have boosted its sales as well.

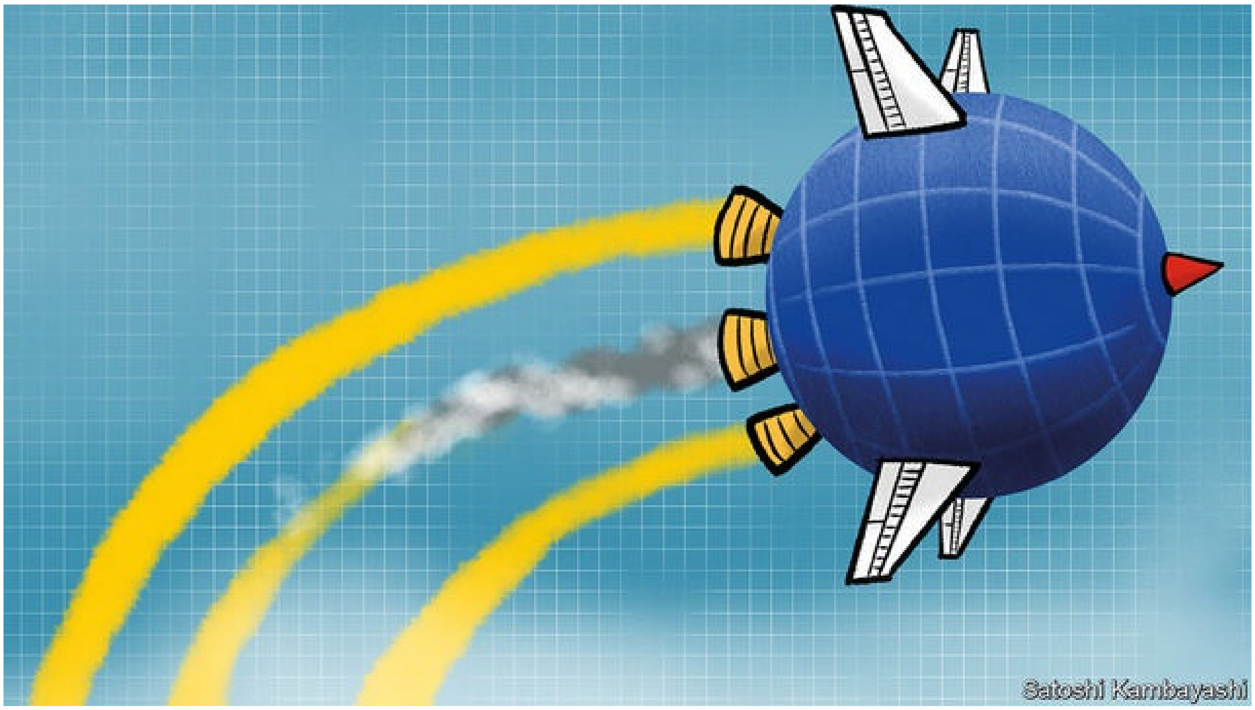
Slipping prices for crypto-currencies have not dimmed miners’ enthusiasm. Mr Sciarappa laments in his videos how little bitcoin his Antminer S9 churns out now compared with November. He remains hesitant to switch it off, yet firms know that demand could fade. TSMC’s management recently said that the firm is reluctant to add capacity to cater specifically to crypto-currency demand. Bitmain, even though it is helmed by die-hard crypto-enthusiasts, wants to create artificial-intelligence chips for other uses. The firms that have made this virtual gold rush possible have no intention of being flashes in the pan.

Finance and economics

Levelling off

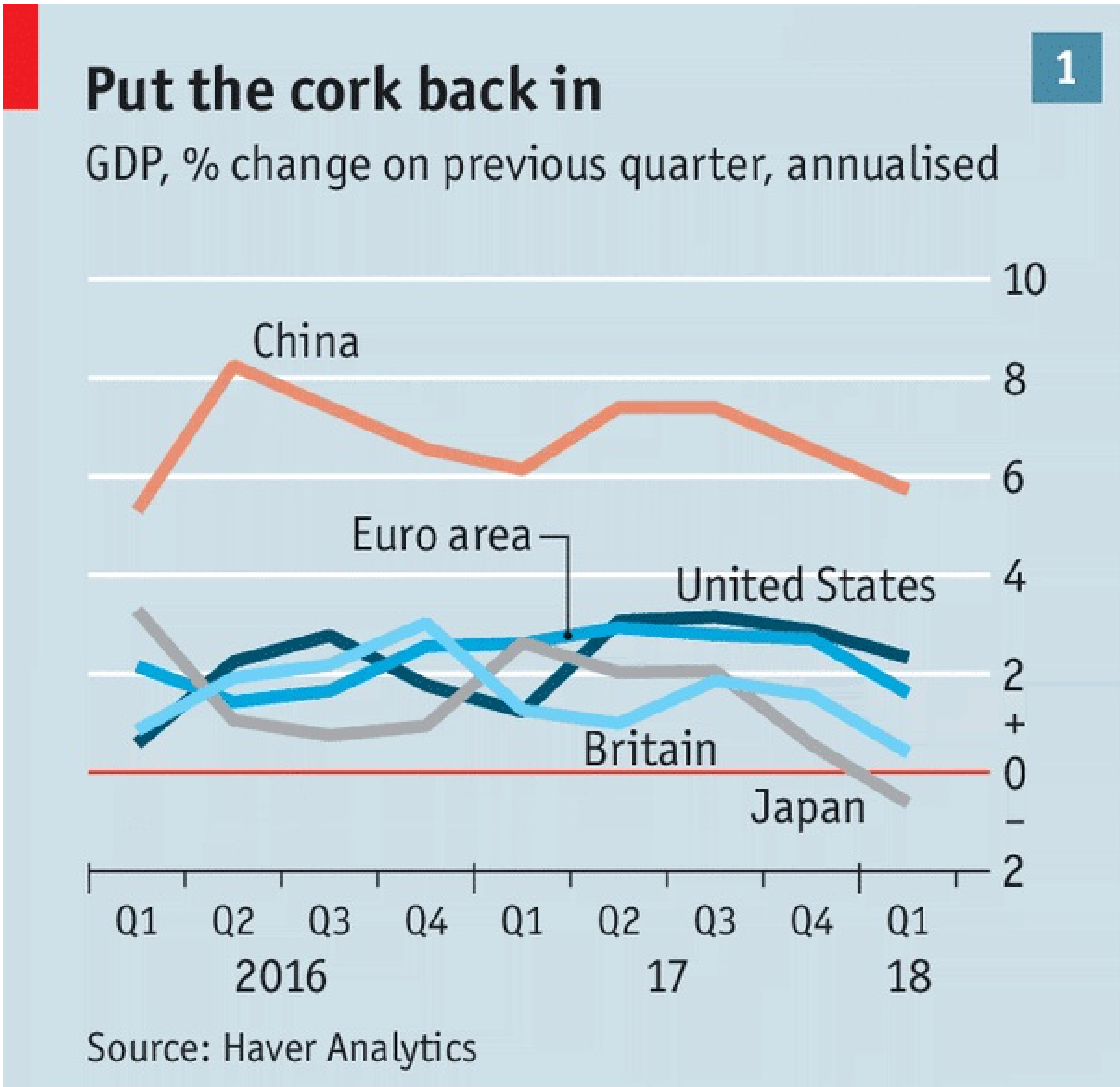
World economic growth is slowing. Don't worry—yet

The most immediate risk is a trade war, not a turn in the cycle



May 19th 2018

IN 2017 the global economy broke out of a rut. It grew by 3.8%, the fastest pace since 2011. Surging animal spirits accompanied a rebound in business investment across the rich world. Global trade growth rose to 4.9%, also the fastest rate since 2011. Emerging-market currencies appreciated against the dollar, keeping inflation low and debts affordable. Financial markets wobbled in February, but only after reaching all-time highs. In April the IMF said that the global economic upswing had become "broader and stronger".



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Since then that healthy glow has begun to fade. First, economic surveys in Europe took a turn for the worse (presaging growth in GDP of only 1.6%, annualised, in the first quarter). Then the rest of the world seemed to catch the same cold (see chart 1). In the first quarter America's growth slowed to 2.3%, annualised, from close to 3% in the preceding six months. At the same time, Japan's economy shrank by 0.6%, ending a growth spurt sustained since the start of 2016. Investors have begun to wonder if the period of global exuberance is over. Even policymakers in China, which has seemed relatively immune to the slowdown, have taken note of weakening domestic demand. In mid-April they loosened monetary policy slightly by allowing banks to hold fewer reserves.

Meanwhile, the slow upward march of American bond yields—the result of expectations of higher inflation and interest rates—has turned the screw on emerging-market currencies, which have fallen by 5.4% since the start of April (see chart 2). A run on the peso has forced Argentina to ask for an IMF bail-out and raise interest rates to 40%. The Turkish lira has also taken a beating, in part because the president, Recep Tayyip Erdogan, says that low interest rates reduce inflation (see Buttonwood). On May 15th he promised to take more control of monetary policy after the upcoming election.

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Make no mistake: world growth has slowed, but it remains strong. Surveys of activity in China, America and Europe are, when combined, higher than they have been 83% of the time over the past decade, according to UBS, a bank. Poor weather may have depressed European growth in early 2018. America’s economy often seems to slow early in the year, only to rebound, a phenomenon dubbed “residual seasonality”. Strong retail sales and high consumer confidence suggest that if a downturn is coming, Americans have missed the memo.

In a way, however, that is part of the problem. Demand is piling up where it is least needed. American core inflation, which excludes volatile food and energy prices, is now 1.9%, according to the Federal Reserve's preferred measure. That is only just below the central bank's target. And the economy has yet to feel the full impact of the tax cuts and spending rises President Donald Trump recently signed into law.

Outside America, however, inflation is falling short almost everywhere. In the euro zone it is only 1.2%, no higher than at the end of 2016. The Bank of Japan recently abandoned its pledge to raise inflation to 2% by fiscal year 2019—a target it had already postponed six times. Inflation in most emerging markets has been subdued, too. Even in Brexit Britain, where a big fall in the pound pushed inflation well above the 2% target in 2017, it has tumbled more quickly than expected.

In theory, the world economy would be better off if this demand were spread around. Unfortunately, the mechanism that could achieve that is a dangerous one: a stronger dollar. In theory a rising greenback should allow Americans to buy more imports, stimulating foreign economies. In practice a rising dollar can play havoc with emerging markets that have dollar debts. And because so much trade is invoiced in dollars, a stronger American currency reduces trade between other countries, too. Four of the past five Fed tightening cycles have eventually triggered a crisis in emerging markets.

Yet there are reasons to be more confident this time. Among the ten largest emerging markets, only Turkey and Argentina ran current-account deficits greater than 2% of GDP in 2017. Most have dollar debts that are comfortable compared with the size of their economies.

Another threat talked up by bears is the oil price, which has risen to close to $80 a barrel. They think this will push inflation up further, forcing higher interest rates. But the Fed usually ignores temporary inflation driven by energy prices. And predicting the impact of oil prices on the world economy has become trickier than it was before the shale revolution. Pricier oil now tends to boost American investment. In any case, it is driven at least partly by demand, reflecting healthy growth.

The biggest risk to the world economy remains the possibility of a trade war.

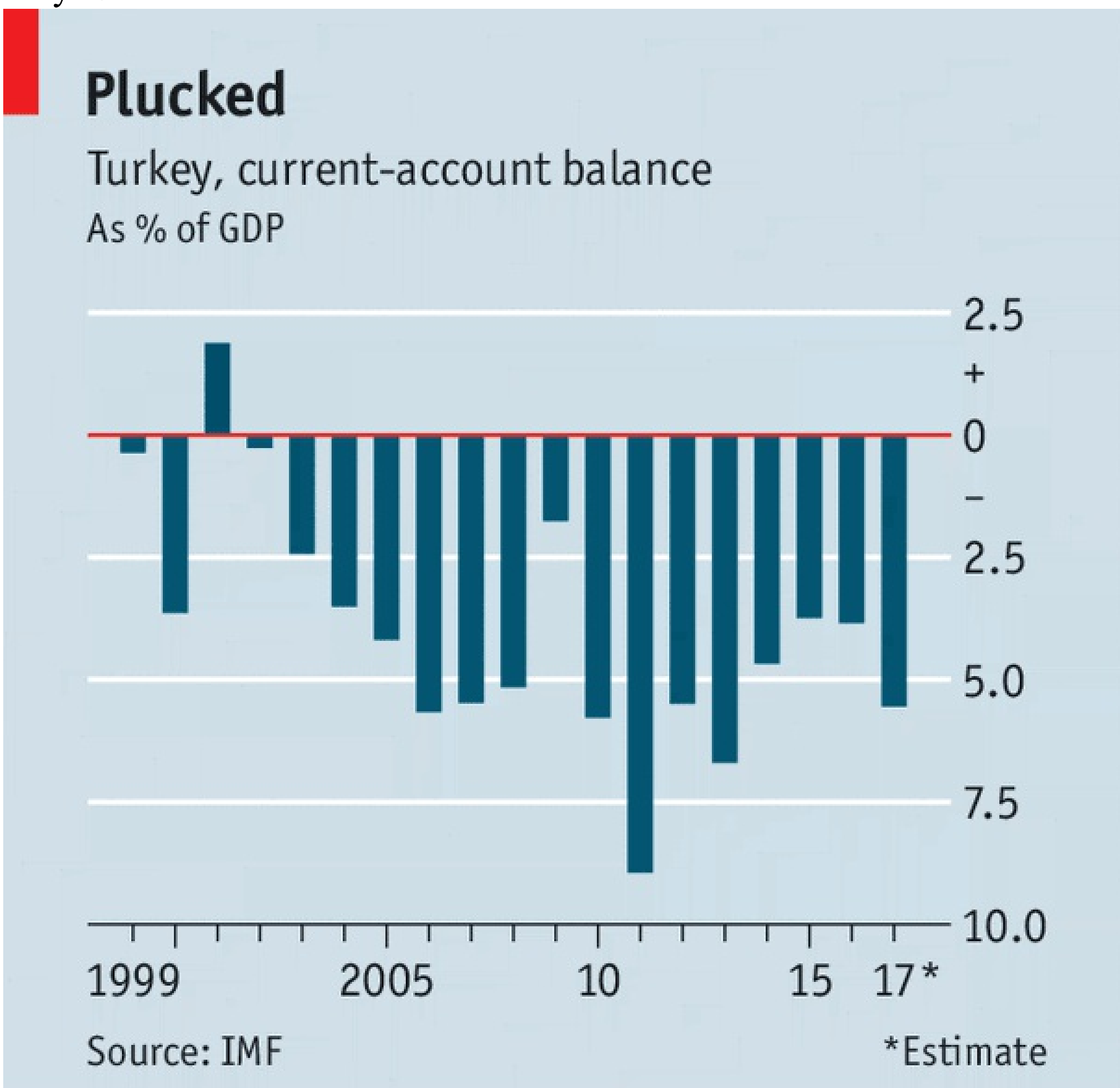
Mr Trump is negotiating with China and others with the aim of closing America's trade deficit. That is difficult to square with a rising dollar sucking in imports. The danger is that slightly slower global growth, combined with ongoing stimulus in America, lays bare this problem and further provokes Mr Trump's protectionism. That could set off a downturn that would really be worth worrying about.

Buttonwood: Istanbuls and bears

How Turkey fell from investment darling to junk-rated emerging market

Recep Tayyip Erdogan believes high interest rates are the cause of inflation, not the remedy for it

May 19th 2018



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MANY of the most famous hedge-fund trades have been bets that things were about to go wrong. Think of Enron's bankruptcy or the souring of subprime mortgage bonds in America. The best trade made by "the Professor" was very different. It was a bet that something was starting to go right.

A visit almost 20 years ago convinced him that Turkey was serious about fixing its economy. The yield on its one-year Treasury bills was then above 100%. "It was a serious mispricing," he tells Steven Drobny in "The Invisible Hands", a book of interviews with pseudonymous hedge-fund managers. The IMF gave its approval to Turkey's reforms soon afterwards. The price of T-bills surged. The one-year interest rate fell to 40%.

The wheel has since turned almost full circle for Turkey, which now seems to attract more sellers than buyers. The lira is sinking. S&P; has cut the country's credit rating from junk to junkier, partly because of concerns about its reliance on foreign capital. The deficit on its current account, a broad measure of trade, is one of the largest in the world. To bridge that gap, Turkey's banks and big firms have borrowed heavily, often in foreign currency. Its tarnished credit rating is a hint that those debts may not be paid back in full.

It is tempting to see Turkey as a morality tale for emerging markets. Just as the sound policies of the early 2000s were rewarded by rising incomes, the reckless borrowing of recent years must soon be punished by a deep recession, the reasoning goes. Yet the wonder is not that Turkey is skirting the edge of a crisis, but that it has managed to avoid one for so long.

To understand how, start by going back to when the smart money was betting on Turkey. The IMF blessing that made the Professor money was a staging-post on the way to more profound changes. In 2001 Kemal Dervis, a former World Bank official, became the country's economy minister. He negotiated a big loan from the IMF to create breathing-space. The central bank was made more independent, putting an end to the monetary financing of public spending. The lira was allowed to float. When Recep Tayyip Erdogan became prime minister, in 2003, his government stuck with the programme.

The economy flourished, but a big weakness remained. As in many countries with a history of high inflation, savings in Turkey are low. When the economy picks up, foreign capital is needed to sustain the momentum. The country's foreign debts have steadily mounted. To make matters worse, the policy orthodoxy of the early 2000s has been called into question. Almost everyone thinks rising inflation in Turkey is a sign that interest rates are too low. Mr Erdogan, however, believes high interest rates are the cause of inflation, not the remedy for it. His efforts to bully the central bank into seeing things his way have been unsubtle—and successful.

There is a trace of hubris in all this. When Mr Erdogan holds forth on his theory of interest rates, he sounds as if he believes it. In this regard, and others, he fits the paradigm of "economic populism" sketched out in 1990 by Sebastian Edwards and the late Rudiger Dornbusch. This approach downplays or denies the notion that budget deficits or inflation are constraints on economic growth. The Latin American populists of the 1970s and 1980s printed money to pay for public-spending sprees, only to find (after a brutal crisis) that the constraints were binding, after all. As Dani Rodrik of Harvard University has noted, Turkey is a variant on this theme. It has relied instead on capital inflows to fund private-sector excess.

A decade of low inflation, easy money and surplus saving worldwide has kept the credit line open. That is how the Turkish economy has avoided a reckoning for so long. The forbearance of foreign investors will not last for ever. Indeed, many think that a resurgent dollar and rising bond yields in America will end it. Yet Turkey has emerged unscathed from similar tight spots in the past. Perhaps its frailties are now so well-documented that they no longer seem worrying.

If Turkey is a parable of easy money, its lessons cannot readily—or can no longer— be generally applied to emerging markets. Current accounts have, by and large, moved towards balance, meaning most of them are less reliant on foreign borrowing. Turkey's double-digit inflation stands out because low single-digit inflation has become the norm. Indeed, the approach to monetary policy in emerging markets is, bar a few renegades, rigidly orthodox. That is why bets of the kind the Professor made almost two decades ago have become so rare.

Economist.com/blogs/buttonwood

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Labouring away

NAFTA negotiators are struggling to meet a congressional deadline

Attempts to add minimum-pay rules for carworkers have run into trouble

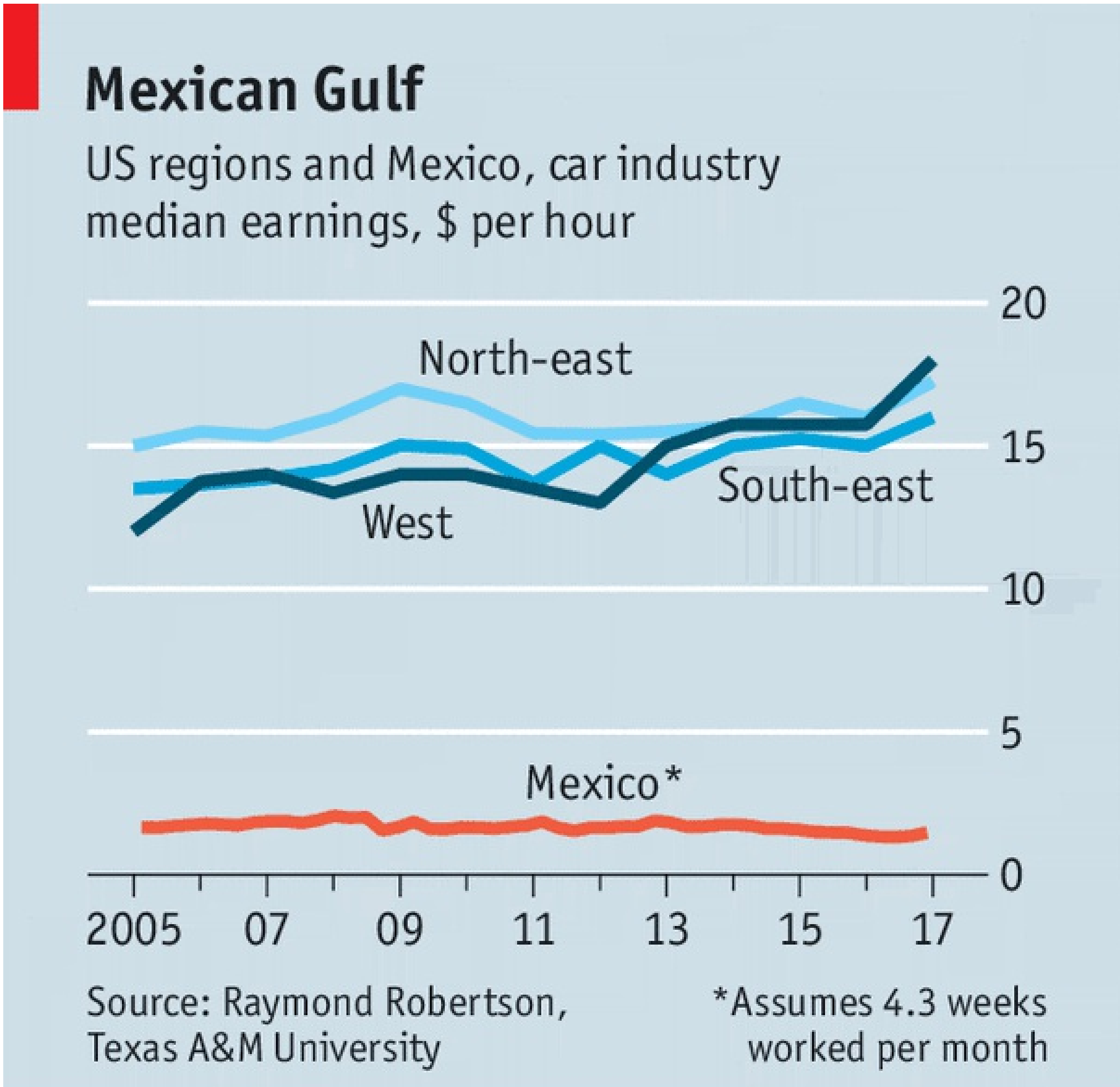
May 17th 2018

AS FAR back as the campaign trail, President Donald Trump had promised to renegotiate or rip up the North American Free Trade Agreement (NAFTA). But Paul Ryan, the Speaker of the House of Representatives, has said that if this Congress is to have time to approve a new version, it needs word that a deal is going ahead by May 17th. As *The Economist* went to press, that deadline seemed unlikely to be met.

Negotiations seemed to stall on May 11th over rules relating to carmaking. After a brief meeting between ministers, and despite reports that momentum has been building in recent weeks, wide differences remained. Representatives of the Mexican car industry had planned to return to Washington on May 14th to resume talks, but were told by their government not to bother.

The impasse is over “rules of origin”, which must be satisfied if a car is to qualify for tariff-free export within the trade bloc. Such rules normally set minimum requirements for the share made locally: as NAFTA stands, 62.5% of a car’s manufacture must be inside the bloc. American negotiators want to add a novel twist: that at least 30% of the content must be made by workers earning more than the North American median for the industry. The intention is to address a longstanding criticism of NAFTA in America, namely that it has harmed American workers. Although the overall impact of NAFTA on the country’s labour market has been negligible, there is some evidence of localised downward pressure on wages among blue-collar workers.

In the 1940s and 1950s, when the world trading system was being built, policymakers fretted about this sort of race to the bottom. But during the next decades a consensus emerged that international labour standards should be framed in terms of rights, such as the freedom of association, rather than wages. Some of the strongest resistance to setting minimum-pay rates came from developing countries, which suspected a ploy to remove their main comparative advantage. Modern trade deals do not, therefore, focus on wage levels. The Trans-Pacific Partnership, which Mr Trump pulled America out of shortly after taking office, simply stated that members would have a national minimum wage, leaving each to decide what it should be. Writing a link between a car’s rules of origin and a wage level into NAFTA would be a first.



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The Trump administration hopes it will reshape production chains in favour of American workers. In America the sector's median wage in 2017 was around $16 an hour in the south-east and $18 an hour in the west, according to Raymond Robertson of Texas A&M; University (see chart). Using household-survey data, he estimates that in Mexico, if informal workers are included, it may be as little as $2. Carmakers there will face a choice if they want to continue benefiting from NAFTA's duty-free treatment. Either they can raise wages in Mexico, or move some production to America (or Canada).

But if the cost of meeting the new rules is too high, then companies are likely to spurn the agreement altogether, and swallow non-NAFTA tariffs of 2.5%. Ann Wilson of the American Motor and Equipment Manufacturers Association reports her members' concerns about an entirely new administrative burden. When shipping parts between Mexico and America, they have never had to keep track of wages in the way such a rule would require. It is unclear which workers will count and how the wage threshold will be kept up-to-date.

Indeed, some suppliers are already planning to avoid the headache and pay the tariff. According to the Centre for Automotive Research, if the proposed rule was already in force many of the cars currently sold in America would fall foul of it. If car producers passed on the extra tariffs to consumers, the prices of affected cars could rise by anything from $470 to $2,200. Those who give up trying to meet the new rules may then look beyond North America for car parts, as Mexican ones would be pitted against those from Asia. Even now China accounts for the same share, 31%, of brake systems imported to America as Mexico does.

Squeals from the car industry may sound to the Trump administration like proof that their plan to reshape it will work. Mr Robertson says that the proposed rules could perhaps shift "a little bit" of money from bosses to American workers. But it could also shrink the total there is to go around.

Flying blind

A WTO ruling on aircraft subsidies raises the risk of a tariff war

Retaliatory tariffs could hurt many other industries

May 17th 2018

THE manufacture of airliners may be the world's most globalised industry. Only two firms make big civil jets: Boeing of America and Airbus of Europe. Most of their revenues—55% for Boeing and 70% for Airbus—are earned outside their home territory. Both source parts from dozens of countries. But a ruling by the World Trade Organisation (WTO) on subsidies in the industry could deal another blow to the beleaguered international trading system.

On May 15th the WTO's final appeals body upheld parts of a previous ruling, finding that the European Union wrongly provided subsidies to Airbus to develop new aircraft. That, it concluded, had hit sales of Boeing's jets. As soon as the WTO gives the go-ahead America will have the right to impose retaliatory tariffs on EU imports. Trade experts warn they could be the highest in the WTO's history.

Boeing crowed that the ruling showed that the EU had given $22bn in “illegal subsidies” to Airbus. But Tom Enders, Airbus’s chief executive, described it as “half the story”, pointing to another WTO ruling due later this year on $11.7bn of tax breaks from Washington state for Boeing’s 787 and 777X jets. Both are half-truths, says Scott Hamilton of Leeham Company, a consultancy in Seattle. Airbus’s counter-case may not be as strong as it claims. And the WTO upheld only 14 of Boeing’s original 234 claims against Airbus, with the ruling relating to just $9bn of its claim of $22bn.

In the past, a ruling like this would not have threatened the rules-based trading system, says Chad Bown of the Peterson Institute for International Economics, a think-tank in Washington, DC. Until Donald Trump came on the scene, the heat had gone out of the Boeing-Airbus dispute. The administrations in Brussels and Washington had hoped that a ruling would prompt the two plane-makers to stop attacking each other and agree on which subsidies they would both find acceptable. And when retaliatory tariffs were imposed after previous WTO rulings, for example against America’s steel duties in 2002, they were carefully aimed at politically sensitive industries, such as Florida oranges, to force the other side to concede quickly.

That may not happen this time. Mr Trump’s trade representative, Robert Lighthizer, has threatened to use “every available tool”, including “countermeasures on EU products”. But rather than taking a nuanced approach, the administration may impose tariffs on imports of European cars, which Mr Trump says are taxed less than American ones exported to the EU. Europe might then use any ruling in Airbus’s favour to retaliate against Mr Trump’s proposed steel and aluminium tariffs. Rather than the two sides reverting to free trade, the row could escalate.

When Boeing first brought the case in 2004, it hoped for a quick resolution. It was worried about the growth of Airbus’s market share from 18% to 50% in the 1990s, explains Adam Pilarski of Avitas, a consultancy, and feared that an EU-funded rival to its new 787 jet might force it out of business. But it has held onto market share since then. The 787 has sold far more than Airbus’s rival A350. And Boeing’s share of sales outside North America has increased sharply since the early 2000s (see chart).

Economist.com

That means free trade is now in Boeing's interests, says Richard Aboulafia of the Teal Group, a research firm. In December Canada cancelled an order for over $5bn of Boeing's fighter jets in retaliation for its failed attempt to get tariffs of nearly 300% put on imports of airliners made by Bombardier. When it comes to tariffs, Boeing should be careful what it wishes for.

Disappearing trick

China’s vanished currentaccount surplus will change the world economy

The yuan will become more volatile, but also start to rival the dollar

May 17th 2018 | SHANGHAI

Economist.com

NOT long ago China was a leading culprit in global economic imbalances. Whether blame was ascribed to its undervalued yuan or its frugal people, the problem seemed clear. China was selling a lot abroad and buying too little back. One data-point summed this up: its currentaccount surplus reached 10% of GDP in 2007, well above the level that is generally seen as reasonable. Far less attention has been paid to its steady decline since then. In the first quarter of 2018 China ran a currentaccount deficit, its first since joining the World Trade Organisation in 2001. Just as its massive surpluses of yore had big consequences for the global economy, so does this swing in the opposite direction.

China still exports many more goods than it imports, to the tune of nearly $500bn annually. But its share of global exports appears to have peaked. At the same time its trade deficit in services is getting bigger, largely thanks to all its tourists venturing abroad (see chart).

At bottom, a currentaccount balance is the difference between a country's investment and savings. When China had a big surplus, its savings, at 50% of GDP, far outstripped even its colossal investment. Data on savings are patchy in China. But it is known that investment has declined as a share of GDP. The implication is that the rate of savings has almost certainly declined more sharply, reflecting a big increase in consumption. Its economy is, in other words, better balanced than just a short while ago.

China's currentaccount deficit in the first quarter was exaggerated, since exports tend to be subdued at the start of the year. It is likely to return to a surplus in the coming months. But Ding Shuang of Standard Chartered, an emerging-markets bank, forecasts that the surplus will be just 1% of GDP this year and 0.5% next year. The trade ruckus with America could reinforce the downward trend. To placate President Donald Trump, China will try to import more from America and pay more for foreign intellectual property (IP), Mr Ding says.

One probable outcome is that the exchange rate will become more volatile. In recent years capital outflows have pressed down on the yuan, but the currentaccount surplus has countered that effect. In the future China will have a thinner cushion. Depending on quarterly trade swings, the yuan will be as likely to fall as to rise.

If China's currentaccount deficits become more frequent, it will have to run down its foreign assets or borrow more from abroad to pay for its consumption. Should its external liabilities—that is, money it owes the rest of the world—increase rapidly, that might signal greater financial vulnerability. But as long as the increase is moderate, it could actually help China by boosting the yuan's global profile.

To fund its deficit, China might choose to sell more bonds to foreign investors. And in paying more for goods and services than it earns, it could supply its currency abroad. By itself this would not be enough to make the yuan go global. Investors would need more faith in China's institutions. But technically, the conditions would be ripe for the yuan's emergence as a more credible rival to the dollar. America might find itself pining for the days when the Chinese currency was undervalued.

Declining years

The life-insurance industry is in need of new vigour

Life insurers are struggling like never before

May 17th 2018

LIFE insurance is among the oldest financial products. The Amicable Society, founded in London in 1706, charged members a set contribution and paid out annually to widows and children of those who had died in the previous 12 months. Today it is a vast industry: life and health insurers employ over 800,000 people in America alone. It protects hundreds of millions against the risk of dying early, through death benefits, or the risk of living longer than expected, for example through annuities. According to Allianz, a German insurer, total life-insurance premiums are above 5% of GDP in many rich countries, including Britain, France, Italy and Japan. In America, the world's biggest market, annual premiums total more than $550bn.

But life insurers are struggling as never before. Those parts of the industry that have not evolved fast enough, says Clive Bannister, the head of Phoenix

Group, a “closed” life insurer that buys and manages old policies but issues no new ones, have experienced a “demolition”. He lists half a dozen British life insurers that existed 15 years ago but no longer do.

The lacklustre partial spin-off on May 10th of the American life-insurance unit of AXA, a French insurer, is just the latest sign of worries about the industry’s prospects. Shares were priced at $20, well below the expected $24-27. Among its woes are low interest rates, which make it hard to fulfil promises of guaranteed returns on some products, and costly new regulations. Since 2016 Europe has required much more capital to be held against long-term liabilities, like those of life insurers. That has prompted some to seek to rebalance their businesses. AXA has not only listed its American life arm this year but also announced the purchase of XL, a Bermuda-based property-and-casualty insurer.

More serious still are demographic pressures. As the rich world ages and retires, total life-insurance premiums are flat or falling. In developed countries they fell by 0.5% in 2016 in real terms, according to Swiss Re, a reinsurer. Some countries have fallen off a cliff, including Australia (an 18.2% drop in 2017 in nominal terms) and Japan (11.3%), where negative interest rates have savaged returns and prompted some life insurers to stop selling lump-sum death-benefit policies. The industry has long been used to accumulating new assets, with old policies sold off to specialists (such as Phoenix). It will now have to adjust to “decumulation”, says Henrik Naujoks of Bain & Company, a consultancy.

One way out of this bind is to add bells and whistles to their basic offerings. A survey by Bain suggested that customers liked the idea of receiving advice during illness or regular health check-ups as part of their life-insurance policy. That suggests they might welcome a blurring of the distinction between life and health insurance.

Another option is to expand into new markets. In emerging economies, life-insurance penetration ranges from 2.6% of GDP in China to just 0.4% in Russia. (South Africa, at 11%, is an outlier.) Total premiums grew by 16.9% in real terms in 2016. But competition from domestic incumbents is fierce, particularly in China. And attracting new customers or providing new services, whether at home or abroad, will be hard for an industry that is saddled with high costs and has been slow to go digital. Most sales are still through agents and brokers.

A third approach is to seek new kinds of customers. Though death benefits and annuities are still the core business, life insurers are branching out into savings products and insurance against disability or needing long-term social care. Greg Galeaz of PwC, a consultancy, notes that American firms are crafting insurance products to appeal to younger people, such as policies that allow withdrawals to pay off student loans or support ageing parents. The industry could do more to appeal to the moderately affluent, who largely think of life insurers as providers of death benefits rather than savings and retirement products.

Insurers' single most popular strategy has been to diversify into investment-like products—an index-tracker bundled with a guarantee that the principal will be returned, for example. But since these resemble the offerings of asset managers, they are also the least distinctive. Antimo Perretta of AXA echoes many of his peers when he says that risk-averse customers have much to gain from the smoothing of returns an insurer can provide. Life insurers also argue they give access to a broader range of asset classes (including, say, exposure to private equity) than asset managers do. And they point to the attractive tax treatment in most jurisdictions of savings products with a life-insurance element.

But that is to reverse the logic. Governments tax life insurance lightly because of the social value of protecting people from underestimating their life expectancy and retirement needs. Australia used to offer retiring workers incentives to purchase annuities; when it stopped these in 2007, the annuities market shrivelled away. Many elderly Australians have used their freedom imprudently: around half have emptied their pension pot by the age of 70. Mr Bannister fears a repeat on a grander scale in Britain, which in 2015 abolished a requirement for retirees to purchase an annuity. Life insurers must somehow reinvent themselves without losing sight of their core purpose: providing a way for their customers to plan for a dignified old age without overburdening the state.

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Will Selfies stick?

Pension bonds are an ingenious idea for providing retirement income

But everyone still needs to save more

May 17th 2018

WHEN people stop working, they need a retirement income. Some are lucky enough to have an employer-provided pension linked to their salary. Everyone else faces a difficult choice.

Some keep their pension pot in cash and watch as it is eroded by inflation. Others use savings products with high fees and risk being hurt by a stockmarket downturn. A third option is an annuity, which guarantees a lifelong income but vanishes at death, even if that is a week after retirement.

Lionel Martellini of EDHEC, a French business school, and Robert Merton of the Massachusetts Institute of Technology (a Nobel laureate in economics) have come up with an alternative. Workers would buy government-issued bonds while in employment; these would pay no interest until retirement. Over the next 20 years (the typical life expectancy on retirement) bondholders would receive payments comprising interest plus the return of the capital. These would be linked to inflation, or another measure such as average consumption. So a worker born in 1970, say, would buy a bond that made payments from 2035 until 2055. Every financial innovation needs an acronym, and these are called SeLFIES (Standard of Living Indexed, Forward-starting Income-only Securities).

They would act somewhat like annuities, though without protecting against the risk of living much longer than expected. One big advantage is that if holders die before the maturity date, the capital would be passed to their heirs. They could also be attractive to corporate pension funds and institutions such as sovereign-wealth funds. But if bond yields stay as low as they are now, workers will still need a big pension pot to be able to retire comfortably. The median pension pot of an American aged 40-55 is $14,500. That will not generate much income, whatever security it buys.

Ball and chain

Lawmakers are trying to curb contracts that make it harder to change jobs

Non-compete agreements are startlingly common in America, even for workers on low pay

May 17th 2018 | NEW YORK

IN 2011 Kathleen started work at an insurance-and-benefits consultancy in Boston. A couple of years later the firm gave her an ultimatum: sign a “non-compete” agreement within 30 days or wave goodbye. She signed, which meant that, if she left, she would be barred for three years from working for a rival or any firm that had been contacted as a potential client, and from starting a competing business. In 2015, when she accepted a new job in a different industry at an unrelated company, her former bosses threatened to sue. The job offer was withdrawn, and reinstated only when she offered to pay any legal costs that resulted. The matter never came to court, but the fear of legal action has kept her out of her old industry ever since.

Non-compete agreements are widely used to stop ex-employees walking out of the door with valuable know-how, or poaching suppliers and customers when they move jobs. Sometimes a great deal of money and intellectual property is at stake. When Paul English, an entrepreneur, sold his travel-search website, kayak.com, to Priceline for $1.8bn in 2012, he signed a contract that barred him from working in the travel industry for 18 months. The restriction was fair, he says. "If a company pays nearly $2bn, they have the right to tell you that you can't create a competitor."

But non-competes are common for ordinary American employees, too. Nearly one in five are subject to them and nearly two-fifths have had to sign one at some point, as have about 15% of low-wage workers and a similar share of employees without university degrees. A report in 2016 by the Treasury noted that less than half the workers covered by non-competes reported having access to trade secrets. They are sometimes used indiscriminately. Jimmy John's, a chain of sandwich shops, used to make its restaurant workers and delivery drivers sign them. The clause barred them, for two years after leaving, from working for any other sandwich shop within two miles of any of its 2,700 outlets. It stopped using them in 2016 at the behest of the New York attorney-general's office, which said that non-compete agreements "limit mobility and opportunity for vulnerable workers and bully them into staying with the threat of being sued".

Such arguments are gaining force across America. Several state legislatures are considering restricting their use, at least for workers on modest wages. A few are thinking of copying California, where non-compete agreements count as illegitimate "restraints of trade" unless they protect trade secrets or are part of the deal when a business is sold. The legislatures in Pennsylvania and Vermont are both considering laws similar to California's. Bills in Massachusetts and New Jersey would bar non-competes for workers earning less than a certain amount, as well as limiting their duration and entitling ex-employees to compensation during the non-compete period. Although the law governing employment contracts has long been regarded as a matter for states, a group of Democrats in Congress, led by Elizabeth Warren, has proposed a federal ban. (A similar effort in 2015, just for workers earning less than $15 an hour, failed.)

Non-competes might not be harmful for workers, on balance, if employers had to pay extra to compensate employees for signing away some of their rights. But an analysis by Evan Starr of the University of Maryland suggests this is not what happens. Hourly wages are 4% lower in states that enforce non-competes than those that do not. This may be because the agreements make it harder to switch jobs—one of the main occasions when a worker's pay rises. Mr Starr finds that applicants presented with non-competes after they have accepted a new job earn on average 10% less than those who know it will be part of the deal in advance, when they are still in a position to negotiate.

Other researchers have considered the spillover effects of non-compete agreements for the wider economy. Jessica Jeffers of Chicago's Booth School of Business finds that companies invest in equipment more in states where non-competes are legally enforceable. Mr Starr has found that they do more training, too, perhaps because they have more certainty that their employees will stay and they will get the benefit. All that should be good for productivity. On the other hand, Ms Jeffers has also found that fewer companies are formed in these states in high-skilled sectors such as technology, professional services and education. That is likely to be bad for innovation. Silicon Valley became a technology hub, says AnnaLee Saxenian of the University of California, Berkeley, partly because of California's long-standing hostility to non-competes, which has facilitated the flow of ideas and made it easier to start new firms.

Hands off

Even some employers are joining the fight against non-competes. Last July Veeva Systems, a cloud-computing company in California, filed a lawsuit against Medidata, QuintilesIMS (now IQVIA) and Sparta, competitors based elsewhere that had invoked agreements signed by ex-employees to stop them moving to Veeva. Out-of-state non-competes, the company argues, should not be enforceable in California. Peter Gassner, the firm's boss, complains of a "double standard", whereby employers based elsewhere can poach Californian workers while making it hard for Californian companies to hire out-of-state. Non-competes may benefit some employers by making it cheaper and easier to keep workers—but at the cost of leaving others to fish in a shallower talent pool.

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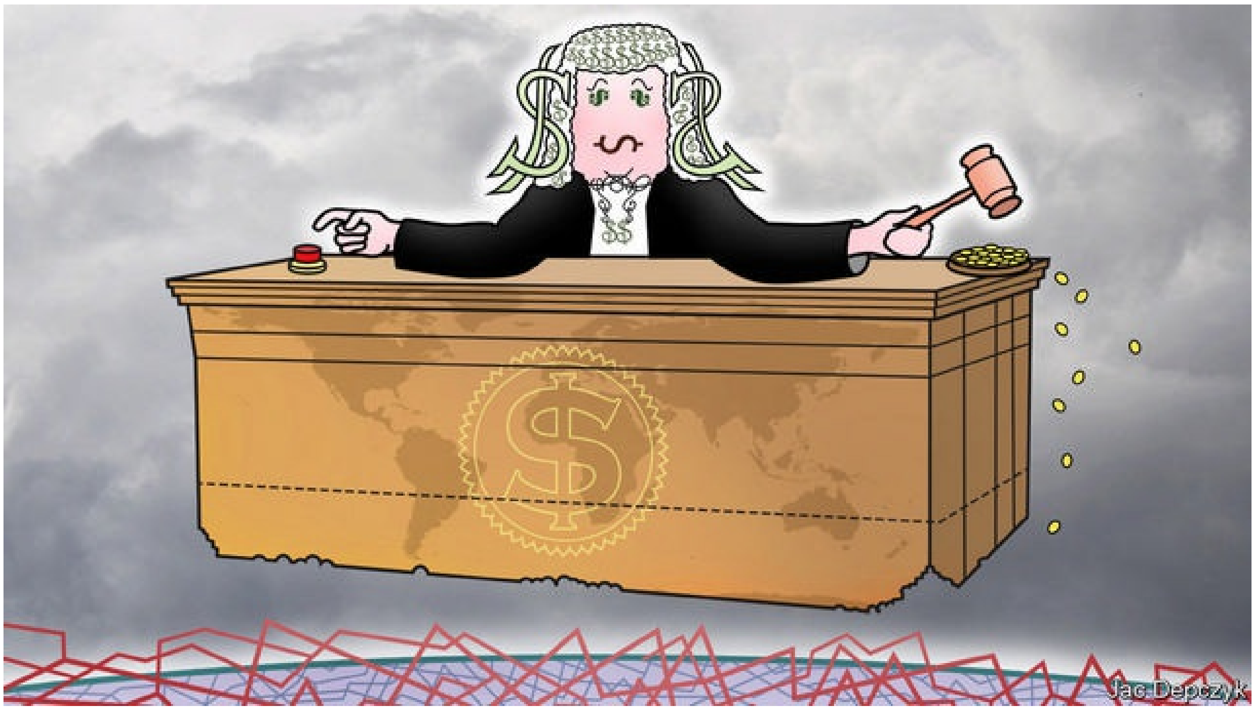
Free exchange

The long arm of the dollar

How to escape a hegemonic currency



May 17th 2018

FEW banks can match the quaint serenity of Banco Delta Asia's headquarters in Macau. Housed in a pastel-yellow colonial building opposite a 16th-century church, its entrance is flanked by tall vases, depicting sampan gliding between karst hills. In the tiled square outside, men laze under a banyan tree and an elderly woman peels a boiled egg for lunch.

But in 2005 this backwater bank incurred the wrath and might of the world's financial hegemon. America's Treasury accused it of laundering money for North Korea, prompting depositors to panic, other banks to keep their distance and the Macau government to step in. The Treasury subsequently barred American financial institutions from holding a correspondent account for the bank, excluding it from the American financial system.

Macau is over 8,000 miles from Washington, DC. But it is hard to escape the long arm of the dollar. Its dominance reflects what economists call network externalities: the more people use it, the more useful it becomes to everyone else. One person's willingness to accept dollars from another depends on a third person's readiness to accept dollars from them.

The dollar also benefits from a hub-and-spoke model for the exchange of currencies, the invoicing of trade and the settlement of international payments, as the late Ronald McKinnon of Stanford University argued. If every one of the more than 150 currencies was traded directly against every other, the world would need over 11,175 foreign-exchange markets. If instead each trades against the dollar, it needs only 149 or so. If you cannot buy the afghani with the zloty, you can still sell one for dollars with which to buy the other.

Likewise, if every international bank keeps an account in New York, any bank can transfer funds to any other through the same financial hub. "The global financial system is like a sewer and all of the pipes run through New York," says Jarrett Blanc of the Carnegie Endowment for International Peace.

This gives America's Treasury great punitive power and jurisdictional reach. Many companies that do not buy or sell wares in America nonetheless make or collect payment through New York. Because these transfers pass through American financial institutions, the Treasury can claim jurisdiction on the ground that its banks are exporting financial services to the bad guy. It can also hit companies where it hurts. For many, exclusion from America's financial system is a more potent threat than exclusion from America's customers. Last month, for example, the Treasury threatened to seize dollars paid to Rusal, a Russian metals firm that is one of the world's biggest aluminium producers, crippling it and upending the global aluminium market, until the turmoil forced a rethink.

The Rusal debacle and President Donald Trump's decision to withdraw from the Iran nuclear deal have raised fears that America might abuse its power. That may prompt foreign governments and financial institutions to think about rerouting the sewer.

Not all dollar settlements are subject to American jurisdiction. It is, for example, possible to clear large dollar payments in Tokyo, Hong Kong and elsewhere. But the pipes are narrow. America's two big payments systems, Fedwire and CHIPS, handled transactions worth $4.5trn a day in 2017. Hong Kong's system (which runs through HSBC, a private bank) dealt with only 0.8% of that amount. Moreover, the ability of offshore dollars to enter and leave the American financial system if necessary is vital to their appeal. The liquidity of Hong Kong's system, for example, is buttressed by HSBC's ability to handle dollars in New York.

China is nurturing its own international payments system, based on its own currency. It might ask Iran to accept the yuan in exchange for its oil. Certainly, America's withdrawal from the Iran deal has increased trading in the yuan-denominated oil futures contract that China recently launched in Shanghai. Likewise, Russia and China are increasingly paying each other for goods in their own currencies, rather than America's. Russia paid for 15% of its Chinese imports with yuan last year, according to Russia's central bank (as cited by Russia Today, a broadcaster).

China's capital controls and Europe's fiscal balkanisation weaken their currencies' claims to rival the dollar. But since China's economy seems destined to overtake America's, it would be strange if its currency forever lagged far behind. And although neither economic bloc is yet ready to match America's position in the financial system, they might be able to build a set of financial pipes big enough to sustain trade with blacklisted Russian companies or a country like Iran. Previous treasury secretaries took the danger seriously. "The more we condition use of the dollar and our financial system on adherence to US foreign policy, the more the risk of migration to other currencies and other financial systems in the medium term grows," said Jacob Lew in 2016.

Closing the sluice gate

Steering clear of American jurisdiction is not quite the same as escaping American power. Even if no payments cross American territory, America could still impose extraterritorial or "secondary" sanctions, refusing to do business with a company that does business with a blacklisted party. To blunt that threat, foreign governments would then have to foster banks, suppliers and customers that can live entirely without America.

Banco Delta Asia, for its part, has survived America's onslaught, with the help of Macau's government. It has yet to convince the Treasury to lift the ruling that stops it gaining access to America's financial system. But it is not completely cut off from the dollar. At one of its bigger branches, your correspondent was able to sell 820 patacas for a crisp $100 note, bearing the signature of a former secretary of the Treasury.

Award

May 17th 2018

On May 16th Callum Williams, our Britain economics correspondent, was named joint winner of the Young Financial Journalist of the Year at the Wincott Awards, an annual set of prizes for British journalists.

Science and technology

Conservation in Colombia

Colombia’s national survey of its biodiversity is ambitious

But will it survive the forthcoming presidential election?

May 17th 2018 | Serranía de las Quinchas

“BLOODY plants! Always in the way.” That is not the sort of expostulation expected of a researcher from the Royal Botanic Gardens, Kew. But Lee Davies is not a botanist, he is a mycologist—an expert in fungi—who, at home in London, helps curate Kew’s fungarium. And, although history and convenience mean the study of fungi is often lumped together with that of plants, Dr Davies is keen to point out that mushrooms and their kin have nothing in common with the vegetable kingdom beyond their sedentary way of life.

His sentiment was particularly understandable on this occasion. Being ankle deep in mud, on a narrow trail traversing a precipitous hillside that was sloping down who-knew-how-far-or-where, and then trying to collect a specimen hidden just out of reach behind a tangle of greenery, would fray anyone’s nerves. But the specimen was duly acquired, popped in a plastic bag, labelled and carried back to base camp for processing and identification.

Dr Davies and his compadres were in Colombia, in the Serranía de las Quinchas, an area of cloud-and rain-forest in the foothills of the Cordillera Oriental that was, until a peace deal signed in 2016, part of the sphere of influence of the FARC, a group of rebels fighting to overthrow the government. The FARC did not encourage visitors. As a consequence areas they controlled, which amounted at their height to about 40% of the country, are often more or less pristine from an ecological point of view. They are also, as far as flora, fauna and fungi are concerned, poorly catalogued.

That, though, is changing as a result of Colombia BIO, an attempt by the government to take advantage of the FARC’s departure and to explore what is living in the recently vacated habitats. So far, since 2016, the project has sponsored 13 expeditions staffed by botanists, mycologists, entomologists, ornithologists, herpetologists and many other sorts of biologists. The figure should rise to 20 by the end of the year.

The hope is to run 100 more expeditions over the next decade, by which time Colombia’s forests, swamps and mountains will have been comprehensively sampled and recorded. Dr Davies and his colleagues were there because, to bolster Colombia’s still-small regular army of pertinent experts, the country’s government has recruited several groups of foreign mercenaries.

Hi ho! Hi ho! It’s off to work we go

Colombia BIO is the brainchild of the country’s president, Juan Manuel Santos. Just as, in the 19th century, many countries set up geological surveys to assess their mineral assets, so Mr Santos aspires to survey, in a comprehensive and systematic way, Colombia’s biological assets.

Measured by number of species, these are enormous. Its tropical location and topographical variety mean Colombia’s biodiversity is second only to Brazil’s. How valuable such assets are, though, is a different question. Some habitats are clearly crucial. In particular, there are worries deforestation will upset the hydrologic cycle in certain places, threatening water supplies and hydroelectric power generation. Also, trees have value as timber. But that is not quite what Mr Santos means when he speaks of turning Colombia into a “bioeconomy”. The government’s aspiration is that biodiversity itself might be harnessed as an economic resource, and that this might contribute as much as 2½% of Colombia’s GDP by 2030.

Exactly what constitutes part of a bioeconomy is a bit hazy. At the moment, those involved tend to throw into the pot anything that might vaguely count: ecotourism; wild fruits and nuts that can command a premium price; cosmetics made from forest products that appeal to the virtue-signalling middle classes. But the long-term aspiration is more ambitious. It is that some of the organisms to which Colombia plays host might act as feedstock for a future in which genes and metabolic pathways can be monetised in the ways that gold and other minerals once were. And for them to be so monetised, they must first be catalogued and analysed.

Making that happen is the remit of Alejandro Olaya Dávila, the director of Colciencias, Colombia’s government science agency. This is Colombia BIO’s parent body. The samples collected are destined for a national repository, whence they will be distributed for study. There are also, according to Dr Dávila, plans for a national research centre for biotechnology and a government-backed venture-capital fund that will finance start-ups in the field—an endeavour helped by the recent repeal of a law specifically preventing academics at state universities from doing this.

The repository is at the Alexander von Humboldt Biological Resources Research Institute, in Bogotá. Brigitte Luis Guillermo Baptiste, the Humboldt’s director and herself an ecologist, says she was sceptical about the likelihood of a grandiose project like Colombia BIO succeeding. She changed her mind, though, when initial expeditions proved successful in discovering new species and rediscovering old ones thought extinct. Her doubts now centre on whether the government can act fast enough to protect those areas vacated by the FARC. She cites an example of a stretch of river, tributary to the Amazon, that was almost completely denuded of its fish a mere 15 days after the guerrillas left.

Silvia Restrepo, a mycologist who is vice-president of research at the University of the Andes, one of Colombia’s leading academic institutions, points to other obstacles. Perhaps the most curious is that ecological researchers—even Colombian nationals—not only have to obtain permits to collect specimens but also have to pay a levy of 15,000 pesos (about $5) on every specimen taken. And that means every specimen. Collect 100 mosquitoes, for example, and you pay 100 times. This makes collecting an expensive business.

It is also hard to export specimens for study abroad. That would matter less if Colombia's own facilities for things like genetic sequencing were up to snuff. But they are not. Yet such sequencing is a vital starting-point for any serious investigation of the economic potential of a species.

Another complaint by researchers involved in Colombia BIO is money. In theory there is plenty. By law, 10% of the royalties raised by the government on extracted oil and gas are supposed to be set aside for scientific research. Last year, that amounted to $390m. Although the royalties are collected centrally, the cash is then disbursed to the administrations of the country's 32 provinces. Colombia BIO's central budget is tiny—about $4m a year. The bulk of the money for the expeditions comes from the provinces in which those expeditions are mounted. It is the governors of these provinces, therefore, who decide what science gets funded and, indeed, what the definition of "science" is. Speculative surveys of the country's biodiversity are not always top of the list.

Nor are they top of the list for many other people. The newly liberated land is a target for squatters, whose modus operandi is to clear the trees for profit and then run cattle over the resulting pasture. Local politicians often turn a blind eye to such activity, especially if bribed to do so. And the average Colombian, whether urban-dweller or rural smallholder, is less concerned with rarefied matters like biodiversity and its possible role in a speculative biotechnological future, than with the immediate business of making ends meet.

And speculative that future is. How big a role biotechnology will play in the economy of the 21st-century world is hard to predict. It could be huge, with products now unimaginable becoming available as a result of new techniques of gene editing and the creation of synthetic genomes. Or it could, as now, be an important factor in agriculture and medicine but of little wider resonance. At least at the moment, successful biotechnologies are more often derived from microbes and fungi than from the plants and animals that attract the attention of most conservationists. That argues for recruiting more Restrepos and Davieses to the effort. Moreover, if Colombia really is to benefit from its genetic patrimony, it will need to build up its scientific base and get rid of red tape that stands in the way of research. In the end, therefore, Colombia BIO will survive or fall depending on its support from the top.

Will the end, will the means

Whether the president's aspirations are shared by other national politicians will soon become clear. On May 27th, Mr Santos having served as president for the maximum period permitted by law, Colombians go to the polls to elect a replacement. After a possible second round in June, the winner will take office in August.

Amid Colombia's many problems, not least making the peace settlement with the FARC stick, biodiversity would be easy to forget about. But it is not forgotten entirely. One candidate, Iván Duque, talks of an "orange economy" of knowledge-based production, which might bode well for aspiring biotechnologists. A second, Gustavo Petro, is a former guerrilla who says he is keen on renewable ways of creating wealth. And a third, Sergio Fajardo, a maths professor who was once mayor of Medellín, also seems interested.

Whether such inclinations would translate into action in office remains to be seen. But, at the very least, Colombia BIO offers an opportunity to clarify which parts of the country's wild areas most deserve protection at a moment when the offer of protection is still meaningful. And, since no one actually knows how the biotechnological future will turn out, just possibly the surveys it is sponsoring will reveal riches that make the gold rushes of the 19th century look like chump change.

Glaciology and history

Arctic ice brings an understanding of ancient Europe’s economy

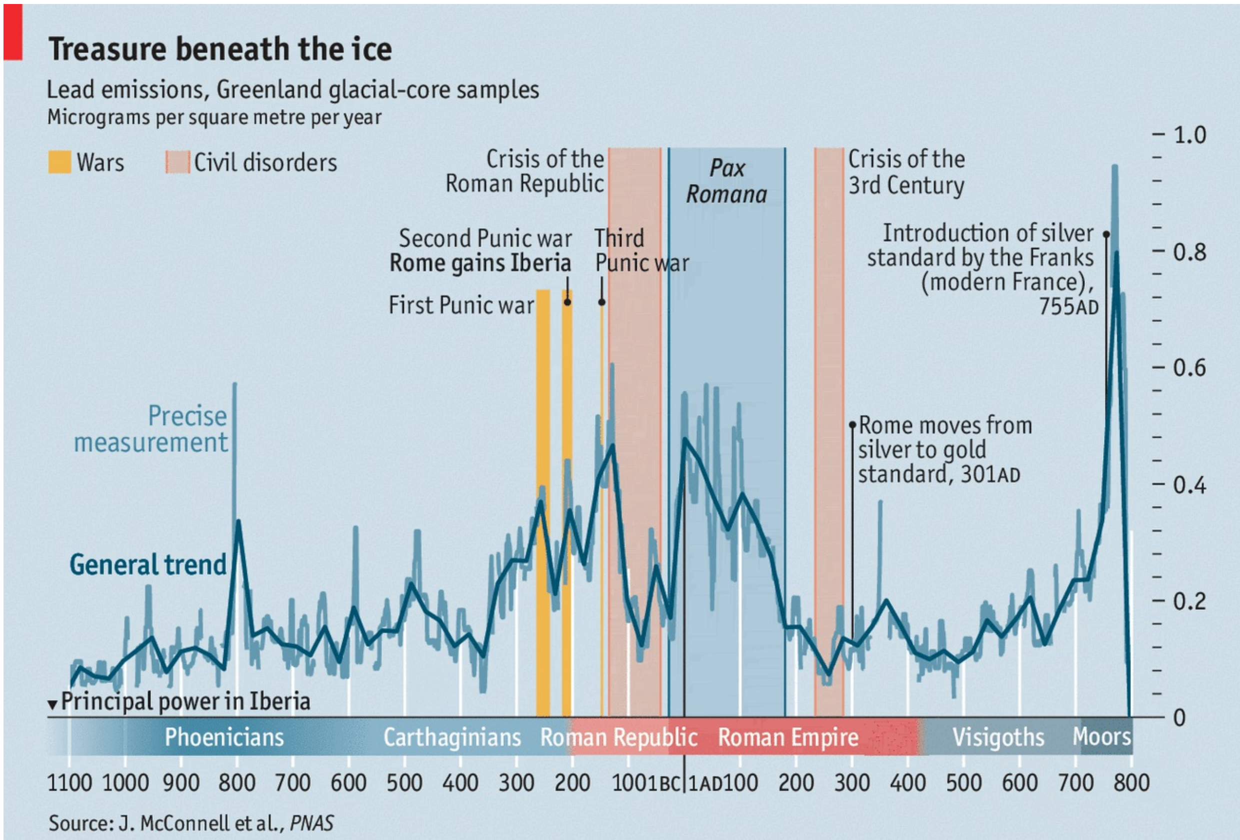
Core values

May 19th 2018

GREENLAND’S icy mountains are not an obvious place to search for an archive of economic history, but a study just published in the *Proceedings of the National Academy of Sciences* shows that they provide one. Joseph McConnell of the Desert Research Institute, in Reno, Nevada, and his colleagues have tracked economic activity in Europe and the Mediterranean over the centuries by measuring variations in the amount of lead in a core of Greenlandic ice. Lead is a good proxy for economic activity because it is a by-product of silvermaking (lead and silver often occur in the same ore, known as galena), and therefore of the money supply. Extracting silver from galena involves boiling off the lead. Winds from Europe carried to Greenland enough lead pollution from this process for it to be preserved in the layers of snow that, compacted, form the island’s ice cap.

Although the lead concentration in the core that Dr McConnell looked at shows many peaks and troughs, some overall patterns are clear. Emissions began to rise in around 1000BC. This corresponds to the spread of Phoenician traders and settlers from their home cities in the Levant into the western Mediterranean, and the consequent exploitation of galena mines in Iberia.

The rise and fall of Rome is also visible. An increase in lead concentration coincided with Rome's victories in the Punic wars, against Carthage, the largest Phoenician colony, during in the third and second centuries BC. This was followed by a fall during the civil strife of the first century BC, a rise again when Augustus abolished the Republic and brought the *pax Romana* of the Empire, and another fall during the third century AD, when the state was engulfed once more by civil war, and also suffered invasion from the east.



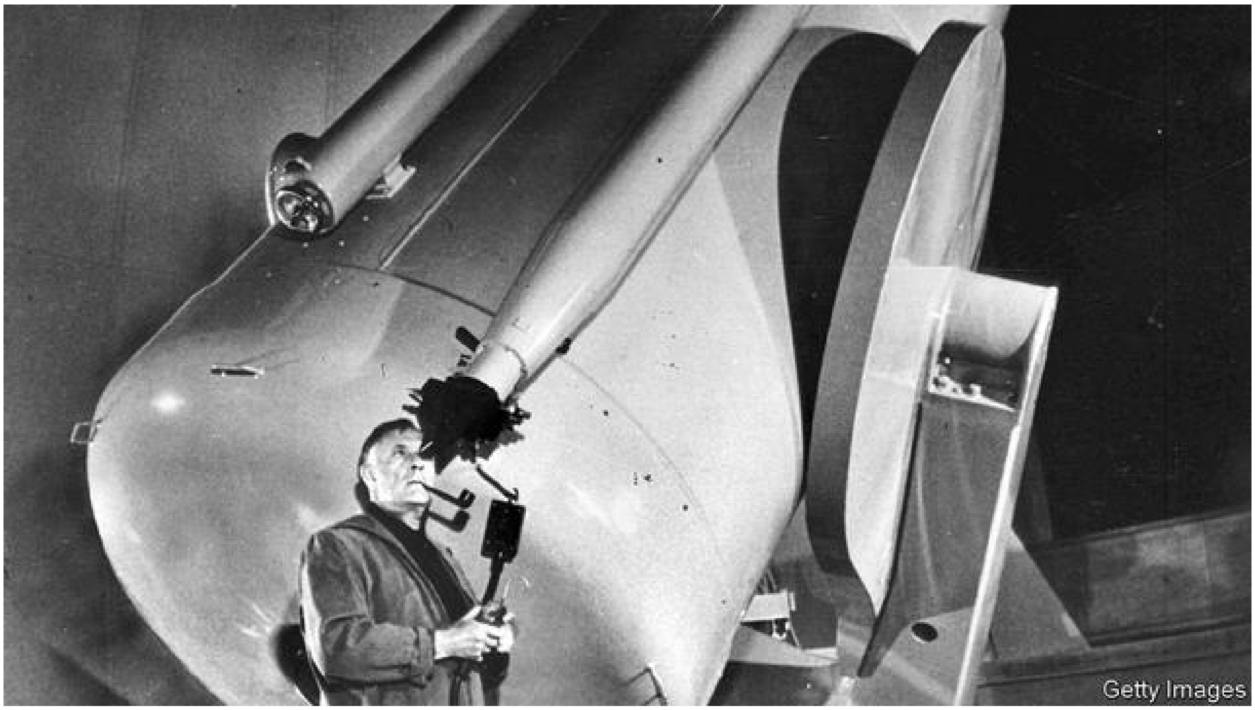
Economist.com

The decline in lead pollution was enhanced by Rome’s switch from the silver *denarius*, which had been increasingly debased with copper, to a gold standard. Even allowing for that, though, the European dark ages, during which Spain was occupied by the Visigoths, are clearly visible in the record —as is the point when civilisation starts to return with the rise of the Frankish state that, under Charlemagne, became the “Holy Roman Empire”, and with the takeover of Spain by the Umayyad caliphate.

Astronomy

The two ways to measure how fast the universe is growing do not agree

And that suggests understanding of cosmology is wrong



May 17th 2018

ONE of the most basic facts about the universe is that it is expanding. This observation, made by Edwin Hubble (pictured) in 1929, leads to all sorts of mind-stretching ideas. That the universe is growing implies it was smaller in the past—possibly a lot smaller. Which leads to the thought that a “Big Bang” kicked everything off. It also opens the question of whether the universe will expand for ever, or will eventually see its expansion halted and reversed by gravity, thus ending in a Big Crunch.

Things got stranger in 1998, when a group of astrophysicists discovered that the rate of expansion is increasing, for this finding raised another question in turn. The acceleration of the expansion was so great that it seemed something was actively pushing the universe apart. Thus was born the notion of “dark energy”—a new component of the cosmos, invoked to balance the equations.

Trying to work out what dark energy really is (or if it even exists) requires accurate measurements, particularly of the rate at which the universe is expanding. This rate is known as the Hubble constant, and there are two ways of measuring it. Unfortunately, the answers these methods come up with disagree. That is not necessarily a problem. Previous observational conflicts (for example, that the oldest stars in the universe were older than the universe itself) have gone away as measurements improved. But in this case a new set of measurements has confirmed the discrepancy. And that has got those who study astrophysics flummoxed.

The new measurements were made by a team led by Adam Riess, one of the researchers who discovered the accelerating expansion. Dr Riess works at the Space Telescope Science Institute in Baltimore. In a study just uploaded to the *arXiv*, a repository of papers awaiting formal approval for publication, he and his colleagues offer a new set of measurements of 50 stars of a type known as Cepheid variables.

Cepheids are important to astronomers because they are a rung on what is known as the cosmic distance ladder. A Cepheid pulsates at a frequency related to its intrinsic brightness. This makes it possible, by comparing the intrinsic brightness of such a star with its apparent brightness, as seen from Earth, to work out how far away it is relative to other Cepheids. Then, if the actual distances to some nearby Cepheids can be measured directly, those relative distances can be turned into absolute ones.

This is done by observing their parallax. As Earth orbits the sun, the positions of nearby stars will seem to shift relative to those farther away, in the same way that, to a passenger on a train, trees in the middle distance appear to move with respect to far-off mountains. This means their distances can be worked out by triangulation. The result is a method that has been used since Hubble's day to work out the distances to nearby galaxies in which individual Cepheids, which are extremely bright stars, can be detected. Then, with this rung in place, other objects, such as certain sorts of supernovae that have predictable energy outputs, can be observed in galaxies of known distance and used to extend the ladder.

The accuracy of the ladder, though, depends on the measurement of each rung. With this in mind, Dr Riess and his colleagues combined data from two space telescopes—*Hubble*, which has been in orbit since 1990, and *Gaia*, launched in 2013—to measure with unprecedented accuracy the distances to nearby Cepheids in the hope that this might make the cosmic-ladder-based estimate of the Hubble constant converge with one derived from observations of the Cosmic Microwave Background (CMB), a thin soup of radiation suffusing the universe that is left over from its earliest moments. It did not. Rather, it confirmed the previous estimate.

According to the cosmic ladder, the universe is expanding at a rate of 73.24km per second per megaparsec. (In English, this means that for each additional megaparsec of distance—about 3.3m light years—the speed at which galaxies are moving away from each other rises by 73km per second.) According to the CMB method the rate is 67km per second. That suggests there really is something wrong with current understanding of the universe. Perhaps this is no more than a mismeasurement of one of the other steps on the cosmic distance ladder. But it could be quite profound. Which is good news for the employment prospects of astrophysicists.

The science of songs

What makes good music?

Composers and listeners disagree

May 17th 2018

HIT songs are big business, so there is an incentive for composers to try to tease out those ingredients that might increase their chances of success. This, however, is hard. Songs are complex mixtures of features. How to analyse them is not obvious and is made more difficult still by the fact that what is popular changes over time. But Natalia Komarova, a mathematician at the University of California, Irvine, thinks she has cracked the problem. As she writes in *Royal Society Open Science* this week, her computer analysis suggests that the songs currently preferred by consumers are danceable, party-like numbers. Unfortunately, those actually writing songs prefer something else.

Dr Komarova and her colleagues collected information on music released in Britain between 1985 and 2015. They looked in public repositories of music “metadata” that are used by music lovers and are often tapped into by academics. They compared what they found in these repositories with what had made it into the charts.

Metadata are information about the nature of a song that can give listeners an idea of what that song is like before they hear it. The repositories presented Dr Komarova and her team with more than 500,000 songs that had been tagged by algorithms which had been trained to detect numerous musical features. The tags included a dozen binary variables (dark or bright timbre; can or cannot be danced to; vocal or instrumental; sung by a man or a woman; and so on). The team fed all of this information into a computer and compared the features of songs that had made it into the charts (roughly 4% of those in the repositories) with those of songs that had not.

Overall, the team's results suggested that songs tagged as happy and bright have become rarer during the past 30 years; the opposites have therefore appeared with greater frequency. That was not, however, reflected in what made it into the charts. Chart successes were happier and brighter (though also less relaxed), than the average songs released during the same year. Chart toppers were also more likely than average songs to have been performed by women. All this is important information for executives of music companies.

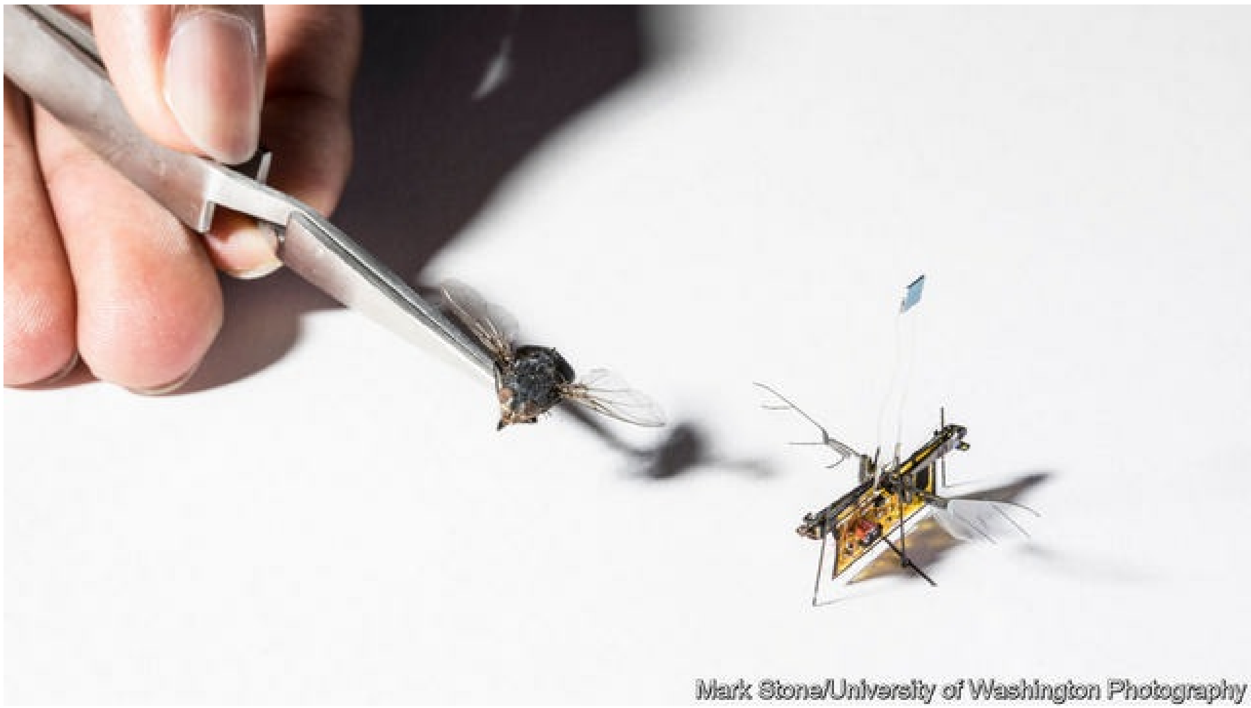
Dr Komarova used these results to train her computer to try to predict whether a randomly presented song was likely to have been a hit in a given year. The machine correctly predicted success 75% of the time, compared with the 4% rate that guessing success at random from the music database would yield—something else music executives might pay attention to.

Content is not everything. As might be expected, circumstances—particularly any fame already attaching to a recording artist or artists—had an effect, too. But not a huge one. Adding in information about who was performing a song increased the accuracy of prediction to 85%. That suggests that musical fame is actually attached to talent, rather than to hype. And this, perhaps, is a third lesson for an industry that some believe is not wedded to talent enough.

Microdrones

The world's lightest wireless flying machine lifts off

RoboFly unleashed



May 17th 2018

DRONES are getting ever smaller. The latest is the first insect-sized robot to take to the air without a tether delivering its power.

To get their device aloft, Sawyer Fuller of the University of Washington, in Seattle, and his colleagues, who will be presenting their work at the International Conference on Robotics and Automation in Brisbane later this month, had to overcome three obstacles. One is that the propellers and rotors used to lift conventional aircraft are not effective at small scales, where the viscosity of air is a problem. A second is that making circuitry and motors light enough for a robot to get airborne is hard. The third is that even the best existing batteries are too heavy to power such devices. Nature's portable power supply, fat, packs some 20 times more energy per gram than a battery can.

In 2013 Dr Fuller, then at Harvard, was part of a team which overcame the first of these hurdles, making a robotic insect that weighed just 80mg. The team copied nature by equipping their device with a pair of wings which flapped 120 times a second (close to the frequency of a fly's wing beat). They partly overcame the second hurdle by doing away with conventional motors and driving the wings using a piezoelectric ceramic that flexes in response to electrical currents. The third, however, stumped them. Their drone was powered by means of a thin cable—and this cable also served to send control signals from equipment too heavy to be installed on the drone.

Dr Fuller and his new colleagues have now—almost—cracked the remaining problems. They have made the electronics which flap the wings lighter, by cutting the circuitry from copper foil using a laser, rather than printing the pattern onto a base. They have also added an 8mg solar cell to their device. Focusing a laser on this cell lets them power the robot without wires. They have dubbed their gizmo "RoboFly".

The caveat is that, because they have not yet developed a way to make the power laser track the drone, as soon as it flies out of the beam it drops unceremoniously to the bench top. Solving this should not, however, be too hard—and once it is done they hope RoboFly will be flapping happily around their laboratory.

After that, it is a question of adding sensors and a communications capability to permit their tiny automaton to be controlled remotely, so that it can actually be used for something. The result, the team think, will be sure to make a buzz.

Books and arts

The bandage and the wound

A great Russian director brings history to life on stage

Lev Dodin's theme is the destructive power of big ideas. But his career has been guided by one

May 17th 2018 | LONDON AND MOSCOW

ON SEPTEMBER 9th 1944, not long after the siege of Leningrad was lifted, a regional committee of Soviet deputies issued an order establishing a theatre, "to raise the spirits of the people and the army" and "inspire confidence in the future". The result was the Maly Drama Theatre of what is now St Petersburg. In the same week Vasily Grossman, a Soviet war correspondent, entered the Nazi extermination camp of Treblinka with the Red Army.

Grossman meticulously documented what he saw, down to the colour of children's discarded shoes. "How can all this have happened?" he asked in his article, "The hell called Treblinka". "Was it a matter of heredity, upbringing, environment or external conditions?" In his magnificent novel "Life and Fate", Grossman pursued that inquiry into both the gas chambers and the gulag, bravely setting out the kinship between Hitler's totalitarianism and Stalin's. In 1961 Soviet censors not only banned the book but seized the manuscript and all Grossman's drafts.

By coincidence, Lev Dodin, the Maly's artistic director, was also born in 1944, to a Jewish family which had been evacuated from Leningrad to Siberia. He and Grossman never met in life, but they have been united on stage. His searing adaptation of "Life and Fate", first produced in 2007, is on tour in London (see picture). The questions that haunted the writer exercise the director, too—above all, as Mr Dodin puts it, the recurrence in history of "destruction and ultimately self-destruction…in the name of a great idea."

Mr Dodin's work is deeply Russian in its roots and themes, yet resonates around the world as Tolstoy, Dostoyevsky, Chekhov and indeed Grossman do. His ability to transform questions of life and death into space and movement—to visualise the past and make it present—has made him one of his country's, and the world's, most important directors.

The future of the past

Wary of ideas and utopias in politics, Mr Dodin has himself adhered to a great, utopian idea that he inherited from Konstantin Stanislavsky, the legendary co-founder of the Moscow Art Theatre (Mr Dodin studied under one of his pupils). In Stanislavsky's conception of theatre, aesthetics and ethics are inseparable. The goal is not merely to imitate reality but to create an independent version, at once recognisable and autonomous; to develop a theatre that is more than a theatre, just as Tolstoy insisted that "War and Peace" was not a novel but something else.

Central to this project is the compassion experienced by an actor for his character. "I can't get away from myself when I am on stage. But I can co-suffer, or co-experience something with my character," says Sergei Kuryshev, one of Mr Dodin's principal actors. For that, the character's life has to be as real as the actor's.

Working on "Life and Fate", Mr Dodin took his company first to Norilsk, the site of one of Stalin's harshest camps, where they rehearsed in an abandoned barracks built on permafrost, and then to Auschwitz-Birkenau, where they were allowed to stay the night. As with similar expeditions led by

Stanislavsky 120 years ago, the aim was to plunge through the text and ignite the actors' imaginations, reaching across time to establish a personal connection to the past, making it part of their lives and ultimately the lives of the audience.

Along with compassion, this distinct philosophy of time—compressing it and expanding it—is at the heart of Mr Dodin's work. In the case of "Life and Fate", Grossman's panorama of Nazism, Stalinism and the war is condensed into three and a half hours of drama. Different aspects of that history unfold simultaneously in one communal space. A volleyball net that divides the stage morphs into a prison fence; inmates march along it, singing Schubert's "Serenade" in German or Russian, according to which camp they are in. The bowl of soup that Viktor Shtrum, a nuclear physicist (played by Mr Kuryshev), leaves in his Moscow flat is finished by a prisoner in the gulag. Onstage the novel's different plot lines become one life and one fate.

Just as lives intertwine in Mr Dodin's plays, so his oeuvre is designed to form a single canvas of Russian history and culture. His productions remain in repertory for years or decades, subtly interacting with one another. Rehearsals do not end on opening night but continue throughout the life of a show.

Each production is firmly grounded in the period in which it is set: Mr Dodin has no truck with anachronistic costumes or gimmicks. But each, for him, represents a point in a broader historical arc. "The present", he observes, "is the future of the past and the past of the future." Perhaps it is this long perspective that makes Mr Dodin such a successful director of Chekhov, whose plays always unfold in double time—the time of their characters' lives but also a kind of cosmic time, the eternity in which they are suspended. The "distant sound of a breaking string" that rings out plaintively in "The Cherry Orchard" reverberates in Mr Dodin's work, too.

The band plays on

Mr Dodin does not engage directly with contemporary politics; he sticks to the worlds he creates on stage. But in a country that is often said to have dodged a reckoning with its past—in which history is by turns manipulated, airbrushed, mythologised and idealised—his honest treatment of it is courageous. In "The Old Man", a novel by Yuri Trifonov that Mr Dodin adapted in 1988, the main character describes memory as "old bloodstained bandages on a wound". In the director's view, "the task of art is to disentangle those bandages, getting to the wound."

Throughout his career, he has been preoccupied by the issue at the core of "Life and Fate": the terrible human price that creeds and ideology can exact. His first production as the Maly's director, in 1983, was "Brothers and Sisters". Based on a novel by Fyodor Abramov and performed over two evenings, it depicted the life—or rather death—of a Russian village after the second world war, and the corrosion of its soil and soul by Stalinism. In the late 1980s, as the arts became fixated on the news, Mr Dodin immersed himself for three and a half years in "The Devils", Dostoyevsky's prophetic novel of nihilistic revolutionaries.

His dark, ten-hour adaptation opened in December 1991, on the eve of the Soviet collapse, a stark counterpoint to the short-termism of the era. In the programme he prefaced the play with a quote from Dostoyevsky: "God and the devil are fighting there, and the battlefield is the heart of man." In this case the devil took the form of Petr Verkhovensky, a pseudo-revolutionary and provocateur. As Kirillov, his suggestible victim, paced the stage, preparing to commit suicide as the ultimate proof of his free will, Verkhovensky slowly and deliberately devoured a chicken, diligently sucking on every wing and bone.

These are sombre visions. Yet as with all great tragedians, a sense of hope emanates from the daring and integrity of the art itself. "I used to think theatre can change life," Mr Dodin confides. "It can't. But it should try. All the music, all the poetry, all the theatre did not prevent Auschwitz. But then again, I often think that if it had not been for all this music, all this poetry, all this theatre—perhaps Auschwitz would not have been defeated."

Life is tragic, Mr Dodin's work suggests, but it must go on. At the close of "Life and Fate", actors strip naked and play the "Serenade" on brass instruments, evoking the spirits of those who died in the death camps and the gulag—"the naked people", as Grossman described them, "people who had lost everything but who obstinately persisted in remaining human." Perhaps there is a distant echo of Chekhov's "Three Sisters", at the end of which a band is heard offstage. "Oh, but listen to the band!" one of the sisters exclaims. “We have to live…we have to live…”

His dark materials

George Benjamin's defence of opera

The composer's latest examines sex, power, violence and the dangerous allure of music

May 17th 2018

ALL-ACTION and surround-sound, opera was the 19th-century equivalent of cinema—and, some say, is now obsolete in an era of higher-tech entertainment. The suggestion that it might be outmoded draws a furious response from George Benjamin (pictured). "It's the most thrilling and immediate form," says the British composer, one of the few anywhere to be producing new operas that win both critical acclaim and wide audiences. "How could the art of setting stories to music ever become irrelevant?"

Striking, then, that his operas dwell in the remote past. His latest, "Lessons in Love and Violence", premiered at the Royal Opera House in London on May 10th. In it, he and Martin Crimp, his librettist, retell the story of Edward II, a 14th-century English king, and his supposed lover Piers Gaveston. Their previous collaboration, "Written on Skin", revisited an obscure Provençal tale of cannibalistic sexual possession.

This is dark material, but Mr Benjamin himself, now 58, retains a youthful idealism in his approach to his art. He was extremely youthful when he came to prominence: at 20 he had an orchestral piece performed in London's venerable Proms. At 16 he began commuting to Paris to study with Olivier Messiaen, who compared him to Mozart. Pierre Boulez was another big influence. He is a defiant apologist for the drily theoretical work that Boulez and his acolytes produced in the 1960s. "After the catastrophe of the second world war," Mr Benjamin says, these composers "embarked on an extraordinary journey of the mind and ear. The resulting music was not very lovable, but it wasn't written to be loved."

His own oeuvre is characterised by a pared-down economy and wizardry with unusual instruments, such as, in "Lessons in Love and Violence", the cimbalom. (He was once helped out of a creative block by Hindustani music.) Like "Written on Skin", "Lessons" has no interval or chorus. Nor does it have the sort of melodic tunes many casual listeners might expect in opera. Mr Benjamin thinks that "self-sealed tunes may stop the drama, which should be continuously evolving from start to finish."

In "Lessons", the drama hurtles from tenderness to savagery. The fierce modernism is offset by arresting tableaux. Famished subjects rail against their country's misrule. In a pivotal duet after Gaveston's demise, the queen tries to woo back the king; he rebuffs her and, still mourning his lover, unwittingly seals his own fate.

The potential of youth and the power of music—the leitmotifs of Mr Benjamin's career—are among the opera's central themes, along with sex, politics, violence and the relationship between them. The king's children are witnesses, then accomplices, then something worse. For all Mr Benjamin's faith in it, music is a sinister force too, at first a sign of decadence, then an instrument of power. "The moment someone stands up in front of an orchestra", the composer says, "it's immediately a ritual." The result is "something magic" which "can be lyrical, but if the story is dark, it may demand the opposite to lyricism."

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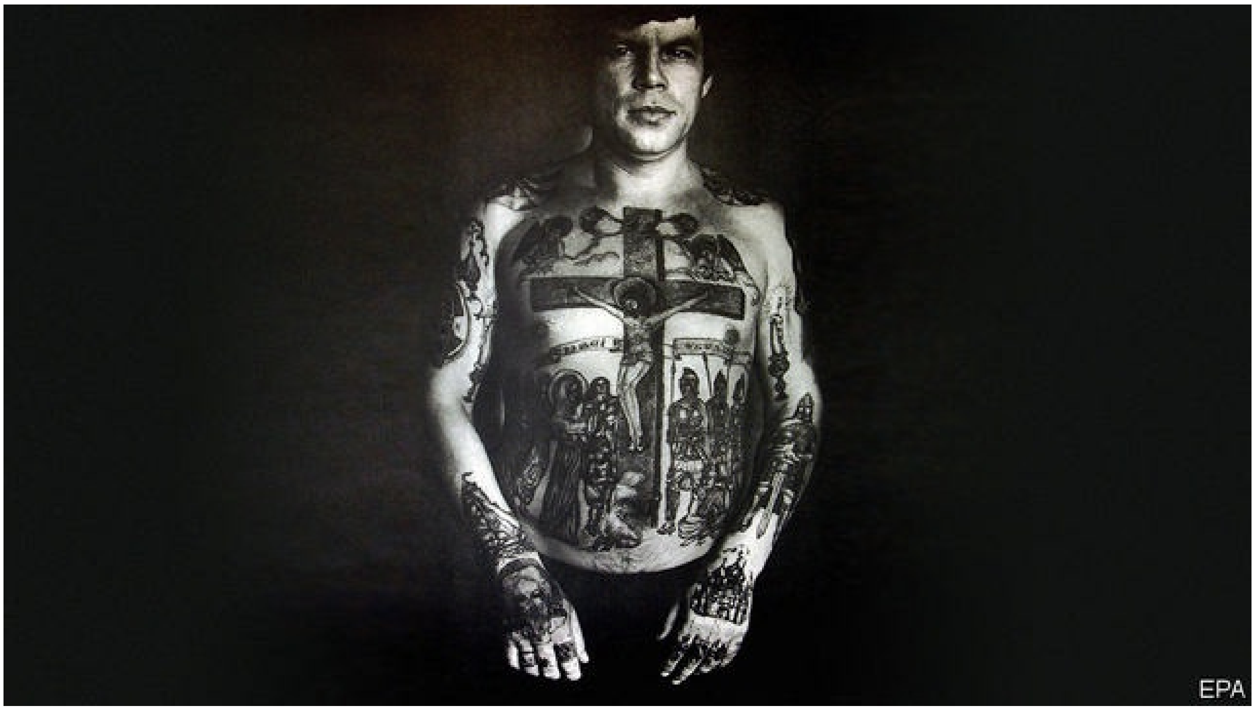
The biggest gang in town

Inside Vladimir Putin's "mafia state"

Mark Galeotti explains the relationship between Russian criminals and the state



May 17th 2018

The Vory: Russia's Super Mafia. By Mark Galeotti. *Yale University Press; 344 pages; $28 and £20.*

MANY labels have been applied to Vladimir Putin's Russia: kleptocracy, post-modern authoritarianism and, in Barack Obama's ill-advised put-down, a "regional power". One that stuck came from a Spanish prosecutor in a mob trial. He described modern Russia as a "mafia state".

It is a memorable phrase, but what does that notion actually entail? Mark Galeotti, an expert on this murky subject, offers the best answer to date. "The Vory"—meaning "The Thieves"—is a colourful and comprehensive guide to the intersection of crime and politics in Russia.

The unwritten rules of the criminal underworld developed under the tsars, when the country's serfs—a big chunk of the population—lived under a code that smiled on occasional diddling of feudal overlords. "Theft of wood from the landlords' or tsar's forest", Mr Galeotti writes, was no sin. That ethos persisted amid the mutual cynicism of relations between the Communist Party and the Soviet Union's citizens. Scarcity, uncertainty, and the gap between Soviet ideology and practice allowed criminal structures to flourish. As is often the case, prison—known as the *akademiya*—proved conducive to schooling villains in their shared culture.

At first, Soviet "thieves"—the preferred term for criminal authorities of various ranks—were wary of the government, and forbade the entanglement of their noble pursuits with the state's. They looked down on the *suki*, or bitches, who made common cause with state organs and officials. Yet the scale and horror of Stalin's gulag broke that prohibition, opening up the opportunity for a "new generation of *vory* to collaborate with dishonest party functionaries when they felt it was in their interest". That shift proved decisive—not just for the criminal underworld but the country as a whole, perhaps even for the world.

Finally, in the 1980s, Mikhail Gorbachev's *perestroika* "shattered the state, but also unleashed new market forces that the *vory* would prove best placed to exploit". The tumultuous, Hobbesian, often violent version of capitalism that followed proved the "perfect incubator" for a brand that became infamous: the Russian mafia.

Mr Putin ascended to the presidency avowedly intent on restoring the authority of the Kremlin. The more independent-minded *vory* were marginalised or eliminated. Others were co-opted, so long as they played by the new rules—avoid destabilising violence and defer to the interests of the Putin system, the "biggest gang in town". The state consolidated its power, Mr Galeotti says, by "not simply taming but absorbing the underworld". The gangsters were partially nationalised; the state adopted some of their mores.

Not only Russia, but the whole of the West, has been affected by this amalgamation. Mr Galeotti documents how criminal figures and outfits have been useful to the Kremlin in its semi-covert operations in Ukraine. Hackers from the criminal underworld are equally handy, a shadow force that can carry out an assignment without leaving the state's fingerprints.

Mr Galeotti's insight is that today's *vory* are not the crude, tattooed mob of a generation or two ago. They are clever, smooth entrepreneurs, equally at ease with Russian government ministers and Western financiers. Importantly, Mr Galeotti says they "are not interested in challenging or undermining the West, but in enjoying the opportunities it provides".

That means it is, in large measure, up to Western politicians and business people—bankers, lawyers, property brokers—to determine how deeply the *vory* are able to infiltrate their societies. Mr Galeotti questions whether Western institutions can resist the "common temptation to turn a blind eye to money that is slightly grubby". The particular folkways and culture of the *vory* may be essentially Russian, but the impulse to make a quick buck when nobody is looking is found the world over.

How the past holds on

William Trevor’s final collection of stories

The Irish master’s prose is as clear as water, yet tastes like gin

May 17th 2018

Last Stories. By William Trevor. *Viking; 224 pages; $26 and £14.99.*

WILLIAM TREVOR’S prose runs as clear as water yet tastes like gin. The Irish author—who died in 2016, aged 88—was a master of understatement, depicting small lives with rangy precision. At its best his fiction earned comparisons with Chekhov; in turn, he influenced a generation of writers in Ireland and beyond. He was considered for a Nobel prize and nominated five times for the Man Booker. “I live with people who don’t exist,” Trevor said in 2011, while working on his final collection, “Last Stories”, now published posthumously. “I have to write about them and there isn’t enough time.”

Set largely in England, these ten elegiac tales depict loss of innocence, loss of memory, loss of love and, acutely, loss of life. The characters and their professions are varied. They include a piano teacher, a cartographer and a painting restorer; in a wry nod to Trevor's own trade, a gentle widow "read the novels that time's esteem had kept alive, and judged contemporary fiction for herself".

In a book the author knew to be his last, the past is presented as textured and alive. "How the past holds on," remarks Anthony in "An Idyll in Winter". Anthony's former pupil, Mary Bella, "knew that she was living in the past, that the past would always be there, around her, that she was part of it herself". In "At the Caffé Daria", a story of betrayal, love and friendship, the past is inescapable. "Death exorcises nothing," Anita realises on learning of her husband's passing from Claire, her childhood best friend, who had long supplanted her in his affections.

By contrast, "The Crippled Man", set in Ireland, queries what it means to live. Guzzling whisky and dependent on his carer, the invalid who is its protagonist had been assumed dead by the locals. Within the suffocating smallness of this setting, quiet, flawless observations dazzle. Simple sentences colour with meaning. Martine, a distant relative caring for the crippled man in return for lodging, can "crack open an egg and empty it with one hand. Two each they had." Moments of sensuality hint at her wider, wilder perspective, such as the rain "drenching her arms and the grey-black material of her dress, running down between her breasts."

Trevor was and remains an author against whom other talents are measured. His work earns its place in the canon that "time's esteem" will keep alive.

Whereof we cannot speak

People crave silence, yet are unnerved by it

Two authors pursue silence in nets of words

May 17th 2018

A History of Silence. By Alain Corbin. *Translated by Jean Birrell. Polity; 147 pages; $19.95 and £14.99.*

Silence: In the Age of Noise. By Erling Kagge. *Translated by Becky Crook. Pantheon; 160 pages; $19.95. Viking; £9.99*

A THEME of the age, at least in the developed world, is that people crave silence and can find none. The roar of traffic, the ceaseless beep of phones, digital announcements in buses and trains, TV sets blaring even in empty offices, are an endless battery and distraction. The human race is exhausting itself with noise and longs for its opposite—whether in the wilds, on the wide ocean or in some retreat dedicated to stillness and concentration. Alain Corbin, a history professor, writes from his refuge in the Sorbonne, and

Erling Kagge, a Norwegian explorer, from his memories of the wastes of Antarctica, where both have tried to escape.

And yet, as Mr Corbin points out in “A History of Silence”, there is probably no more noise than there used to be. Before pneumatic tyres, city streets were full of the deafening clang of metal-rimmed wheels and horseshoes on stone. Before voluntary isolation on mobile phones, buses and trains rang with conversation. Newspaper-sellers did not leave their wares in a mute pile, but advertised them at top volume, as did vendors of cherries, violets and fresh mackerel. The theatre and the opera were a chaos of huzzahs and barracking. Even in the countryside, peasants sang as they drudged. They don’t sing now.

What has changed is not so much the level of noise, which previous centuries also complained about, but the level of distraction, which occupies the space that silence might invade. There looms another paradox, because when it does invade—in the depths of a pine forest, in the naked desert, in a suddenly vacated room—it often proves unnerving rather than welcome. Dread creeps in; the ear instinctively fastens on anything, whether fire-hiss or bird call or susurrus of leaves, that will save it from this unknown emptiness. People want silence, but not that much.

The fundamental fact, Mr Corbin contends, is that silence is not just the absence of noise. It is something in itself. For some writers it has substance, like sand that blocks the ears or water slipping over the body. For others it is a counter-sound, the “still small voice” Elijah heard after a tumult of wind and storm, or the speaking silence heard by Percy Bysshe Shelley on Mont Blanc. It may also be, as Rilke wrote, a medium through which we enter the hidden reality of things. Through the silence of Keats’s Grecian vase, the reader comes to vanished songs; through the stones that Mr Kagge keeps on his desk, as he explains in “Silence”, he enters a deep mineral existence laid down across aeons of time.

Or silence may open listeners up to the unknown reality of themselves: to a universe within as infinite as the stars. With good reason, that is what humankind may be afraid of. It has taken mystics to brave it: St John of the Cross venturing into the *noche oscura* in which the soul meets the Lover, or the writer of the Chandogya Upanishad, “meditating on this visible world as beginning, ending and breathing in the *brahman*”. Like a deep dive, engaging with silence is an act of faith.

For all his academic confidence, Mr Corbin himself sometimes seems reluctant to plumb those depths. Otherwise he would not spend so much time merely quoting writers who use the word "silent" of a church, a wood or a grey Belgian street. He spends several chapters dealing with what might be called "social silence": the dumbstruck or mannerly holding of the tongue, the practice of mentally removing oneself. The paintings he chooses as illustrations are of this kind of silence, which comes from the remoteness of others: estranged customers in an absinthe bar, lovers lost in thought, or Edward Hopper's "Gas", in which a station attendant goes about his work at dusk, mute as the pumps. Mr Kagge, whose own silences are usually quick, self-imposed absentings in the car, in the bath or at family mealtimes, prefers photographs—of the sky, mountains, space—which, instead of expressing silence, reduce readers to it.

Pictures may well do better than words, which silence transcends. As Maurice Blanchot, a French philosopher, puts it in a formulation Mr Corbin cites, the writer tries to build "a sea wall of paper against an ocean of silence". At times it may be best just to pause. The notes left out, the phrase unresolved, the words left hanging, are often eloquent, but not in a way that can be explained. The best evocations of silence in literature are those in which the word is never uttered—Rilke's loving descriptions of rose petals laid on eyelids, or the closing sentence of James Joyce's "Dubliners":

His soul swooned slowly as he heard the snow falling faintly through the universe and faintly falling, like the descent of their last end, upon all the living and the dead.

In his best chapter, Mr Corbin speculates on silence as the medium from which words come: as light and creation in the traditional tellings emerged out of darkness, or as most people still find it essential to think and write in quiet. On the other hand, as Mr Kagge points out, for both Plato and Aristotle knowledge of the eternal and of truth lay where words stop.

It may hardly seem worth the candle, then, to keep pursuing silence with nets of words. And yet it is therapeutic. To write about it provides the illusion that it is within our control, like breathing; that we can admit it for a while, as in a moment of wordless wonder at morning frost or a blossoming tree, and then return to our blaring world refreshed and wiser. For frantic moderns, silence also seems part of the comfort offered by primitive or eternal things. But it seethes with fathomless challenge, like the unspeaking sea.

Obituary

A woman walking

Ninalee Allen Craig died on May 1st

The star of one of the 20th century's most famous and controversial images was 90

May 17th 2018

THE photograph, by Ruth Orkin, was called "American Girl in Italy, Florence, 1951". Whenever it surfaced, in restaurants, in students' rooms, on T-shirts, on tote bags, so did the questions for Ninalee Allen Craig, who walked at its heart through a phalanx of Italian men. They stared and leered; one grabbed his crotch; their calls were almost audible. Wasn't she afraid? Surely she was upset? Her downcast eyes, that clutch of her shawl, strongly suggested both those things.

Then she would laugh her boisterous full laugh and say, not at all. On the contrary, she was imagining she was Dante's Beatrice. She had studied the "Divine Comedy" with Robert Fitzgerald at Sarah Lawrence in New York, and had fallen in love with that notion of unattainable beauty. Her dollar-a-night hotel was on the Arno, and she had a corny postcard of a Victorian painting by Henry Holiday that showed Beatrice walking by the river, in shining white, ignoring the stricken Dante, who pressed his pounding heart at the sight of her. Who knew whether her very own Dante might not be standing on some corner, while she swept luminously by?

Besides, even when she was not Beatrice, she was a New York girl having a wonderful time. When she left college she didn't know where her place in the world was, so the answer seemed to be to explore it. Her mother, who had travelled young to Sicily, encouraged her to tour Europe until the money ran out. So she sailed third-class with a cardboard suitcase, going to France and round Spain on buses, ending up in Italy to look at art and to paint.

At 23, she was quite alone. That was rare for a woman, and intoxicating. Europe was open and empty of tourists, recovering from the war. Almost no papers were needed. In that spirit of adventure she revived her childhood nickname, "Jinx", which sounded larky and exciting. No one kept tabs on her. She could call at the American Express office to check letters, but there was no need to communicate with home. And just as well, because when her father saw The Photograph, blown up big one day in Grand Central, he was horrified that she had been walking round Italy in that way. The world was hers to conquer.

Ignoring Pan

When she met Ruth, who was doing the same and taking pictures as she went, they agreed to do a photo essay together, a spoof on the perils of girls travelling alone. It was August, the hottest day of the year. In full Jinx mode, she put on her New Look long skirt, a wide belt and an orange Mexican shawl. Her purse was a horse-feed bag which she had picked up in Spain. As they walked through the city she asked the way from a policeman, bargained for straw bags in a market, visited the Amex office. Much of what she did was flirty. She chatted to a young man in a café while putting on her violent red lipstick. Guide book in hand, she gawked at a statue of two naked wrestlers and sat, with a bored look, in front of a statue of Pan with his usual erection. Ignoring him.

In most of these pictures men were staring at her. At six feet tall, beautiful, foreign and walking alone, she was clearly an object of curiosity. And so she was when they turned at 10.30 into the Piazza della Repubblica, where there was a sea of men, and Ruth told her to walk through. She did so twice. Two shots, 35 seconds. After that, she climbed onto the back seat of the Lambretta whose rider had drawn up to admire her, and went for a ride.

Nothing was posed, she insisted. The men were just there, hanging round the Caffè Gilli because they had no jobs. She was furious when the Metropolitan Museum of Art, in an exhibition, described it as “staged”. Her second walk had increased the reaction, but that did not make it inauthentic. It was the real McCoy.

This was not, however, the ground on which she had to defend the picture for the rest of her life. As she moved through two marriages, and from America to Italy to Canada, where she settled in Toronto, it was the sexual message that bothered people. In 1952, when it first appeared in *Cosmopolitan* magazine with a piece advising single women that “ogling the ladies is a popular, harmless and flattering pastime…in many foreign countries”, the crotch-grabber was cropped out. Time-Life books airbrushed his hand out in 1961. She couldn’t think why. She was used to Italian men doing it, almost as a good-luck sign; a sort of reassurance, that the family jewels were intact. As if she cared.

When the censoring ended, feminist commentary began. Time after time the Photograph was used for stories of women’s harassment and victimhood. #MeToo made it worse. Though she supported the movement and thought it was a wake-up call, as ardent in her late 80s as she would have been in her Jinx years, it also made many more people see something sinister and awful in that image of her younger self. In 2017 she was heartbroken to hear that a restaurateur in Philadelphia had taken the picture down after two dozen customers complained.

How to persuade them that she had not been scared, that she felt thrilled and strong? In the first contact print, she looked frightened. Ruth told her to walk the second time “as if it’s killing you, but you’re going to make it”. She explained that her shawl had been her shield, sheathing her body, and that the last thing she wanted to do was to look the men in the eye and smile. Yet the more other, younger women called this harassment, the louder she denied it. When a man whistled at you, or called out “*Che bella!*”, you were appreciated. You walked taller. In that moment, you owned the street. She still kept the bag and shawl from that day, as well as the postcard in which Dante stood, staring, in Beatrice's path. How could Beatrice ever be vulnerable?

Economic and financial indicators

Output, prices and jobs

May 17th 2018

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment rate, %
	latest	qtr*	2018†	2019†	latest	latest	year ago	2018†	
United States	+2.9 Q1	+2.3	+2.8	+2.5	+3.5 Apr	+2.5 Apr	+2.2	+2.4	3.9 Apr
China	+6.8 Q1	+5.7	+6.6	+6.4	+7.0 Apr	+1.8 Apr	+1.2	+2.3	3.9 Q1§
Japan	+0.9 Q1	-0.6	+1.4	+1.1	+2.4 Mar	+1.1 Mar	+0.2	+1.0	2.5 Mar
Britain	+1.2 Q1	+0.4	+1.4	+1.5	+2.9 Mar	+2.5 Mar	+2.3	+2.5	4.2 Feb††
Canada	+2.9 Q4	+1.7	+2.3	+2.1	+4.5 Feb	+2.3 Mar	+1.6	+2.2	5.8 Apr
Euro area	+2.5 Q1	+1.6	+2.3	+2.0	+3.0 Mar	+1.2 Apr	+1.9	+1.5	8.5 Mar
Austria	+2.9 Q4	+1.6	+2.8	+2.3	+5.1 Feb	+1.8 Apr	+2.1	+2.1	5.0 Mar
Belgium	+1.6 Q1	+1.6	+1.9	+1.8	+0.1 Feb	+1.5 Apr	+2.3	+1.7	6.4 Mar
France	+2.1 Q1	+1.0	+2.0	+1.9	+1.8 Mar	+1.6 Apr	+1.2	+1.7	8.8 Mar
Germany	+2.3 Q1	+1.2	+2.3	+2.1	+3.2 Mar	+1.6 Apr	+2.0	+1.6	3.4 Mar‡
Greece	+1.8 Q4	+0.4	+1.6	+1.9	+1.1 Mar	nil Apr	+1.6	+0.7	20.8 Feb
Italy	+1.4 Q1	+1.2	+1.4	+1.3	+3.6 Mar	+0.5 Apr	+1.9	+1.1	11.0 Mar
Netherlands	+2.8 Q1	+2.1	+2.8	+2.4	+3.5 Mar	+0.9 Apr	+1.6	+1.4	4.9 Mar
Spain	+2.9 Q1	+2.8	+2.8	+2.2	-3.6 Mar	+1.1 Apr	+2.6	+1.4	16.1 Mar
Czech Republic	+5.5 Q4	+2.0	+3.6	+3.0	-1.0 Mar	+1.9 Apr	+2.0	+1.8	2.2 Mar‡
Denmark	+1.3 Q4	+1.2	+1.9	+1.8	-9.8 Mar	+0.8 Apr	+1.1	+1.2	4.1 Mar
Hungary	+4.4 Q1	+4.9	+3.9	+2.7	+2.0 Mar	+2.3 Apr	+2.2	+2.5	3.9 Mar§††
Norway	+0.3 Q1	+2.5	+1.9	+1.8	-6.7 Mar	+2.4 Apr	+2.2	+2.1	3.9 Feb‡‡
Poland	+4.4 Q4	+6.6	+4.2	+3.4	+1.9 Mar	+1.6 Apr	+2.0	+1.9	6.6 Mar§
Russia	+1.3 Q1	na	+1.7	+1.8	+0.9 Mar	+2.4 Apr	+4.1	+3.1	5.0 Mar§
Sweden	+3.3 Q4	+3.5	+2.5	+2.2	+6.8 Mar	+1.7 Apr	+1.9	+1.7	6.5 Mar§
Switzerland	+1.9 Q4	+2.4	+2.2	+1.9	+8.7 Q4	+0.8 Apr	+0.4	+0.7	2.7 Apr
Turkey	+7.3 Q4	na	+4.3	+4.1	+6.8 Mar	+10.8 Apr	+11.9	+10.7	10.6 Feb§
Australia	+2.4 Q4	+1.5	+2.7	+2.7	+1.6 Q4	+1.9 Q1	+2.1	+2.1	5.6 Apr
Hong Kong	+4.7 Q1	+9.2	+2.9	+2.3	+0.7 Q4	+2.6 Mar	+0.5	+2.5	2.9 Mar‡‡
India	+7.2 Q4	+6.6	+7.2	+7.5	+4.4 Mar	+4.6 Apr	+3.0	+4.8	5.9 Apr
Indonesia	+5.1 Q1	na	+5.3	+5.5	+1.1 Mar	+3.4 Apr	+4.2	+3.5	5.0 Q1§
Malaysia	+5.9 Q4	na	+5.5	+5.4	+3.1 Mar	+1.3 Mar	+4.9	+2.5	3.3 Mar§
Pakistan	+5.4 2018**	na	+5.4	+5.0	+5.8 Feb	+3.7 Apr	+4.8	+5.0	5.9 2015
Singapore	+4.3 Q1	+1.4	+3.0	+2.9	+5.9 Mar	+0.2 Mar	+0.7	+0.9	2.0 Q1
South Korea	+2.9 Q1	+4.4	+2.9	+2.8	-4.3 Mar	+1.6 Apr	+1.9	+1.7	4.1 Apr§
Taiwan	+3.0 Q1	+1.3	+2.7	+1.9	+3.1 Mar	+2.0 Apr	+0.1	+1.3	3.7 Mar
Thailand	+4.0 Q4	+1.8	+4.0	+3.5	+2.6 Mar	+1.1 Apr	+0.4	+1.3	1.2 Mar§
Argentina	+3.9 Q4	+3.9	+2.6	+3.1	+6.1 Mar	+25.6 Apr	na	+22.5	7.2 Q4§
Brazil	+2.1 Q4	+0.2	+2.6	+2.9	+1.3 Mar	+2.8 Apr	+4.1	+3.4	13.1 Mar§
Chile	+3.3 Q4	+2.6	+3.2	+3.5	+8.7 Mar	+1.9 Apr	+2.7	+2.3	6.9 Mar§††
Colombia	+1.4 Q1	+1.6	+2.5	+3.1	-1.4 Mar	+3.1 Apr	+4.7	+3.3	9.4 Mar§
Mexico	+1.2 Q1	+4.5	+2.1	+2.3	-3.7 Mar	+4.6 Apr	+5.8	+4.3	3.2 Mar
Venezuela	-8.8 Q4~	-6.2	-15.3	-3.8	na	na	na	12,615.2	7.3 Apr§
Egypt	nil Q4	na	+5.1	+5.4	+6.2 Mar	+13.1 Apr	+31.5	+16.9	10.6 Q1§
Israel	+3.9 Q1	+4.2	+3.6	+3.2	+6.5 Feb	+0.4 Apr	+0.7	+1.1	3.6 Mar
Saudi Arabia	-0.7 2017	na	+1.0	+2.0	na	+2.8 Mar	-0.7	+4.4	6.0 Q4
South Africa	+1.5 Q4	+3.1	+1.9	+2.1	+2.3 Mar	+3.8 Mar	+6.1	+4.8	26.7 Q1§
Estonia	+5.0 Q4	+9.2	+4.0	+3.5	+7.6 Mar	+2.9 Apr	+3.2	+3.5	6.8 Q1§
Finland	+2.2 Q4	+4.5	+2.3	+2.2	+7.0 Mar	+0.8 Apr	+0.8	+0.9	8.8 Mar§
Iceland	+1.5 Q4	+2.6	+4.1		na	+2.3 Apr	+1.9		2.3 Apr§
Ireland	+8.4 Q4	+13.3	+4.5	+3.6	-9.9 Mar	-0.4 Apr	+0.9	+0.8	5.9 Apr
Latvia	+4.3 Q1	+6.8	+3.1	+3.9	+0.6 Mar	+2.0 Apr	+3.4	+2.8	8.1 Q4§
Lithuania	+4.0 Q4	+5.7	+3.7	+3.5	+8.8 Mar	+2.3 Apr	+3.5	+3.2	9.2 Mar§
Luxembourg	+1.7 Q4	-0.4	+3.4		+4.8 Mar	+1.1 Apr	+1.9		5.7 Mar§
New Zealand	+3.2 Q4	+1.5	+3.2	+2.1	+2.0 Q4	+1.1 Q1	+2.1	+1.7	4.4 Q1
Peru	+2.2 Q4	-1.3	+3.7	+3.9	+0.3 Feb	+0.5 Apr	+3.7	+1.8	7.0 Mar§
Philippines	+6.8 Q1	+6.1	+6.4	+6.3	+13.5 Mar	+4.5 Apr	+3.2	+4.8	5.3 Q1§
Portugal	+2.0 Q1	+1.6	+2.3	+2.1	+1.8 Mar	+0.4 Apr	+2.0	+0.7	7.9 Q1§
Slovakia	+3.6 Q1	+3.5	+3.7	+3.8	-2.3 Mar	+2.9 Apr	+0.8	+1.9	5.6 Mar§
Slovenia	+6.0 Q4	na	+4.5	+3.7	+4.2 Mar	+1.5 Apr	+1.8	+1.8	8.6 Mar§
Ukraine	+3.1 Q1	+2.4	+3.0	+2.8	+1.0 Mar	+13.1 Apr	+12.2	+11.5	1.2 Apr§
Vietnam	+6.8 2017	na	+6.9	+6.8	+9.4 Apr	+2.8 Apr	+4.3	+3.3	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. ~2015 **Year ending June. ††Latest 3 months. ‡‡3-month moving average.

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The Economist commodity-price index

May 17th 2018

The Economist commodity-price index

2005=100

	May 8th	May 15th*	% change on one month	% change on one year
Dollar Index				
All Items	157.0	155.9	+0.6	+9.0
Food	160.6	159.3	+1.0	+3.2
Industrials				
All	153.3	152.4	+0.1	+16.1
Nfa†	145.1	144.1	+2.1	+3.1
Metals	156.8	156.0	-0.6	+22.2
Sterling Index				
All items	211.3	210.1	+6.7	+4.3
Euro Index				
All items	164.7	163.5	+4.7	+1.8
Gold				
$ per oz	1,307.8	1,294.0	-3.7	+4.6
West Texas Intermediate				
$ per barrel	69.1	71.3	+7.2	+46.5

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.

Trade, exchange rates, budget balances and interest rates

May 17th 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 $ May 16th	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	-834.0 Mar	-466.2 Q4	-2.8	-	-	-4.6	2.32	3.01
China	+401.6 Apr	+121.0 Q1	+1.1	6.37	6.89	-3.5	4.08	3.14§§
Japan	+43.1 Mar	+197.0 Mar	+4.0	110	113	-4.9	-0.03	0.03
Britain	-180.3 Mar	-106.7 Q4	-3.7	0.74	0.77	-1.8	0.64	1.56
Canada	-23.6 Mar	-49.4 Q4	-2.7	1.28	1.36	-2.0	1.70	2.50
Euro area	+281.6 Feb	+469.5 Feb	+3.3	0.85	0.90	-0.9	-0.33	0.62
Austria	-5.4 Feb	+7.7 Q4	+2.4	0.85	0.90	-0.6	-0.33	0.65
Belgium	+27.2 Mar	-0.8 Dec	nil	0.85	0.90	-0.9	-0.33	0.88
France	-70.0 Mar	-12.6 Mar	-0.8	0.85	0.90	-2.4	-0.33	0.84
Germany	+288.0 Mar	+312.3 Mar	+7.7	0.85	0.90	+1.0	-0.33	0.62
Greece	-22.8 Feb	-2.2 Feb	-1.2	0.85	0.90	+0.2	-0.33	4.36
Italy	+56.4 Feb	+53.2 Feb	+2.7	0.85	0.90	-2.0	-0.33	2.13
Netherlands	+63.4 Mar	+84.9 Q4	+9.8	0.85	0.90	+0.8	-0.33	0.78
Spain	-29.4 Feb	+25.9 Feb	+1.7	0.85	0.90	-2.6	-0.33	1.25
Czech Republic	+18.8 Mar	+1.9 Q4	+0.7	21.7	23.8	+0.9	0.90	1.86
Denmark	+8.3 Mar	+23.0 Mar	+7.8	6.32	6.71	-0.7	-0.28	0.63
Hungary	+9.6 Feb	+4.0 Q4	+1.9	268	279	-2.6	0.07	3.02
Norway	+21.0 Apr	+20.2 Q4	+6.3	8.11	8.48	+4.9	1.09	1.98
Poland	-1.2 Mar	-0.5 Mar	-0.7	3.63	3.78	-2.2	1.50	3.27
Russia	+124.7 Mar	+41.7 Q1	+3.4	62.2	56.4	-0.9	5.44	8.13
Sweden	-1.1 Mar	+17.1 Q4	+4.0	8.72	8.80	+0.6	-0.38	0.77
Switzerland	+31.8 Mar	+66.6 Q4	+9.7	1.00	0.99	+0.8	-0.72	0.14
Turkey	-86.6 Apr	-55.4 Mar	-5.7	4.43	3.55	-2.8	16.6	14.6
Australia	+6.0 Mar	-32.3 Q4	-2.2	1.33	1.35	-1.2	2.03	2.83
Hong Kong	-64.2 Mar	+14.7 Q4	+4.0	7.85	7.79	+0.8	1.76	2.28
India	-160.5 Apr	-39.1 Q4	-2.0	67.8	64.1	-3.5	6.32	7.90
Indonesia	+5.1 Apr	-20.9 Q1	-2.1	14,094	13,301	-2.5	6.22	7.18
Malaysia	+27.0 Mar	+9.4 Q4	+3.2	3.97	4.32	-2.8	3.68	4.20
Pakistan	-36.3 Apr	-16.6 Q1	-5.8	116	105	-5.4	6.42	8.50†††
Singapore	+46.6 Apr	+61.0 Q4	+21.2	1.34	1.39	-0.7	na	2.65
South Korea	+86.4 Apr	+71.1 Mar	+4.7	1,078	1,116	+0.7	1.65	2.80
Taiwan	+18.1 Apr	+84.1 Q4	+13.9	29.9	30.1	-0.9	0.66	1.03
Thailand	+11.8 Mar	+50.2 Q1	+10.2	32.1	34.5	-2.3	1.09	2.64
Argentina	-9.8 Mar	-30.8 Q4	-5.3	23.9	15.6	-5.1	27.5	6.23
Brazil	+65.7 Apr	-8.3 Mar	-1.2	3.68	3.09	-7.0	6.24	8.34
Chile	+10.4 Apr	-4.1 Q4	-0.6	630	666	-2.1	0.30	4.48
Colombia	-7.6 Mar	-10.4 Q4	-2.9	2,875	2,871	-2.0	4.69	6.60
Mexico	-9.5 Mar	-18.8 Q4	-1.8	19.7	18.6	-2.3	7.85	7.78
Venezuela	-36.2 Oct~	-17.8 Q3~	+2.6	69,913	10.1	-15.5	15.2	8.24
Egypt	-34.7 Feb	-9.3 Q4	-4.0	17.8	18.1	-9.8	18.4	na
Israel	-19.0 Apr	+10.5 Q4	+3.5	3.59	3.60	-2.5	0.13	1.96
Saudi Arabia	+87.3 2017	+15.2 Q4	+3.7	3.75	3.75	-7.3	2.41	na
South Africa	+4.0 Mar	-8.6 Q4	-2.8	12.5	13.1	-3.6	6.90	8.48
Estonia	-2.1 Mar	+0.8 Mar	+2.3	0.85	0.90	-0.3	-0.33	na
Finland	-2.9 Mar	+1.9 Mar	+0.9	0.85	0.90	-0.7	-0.33	0.76
Iceland	-1.7 Apr	+0.9 Q4	+4.5	105	102	+1.2	4.68	na
Ireland	+50.5 Mar	+42.8 Q4	+7.4	0.85	0.90	-0.2	-0.33	1.04
Latvia	-3.1 Mar	-0.2 Mar	-0.2	0.85	0.90	-1.2	-0.33	na
Lithuania	-2.9 Mar	nil Q4	+0.8	0.85	0.90	+0.6	-0.33	1.15
Luxembourg	-7.4 Feb	+3.3 Q4	+4.7	0.85	0.90	+0.9	-0.33	na
New Zealand	-2.5 Mar	-5.5 Q4	-2.7	1.45	1.45	+1.0	2.01	2.82
Peru	+6.8 Mar	-2.7 Q4	-1.7	3.27	3.26	-3.5	3.25	na
Philippines	-31.7 Mar	-2.5 Dec	-0.2	52.3	49.7	-1.9	3.44	6.55
Portugal	-17.0 Mar	+0.6 Feb	+0.1	0.85	0.90	-1.0	-0.33	1.81
Slovakia	+3.4 Mar	-2.6 Feb	-0.6	0.85	0.90	-1.2	-0.33	0.76
Slovenia	nil Feb	+3.3 Mar	+5.7	0.85	0.90	+0.2	-0.33	na
Ukraine	-6.6 Mar	-2.3 Q1	-4.2	26.2	26.4	-2.6	17.0	na
Vietnam	+8.6 Apr	+6.4 2017	-0.4	22,773	22,684	-6.3	4.80	4.55

Source: Haver Analytics. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. ~2015 §§5-year yield. †††Dollar-denominated bonds.

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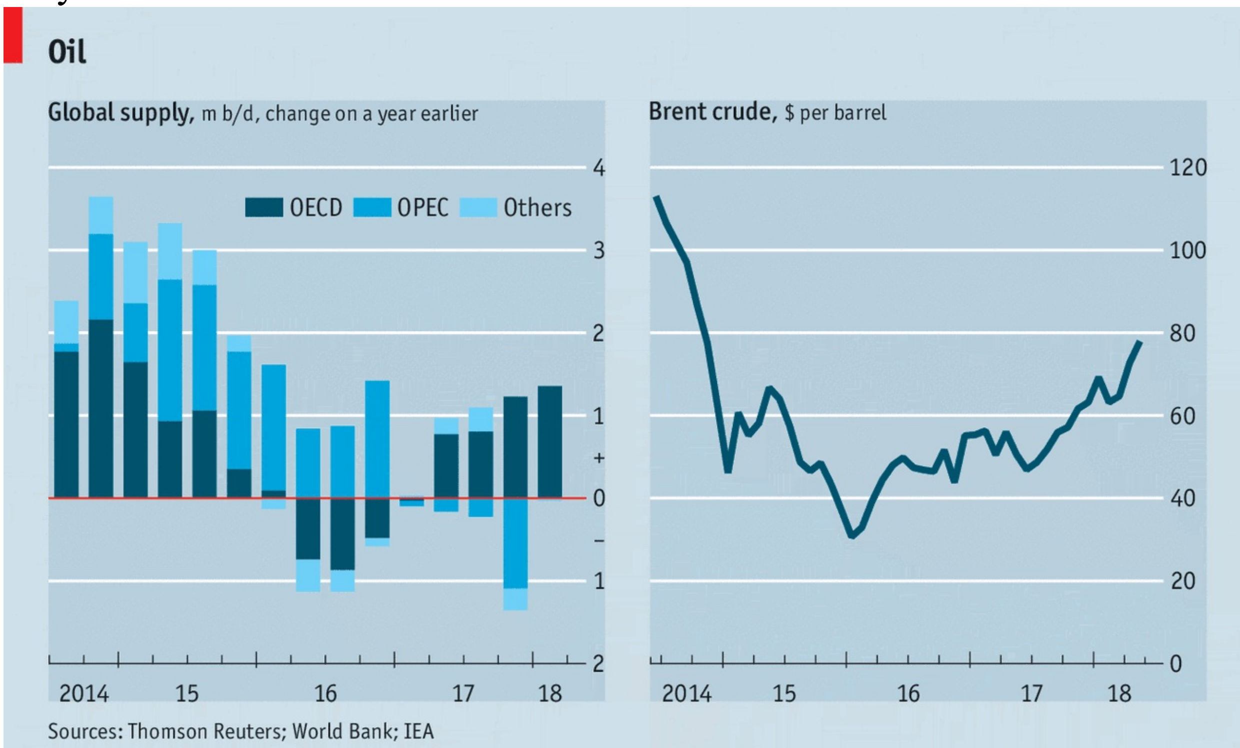
Oil

May 17th 2018



Economist.com

Brent crude this week hit a three-and-a-half-year high of $78 a barrel. It is now worth almost three times as much as it was at its nadir in 2016. The price of oil has been creeping up since last summer, boosted in part by strong global consumption, which expanded by 1.6% in 2017. A deeper-than-expected cut in output by OPEC and other oil-producing countries has also buoyed prices. So too has the collapse of the oil industry in Venezuela. More recently prices have rallied in response to President Donald Trump's withdrawal from the nuclear deal with Iran. It is estimated that this decision could remove 1m barrels of Iranian crude a day from global markets.

Markets

May 17th 2018

Markets

	Index May 16th	% change on one week	% change on Dec 29th 2017 in local currency	% change on Dec 29th 2017 in $ terms
United States (DJIA)	24,768.9	+0.9	+0.2	+0.2
United States (S&P 500)	2,722.5	+0.9	+1.8	+1.8
United States (NAScomp)	7,398.3	+0.8	+7.2	+7.2
China (Shanghai Comp)	3,169.6	+0.3	-4.2	-2.0
China (Shenzhen Comp)	1,832.3	-0.1	-3.5	-1.4
Japan (Nikkei 225)	22,717.2	+1.4	-0.2	+1.9
Japan (Topix)	1,800.4	+1.5	-0.9	+1.1
Britain (FTSE 100)	7,734.2	+0.9	+0.6	+0.3
Canada (S&P TSX)	16,108.1	+1.2	-0.6	-2.8
Euro area (FTSE Euro 100)	1,240.3	-0.1	+2.5	+0.6
Euro area (EURO STOXX 50)	3,562.8	-0.2	+1.7	-0.2
Austria (ATX)	3,490.5	-0.3	+2.1	+0.2
Belgium (Bel 20)	3,857.7	-0.9	-3.0	-4.8
France (CAC 40)	5,567.5	+0.6	+4.8	+2.9
Germany (DAX)*	12,996.3	+0.4	+0.6	-1.2
Greece (Athex Comp)	787.9	-3.8	-1.8	-3.6
Italy (FTSE/MIB)	23,734.2	-2.2	+8.6	+6.6
Netherlands (AEX)	565.1	+0.6	+3.8	+1.9
Spain (IBEX 35)	10,111.0	-1.1	+0.7	-1.2
Czech Republic (PX)	1,106.1	+1.2	+2.6	+0.7
Denmark (OMXCB)	916.7	-0.3	-1.1	-3.0
Hungary (BUX)	37,575.0	+2.7	-4.6	-8.1
Norway (OSEAX)	1,008.6	+0.9	+11.2	+12.1
Poland (WIG)	59,791.3	+0.2	-6.2	-10.3
Russia (RTS, $ terms)	1,189.8	+4.2	+3.1	+3.1
Sweden (OMXS30)	1,602.3	-0.9	+1.6	-4.6
Switzerland (SMI)	8,973.9	-0.1	-4.3	-6.8
Turkey (BIST)	102,157.9	+1.4	-11.4	-24.2
Australia (All Ord.)	6,208.1	+0.1	+0.7	-3.0
Hong Kong (Hang Seng)	31,110.2	+1.9	+4.0	+3.5
India (BSE)	35,387.9	+0.2	+3.9	-2.2
Indonesia (JSX)	5,841.5	-1.1	-8.1	-11.5
Malaysia (KLSE)	1,858.3	+0.6	+3.4	+5.5
Pakistan (KSE)	42,301.2	-3.4	+4.5	-0.2
Singapore (STI)	3,533.1	-0.4	+3.8	+3.4
South Korea (KOSPI)	2,459.8	+0.6	-0.3	-1.0
Taiwan (TWI)	10,897.6	+1.8	+2.4	+2.0
Thailand (SET)	1,750.6	-0.4	-0.2	+1.2
Argentina (MERV)	31,660.6	+13.4	+5.3	-17.1
Brazil (BVSP)	86,536.9	+2.7	+13.3	+2.0
Chile (IGPA)	28,957.4	+1.4	+3.5	+1.0
Colombia (IGBC)	12,366.1	-0.6	+7.7	+11.9
Mexico (IPC)	46,419.8	+0.3	-5.9	-6.7
Peru (S&P/BVL)*	20,952.9	+18.1	+4.9	+4.1
Egypt (EGX 30)	16,993.2	-2.7	+13.1	+12.4
Israel (TA-125)	1,352.7	+1.9	-0.9	-4.1
Saudi Arabia (Tadawul)	8,039.3	+2.0	+11.3	+11.3
South Africa (JSE AS)	58,621.8	+1.2	-1.5	-2.2
Europe (FTSEurofirst 300)	1,543.4	+0.2	+0.9	-1.0
World, dev'd (MSCI)	2,123.0	+0.6	+0.9	+0.9
Emerging markets (MSCI)	1,155.1	+1.0	-0.3	-0.3
World, all (MSCI)	517.0	+0.7	+0.8	+0.8
World bonds (Citigroup)	938.3	-0.8	-1.2	-1.2
EMBI+ (JPMorgan)	792.4	+0.7	-5.2	-5.2
Hedge funds (HFRX)	1,273.1‡	+0.3	-0.2	-0.2
Volatility, US (VIX)	13.4	+13.4	+11.0	(levels)
CDSs, Eur (iTRAXX)†	56.4	-0.2	+25.0	+22.7
CDSs, N Am (CDX)†	60.8	-0.8	+23.9	+23.9
Carbon trading (EU ETS) €	15.2	+4.0	+86.7	+83.3

Sources: IHS Markit; Thomson Reuters. *Total return index.
†Credit-default-swap spreads, basis points. ‡May 15th.

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