

The Economist

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DECEMBER 15TH-21ST 2018

Very rocky



The Economist

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The world this week

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KAL's cartoon.

Politics this week



Dec 13th 2018

Theresa May, Britain's prime minister, survived a vote of no confidence in her leadership of the Conservative Party. The vote, which she won with the backing of 200 MPs to 117, had been called by a group of Tory rebels opposed to her proposed deal to withdraw from the EU, which does not deliver the hard **Brexit** that they want. To quell the uprising, Mrs May promised to step down as prime minister before the next election in 2022. She had earlier postponed a crucial vote in Parliament on the deal, which has little support among MPs from all parties. See [article](#).

Emmanuel Macron again bowed to the *gilets jaunes* protesters who have been thronging **French** streets for the past month. Having already agreed to cancel a planned increase in fuel duty, the president went further, promising a €10bn (\$11.4bn) package to help the hard-up. More demonstrations are promised, but a poll showed that most French voters approved of his offer. See [article](#).

The day after Mr Macron addressed the nation, a gunman, believed to have been on a terrorist watchlist, opened fire on people at the Christmas market in

Strasbourg, killing two. The suspect escaped.

Annegret Kramp-Karrenbauer was chosen as the new leader of **Germany's** Christian Democratic Union. She is a protégé of Angela Merkel, who remains chancellor for now. See [article](#).

Nikol Pashinyan, who was catapulted into the prime ministership in **Armenia** by a wave of protests earlier this year, enjoyed another big victory when his political bloc won over 70% of the vote in a parliamentary election. See [article](#).

Changing the gatekeeper

Donald Trump announced that John Kelly would step down as White House **chief of staff** by the end of the year. Mr Kelly, a former marine general, was credited with bringing a modicum of discipline to the presidential office. Nick Ayers, Mr Trump's first choice to replace Mr Kelly, turned down the job, saying he wanted to move back to Georgia with his family. See [article](#).

Following the defenestration of Jeff Sessions, Mr Trump nominated William Barr as his new **attorney-general**. Mr Barr is returning to the job he held for 14 months under George H.W. Bush. He backs the notion of a strong executive, which could provoke a clash with the special counsel's investigation. Mr Trump's pick to succeed Nikki Haley as America's **ambassador to the un** is Heather Nauert, a former journalist and flack for the State Department. See [article](#).

Michael Cohen, Mr Trump's former lawyer, was sentenced to three years in prison for lying to Congress, among other things. Mr Cohen is co-operating with prosecutors and has alleged that Mr Trump asked him to pay hush money to two women who claim to have had flings with the president. See [article](#).

Sensitive to criticism

A court in **Rwanda** dismissed "baseless" charges of insurrection and forgery brought against Diane Rwigara, a dissident. The prosecution said it would appeal. In 2017 Ms Rwigara was barred from running for election against President Paul Kagame. Also, when she announced her intention to run,

hacked naked photos of her promptly appeared on the internet. Mr Kagame won with 98% of the vote.

Joseph Kabilo, the president of the **Democratic Republic of Congo**, refused to rule out standing for election again in 2023 as allowed by the constitution (though he cannot contest elections scheduled for December 23rd). Mr Kabilo, who has ruled since 2001, was supposed to have stood down by the end of 2016. See [article](#).

At least two people were killed in **Togo** amid demands by the opposition for constitutional changes to limit the number of terms that presidents can serve. The current leader, Faure Gnassingb  , has run the country since 2005 when he took over from his father, who had ruled since taking power in a coup in 1967 until his death.

Sweden hosted talks between the government of **Yemen** and the Houthi rebels. The two sides agreed to some confidence-building measures, such as the exchange of thousands of prisoners and the reopening of the airport in Sana'a, the Houthi-controlled capital. But fighting on the ground continues. See [article](#).

Turkey said it would launch a new offensive in **Syria** against Kurdish militias that are backed by America. The Kurds control swathes of north-east Syria, which borders Turkey. Turkey says the Kurdish militias are part of a terrorist group. The move risks bringing Turkey and America into direct conflict.

Back in the game



PA

Congress, **India's** main opposition party, won elections in three states that had previously been controlled by the Bharatiya Janata Party, which runs the national government. The results suggest that next year's national election will be more competitive than had previously been assumed. See [article](#).

Australia's parliament approved a law that allows the government to demand that tech firms give access to encrypted online communications, even if the firms have designed their services so that they themselves do not have access to their customers' conversations. Tech firms said the law is unworkable. See [article](#).

Japan's parliament voted to allow more than 250,000 foreign workers into the country to help ease a labour shortage. The government insists the measure is not a step towards large-scale immigration, as the new arrivals will only be given five-year visas.

Chinese police reportedly arrested a prominent **Protestant pastor**, Wang Yi, and members of his unauthorised church in the city of Chengdu. He has reportedly been accused of inciting subversion. In 2006 Mr Wang met George W. Bush in the White House.

Also arrested in **China** were ten people accused of a “serious attack” on police officers during a protest in October in Pingdu, a northern city. The demonstrators included army veterans who were calling for better benefits.

Rubber meets road

Goodyear, a tyremaker, said it would halt production in **Venezuela**, blaming economic conditions. It is the latest in a series of international companies to leave the country, which has seen its economy shrink by half since 2014. Workers will receive ten tyres as severance pay.

Cuba announced last-minute changes to unpopular new rules for entrepreneurs, which recently came into effect. Regulations that barred people from having more than one business licence, set an upper limit of 50 patrons in restaurants, and required businesses to deposit 80% of their earnings into bank accounts were dropped or loosened, to general relief.

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Business this week

Dec 15th 2018

Officials from **America** and **China** began negotiations in the hope of reaching a trade deal before March 1st and thus avoid another round of punishing tariffs. China reportedly agreed to reduce tariffs on imports of American cars from 40% to 15%, though it was unclear when that might happen. American exports of vehicles to China have fallen sharply since the imposition of retaliatory duties. See [article](#).

A spanner in the works

The chief financial officer of **Huawei**, a Chinese technology company suspected in the West of having deep ties to the Chinese army, was granted bail in Canada following her arrest at the request of the United States. Prosecutors seeking to extradite Meng Wanzhou to America allege that she misled financiers about using an affiliate to do business with Iran in violation of sanctions. Donald Trump suggested that he may intervene in the case if it threatened to scupper a trade deal with Beijing. China, meanwhile, detained a former Canadian diplomat, which many observers think is a reprisal for Canada's actions. A second Canadian was also detained. See [article](#).

A court in China declared that **Apple** had violated two patents belonging to **Qualcomm**, and that it had slapped a temporary ban on selling older iPhone models in the country. Qualcomm hailed the decision as a victory in its sprawling global battle with Apple over intellectual property.

Prosecutors in Tokyo brought their first charges against **Carlos Ghosn**. The architect of the Nissan-Renault-Mitsubishi carmaking alliance is accused of underreporting his pay at Nissan by half in the five years to March 2015, and is under investigation for doing the same in the three years to March 2018. Nissan has also been indicted. Mr Ghosn, who has been sacked by Nissan, was refused bail and will probably remain in custody until at least the end of the year.

Urjit Patel resigned as the governor of **India's central bank** amid a spat with

the government, which has put pressure on the bank to ease its curbs on lending ahead of a general election next year. The government also wants the Reserve Bank of India to transfer more of its surpluses to the public purse. The new governor is Shaktikanta Das, who headed the Department of Economic Affairs during the government's abrupt withdrawal of large-denomination banknotes from circulation in 2016, causing a shortage of cash. See [article](#).

OPEC and Russia decided to reduce **oil production** by 1.2m barrels a day. The vast bulk of the cuts will be made to output from Saudi Arabia, which wants to use the revenue from the resulting higher oil prices to balance its budget. That incentive overrode pleas from Donald Trump to maintain current production levels in order to keep oil prices low.

Britain's ground-breaking infrastructure project, **Crossrail**, received another bail-out, its third this year. The rail line connecting east to west London has been beset by various delays and is now expected to miss its revised launch date in 2019. The problems have made it less likely the £30bn (\$38bn) Crossrail 2 project, which would run from south to north London, will go ahead.

Turkey

GDP, % change on a year earlier



Source: Haver Analytics

The Economist

Turkey's GDP grew by just 1.6% year-on-year in the third quarter, the slowest pace since the aftermath of an attempted army coup in 2016. Construction, which accounts for a tenth of the economy, shrank by 5.3%. The country has endured a run on the lira for most of 2018. The government said that demand had “lost its momentum due to diminishing opportunities to secure foreign financing”.

After lengthy legal proceedings, a court in London decided that **Vijay Mallya** could be extradited to India, where he faces criminal charges, which

he denies, related to the collapse of his Kingfisher Airlines. Mr Mallya, known in his home country as the “King of Good Times” for his many interests and lavish lifestyle, fled to Britain in 2016. He can appeal against the court’s decision.

SoftBank priced the IPO of its Japanese telecoms business at ¥1,500 (\$13.20) a share, which it hopes will raise ¥2.65trn (\$23.5bn) when trading starts on December 19th. That will be Japan’s biggest-ever stockmarket debut, and worth only marginally less than Alibaba’s IPO in 2014, the world’s biggest.

Verizon wrote down \$4.6bn from its Oath division, which houses *AOL*, bought by Verizon in 2015, and **Yahoo**, acquired in 2017. The growth that the new owner had hoped for never materialised. Oath is now worth around \$200m.

Muzzled

Emotional-support animals are to be banned from flights lasting longer than eight hours by Delta Air Lines. That follows a rise in complaints of beastly behaviour, such as defecating in the aisles and biting. One man needed 28 stitches after he was mauled in his window seat by a large dog that was sitting on a fellow passenger’s lap to provide him with a sense of calm.

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KAL's cartoon



Economist.com

Kal

Dec 13th 2018

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Leaders

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How the 0.001% invest. The family offices through which the world's wealthiest 0.001% invest are a new force in global finance that few have heard of.

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The real lesson from Theresa May's bruising week. Safe from further coups, the prime minister should put her plan to a vote—and then to a referendum.

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Can anyone stop Congo's president from doing a Putin?. President Joseph Kabila wants to install a pliant successor to keep the throne warm.

Investing and the super-rich

How the 0.001% invest

The family offices through which the world's wealthiest 0.001% invest are a new force in global finance that few have heard of



Benedetto Cristofani

Dec 15th 2018

THINK OF THE upper echelons of the money-management business, and the image that springs to mind is of fusty private banks in Geneva or London's Mayfair, with marble lobbies and fake country-house meeting-rooms designed to make their super-rich clients feel at home. But that picture is out of date. A more accurate one would feature hundreds of glassy private offices in California and Singapore that invest in Canadian bonds, European property and Chinese startups—and whose gilded patrons are sleepwalking into a political storm.

Global finance is being transformed as billionaires get richer and cut out the middlemen by creating their own “family offices”, personal investment firms that roam global markets looking for opportunities. Largely unnoticed, family offices have become a force in investing, with up to \$4trn of assets—more

than hedge funds and equivalent to 6% of the value of the world's stockmarkets. As they grow even bigger in an era of populism, family offices are destined to face uncomfortable questions about how they concentrate power and feed inequality.

The concept is hardly new; John D. Rockefeller set up his family office in 1882. But the number has exploded this century. Somewhere between 5,000 and 10,000 are based in America and Europe and in Asian hubs such as Singapore and Hong Kong. Though their main task is to manage financial assets, the biggest offices, some with hundreds of staff, undertake all sorts of other chores, from tax and legal work to acting as high-powered butlers who book jets and pamper pets.

The costs of bringing such expertise in-mansion means that they generally make sense only for those worth over \$100m, the top 0.001% of the global pile. Asian tycoons such as Jack Ma of Alibaba have created their own fiefs. The largest Western family offices, such as the one set up by George Soros, an investor and philanthropist, oversee tens of billions and are as muscular as Wall Street firms, competing with banks and private-equity groups to buy whole companies.

Every investment boom reflects the society that spawned it. The humble mutual fund came of age in the 1970s after two decades of middle-class prosperity in America. The rise of family offices reflects soaring inequality. Since 1980 the share of the world's wealth owned by the top 0.01% has risen from 3% to 8%. As the founders of family firms receive dividends or the proceeds of initial public offerings, they usually redeploy the cash. But since the financial crisis there has been a loss of faith in external money managers. Rich clients have taken a closer look at private banks' high fees and murky incentives, and balked.

These trends are unlikely to fade, as our Briefing explains. The number of billionaires is still growing—199 newbies made the grade last year. In the emerging world older entrepreneurs who created firms in the boom years after 1990 are preparing to cash out, while in America and China younger tech entrepreneurs may soon float their companies, releasing a new wave of cash to reinvest. Family offices' weight in the financial system, therefore, looks likely to rise further. As it does, the objections to them will rise

exponentially. The most obvious of these is the least convincing—that family offices have created inequality. They are a consequence, not its cause. Nonetheless, there are concerns—and one in particular that is worth worrying about.

The first is that family offices could endanger the stability of the financial system. Combining very rich people, opacity and markets can be explosive. LTCM, a \$100bn hedge fund backed by the super-rich, blew up in 1998, almost bringing down Wall Street. Scores of wealthy people fell for a Ponzi scheme run by Bernie Madoff that collapsed in 2008. Still, as things stand family offices do not look like the next disaster waiting to happen. They have debt equivalent to 17% of their assets, making them among the least leveraged participants in global markets. On balance, they may even be a stabilising influence. Their funds are usually deployed for decades, making them far less vulnerable to panics than banks and many hedge funds.

The second worry is that family offices could magnify the power of the wealthy over the economy. This is possible: were Bill Gates to invest exclusively in Turkey, he would own 65% of its stockmarket. But the aim is usually to diversify risk, not concentrate power, by taking capital from the original family business and putting it into a widely spread portfolio. The family-office industry is less concentrated than mainstream asset management, which a few firms such as BlackRock dominate. Compared with most fund managers, family offices have welcome habits, including a longer-term horizon and an appetite for startups.

It is the third danger that has most bite: that family offices might have privileged access to information, deals and tax schemes, allowing them to outperform ordinary investors. So far there is little evidence for this. The average family office returned 16% in 2017 and 7% in 2016, according to Campden Wealth, a research firm, slightly lagging behind world stockmarkets. Nonetheless, tycoons are well connected. Family offices are becoming more complex—a third have at least two branches—making tax wheezes easier. Hungry brokers and banks are rolling out the red carpet and pitching deals with unlisted firms that are not available to ordinary investors. If all this did lead to an entrenched, unfair advantage, the effect, when compounded over decades, would make wealth inequality disastrously worse.

The rich discover do-it-yourself

The answer is vigilance and light. Most regulators, treasuries and tax authorities are beginners when it comes to dealing with family offices, but they need to ensure that rules on insider trading, the equal servicing of clients by dealers and parity of tax treatment are observed. And they should prod family offices with assets of over, say, \$10bn to publish accounts detailing their workings. In a world that is suspicious of privilege, big family offices have an interest in boosting transparency. In return, they should be free to operate unmolested. They may even have something to teach hordes of flailing asset managers who serve ordinary investors, many of whom may look at their monthly fees and wish that they, too, could ditch the middlemen.

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Very rocky

The real lesson from Theresa May's bruising week

Safe from further coups, the prime minister should put her plan to a vote—and then to a referendum



Dec 13th 2018

DESPERATE, NO-HOLDS-BARRED scrapping has become Britain's day-to-day mode of government. On December 10th a landmark vote on Theresa May's Brexit deal was cancelled at the last minute, ambushing ministers who were giving live-broadcast interviews confirming that it would definitely go ahead. The next day Mrs May began a tour of Europe, promising to get better terms on the deal, only to be politely rebuffed in every capital she visited. The prime minister came home to find her own Conservative Party planning a vote of no confidence in its leader. She won, but only after promising that she would step down before the next election. Even then, 117 of 317 Tory MPs voted against her.

It is a grim spectacle, but the upshot of the latest bruising episode is that Mrs May staggers away bloodied to fight another round. Under the Tory party's

rules, having seen off the attempted coup, she is immune from further internal challenges for a year. The hardline Brexit bullies in her party have been shown up for the reckless obsessives they are. But the more abiding truth for Mrs May is the scale of the rebellion, which has demonstrated that she has no realistic hope of getting her plan for Brexit through Parliament. And it is not just her plan: none of the possible Brexits commands a majority of MPS.

Mrs May needs to recognise that she and the country have only one way out of this impasse. That is to go over the heads of MPS and ask the people directly.

This week's coup attempt was Westminster's worst-kept secret. MPS from the European Research Group of Tory Eurosceptics had been trying to gather the 48 signatures needed to trigger a no-confidence vote in Mrs May ever since it became clear that she wants a "softer" exit from the EU than the radical separation they demand.

Her deal, which the EU has already signed off but which Parliament must still approve, would keep the entire United Kingdom in a customs union and extensive regulatory alignment until both sides had settled on a comprehensive new relationship, which might take years. During that time, Britain would be subject to European rules and unable to sign its own trade deals. Hard-Brexiters say this compromise amounts to vassalage, but they have failed to come up with any alternative plan able to win over their colleagues in Parliament.

With the failure of their rebellion, Britain dodged a blow to the head. Had Mrs May lost, the Tories' 124,000 party members would have chosen a new leader—and thus a new prime minister—to see Brexit through. They may well have picked the more Eurosceptic of the shortlisted candidates, increasing the chance of a bad-tempered, chaotic and ruinous no-deal exit.

It is also welcome that, in order to pick up enough votes, Mrs May had to promise to quit before the next election, due in 2022. She has proved a poor prime minister and a disastrous campaigner. Her planned departure, along with the defeat of the Brexit monomaniacs, ought to accelerate the promotion of the promising next generation of Tory MPS, to replace the duds who have

served the country so ineptly.

All this means that Mrs May’s premiership now has but one purpose—and it is a monumental one: to steer a split party and a minority government through the most complex and divisive peacetime transition in modern British history.

The danger is that Mrs May, a serial postponer, will try to run down the clock to within a couple of months of Brexit day on March 29th. She might calculate that Parliament will then have little choice but to back her deal, because the alternative will be leaving with a calamitous no-deal.

Such a gun-to-the-head Brexit would guarantee rancour and unhappiness across Britain for years to come. Fortunately Mrs May is unlikely to be able to bring it about. For almost two years she put off spelling out the compromises that Brexit necessarily involves, in the hope that the extremists in her party would cool off. They didn’t. This week’s confidence vote makes it clearer than ever that waiting another month or two will not magically create a majority in favour of her agreement.

Dogged and persistent as she is, she must recognise that the parliamentary arithmetic is hopeless. Labour and other opposition parties are set against her blueprint, as are more than 100 of her own Tory MPs—Brexiteers and Remainers alike. Mrs May’s European travels this week have confirmed that she has little prospect of winning enough changes to satisfy the rebels. The deal is no more alive than it was when the government postponed the vote in a panic on Monday.

If Mrs May wants her agreement to prevail, she must call a second referendum. The block in Parliament is caused by the conflicting claims to democratic legitimacy of elected MPs and the referendum of 2016. The prime minister insists that her compromise is the only workable way to respect the will of the people, as expressed in that vote two and a half years ago. MPs, elected by those same people only last year, counter that her plan bears too little resemblance to the campaign on which the referendum was fought—either because a “real” Brexit should be harder, or because the entire prospectus has been shown up as hollow. Rather than try to square this circle with pointless political street-fighting, Parliament should accept that the only way to know what the people want is to ask them.

Many Conservative MPs are dead against a second referendum (though a lot of them voted for Mrs May in 2016 only to demand the chance to think again this week). Now that they have used up their one shot at deposing Mrs May, she can call a parliamentary vote on her deal without the risk of being brought down by her own side. Heavy defeat could still provoke a no-confidence motion by the Labour Party. But few if any Tory MPs, or those of the allied Democratic Unionist Party, want to see a Labour government, let alone one led by the far-left Jeremy Corbyn.

When that parliamentary vote fails, she will be justified in proposing a new plebiscite. Many in Labour would back her. If Mrs May truly believes that her deal is what the country voted for, a fresh referendum should hold no fear for her. Now that getting out of the EU has a definition, it is manifestly in the interests of the country to have a say on whether it still wants to leave. This week, more than ever, the chaos in Westminster points to the need to go back to the people.

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Reculer pour mieux sauter

Emmanuel Macron seems to be surrendering. Or is it tactical retreat?

France's president has tried to buy off his critics. He needs to do much more



AP

Dec 13th 2018

WHAT SORT of leader surrenders to the crowd? Any French president of the modern era, you might reply. On December 10th a queasy-looking Emmanuel Macron joined the long list of presidents who have been thrown off course by street protests. Hoping to placate the mob, he promised to increase the take-home pay of minimum-wage earners by 8%, to let workers get overtime pay and Christmas bonuses tax-free and to revoke higher social charges on modest pensions. That was his second U-turn in less than a week. On December 6th the government had cancelled the rise in fuel duty that had provoked the *gilets jaunes* (yellow jacket) protests. The direct cost of Mr Macron's climb-down is about €10bn (\$11bn), or around 0.4% of GDP a year. This threatens to send the French budget deficit crashing through the Maastricht limit of 3%, further setting back French hopes for deepening the euro zone. Mr Macron's finance minister has vowed to find cuts to offset the extra spending.

To many, Mr Macron now looks like a president who can be cowed by flying bricks and sagging polls. His ability to bring about further reform is seriously, perhaps fatally, compromised. The *gilets jaunes*, having scented weakness, will surely press for more. A fifth successive Saturday of protest is now promised for December 15th. In a televised address Mr Macron admitted that he had been slow to acknowledge the hardships faced by ordinary people. He might have been more persuasive had he not recorded his speech in the grandest room in the Elysée palace, sitting behind a gilded desk.

And yet, in important ways, Mr Macron held firm. He insisted that he will not reverse an early decision to scrap France's wealth tax. This infuriates many of the protesters, who call him the "president of the rich". But it was right. Although Mr Macron never managed to convince voters of this, taxes on the rich had been raised to ludicrous levels by his Socialist predecessor, François Hollande. The wealth tax was routinely dodged and raised little money, but it helped scare off mobile wealth-creators. Just as scrapping the tax signalled that France was open for business, a U-turn would have suggested it had once again shut its doors.

Even more important, Mr Macron gave no hint that he would delay or ditch any of his crucial labour-market overhaul (see [article](#)). Although this is not perfect, it has stripped away some of the rules that cosset workers who already have jobs but deter companies from hiring new staff. The reform caps the size of unfair-dismissal awards and curbs the power of labour unions to impose industry-wide agreements on hours, pay and overtime. Already, these changes seem to be boosting employment. If Mr Macron had backtracked, investors would have concluded that France was as unreformable as Italy.

To have a chance of enacting the rest of his agenda, Mr Macron must persuade voters that this week's shifts in policy were not a surrender but a tactical retreat. Much of the €10bn he is giving the left-behind is in the form of a wage subsidy for low-paid workers, which boosts their incomes without eroding the incentive to work. This is a good idea; indeed, he should have done it at the start of his presidency.

Other changes will be less popular, but they are just as necessary. Mr Macron wants to simplify and curb the growth of France's unsustainable pension system. Inevitably that will require workers to toil longer or receive smaller

pensions than they had been expecting. Faster economic growth would ease the pain, and would be easier if the French state was smaller. The government spends 56% of GDP each year, one of the world's highest shares. It also owns stakes in almost 100 firms, most of which ought to be fully privatised.

None of these reforms can be sold from behind a gilded desk. Mr Macron needs to roll up his sleeves and explain to people in plain, un-haughty terms why his plans will make France better off. If he cannot manage that, he will fail.

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A new Powell doctrine

The Fed needs a new strategy for 2019

As growth slows and markets wobble the central bank must take care

Dec 15th 2018



The Economist

JEROME POWELL, chairman of the Federal Reserve, says “basically everything” keeps him up at night. As well it might. The fiscal stimulus from President Donald Trump’s tax cuts, which in 2018 has shielded America from a global economic slowdown, will soon begin to subside. The president’s trade war is sapping confidence. The S&P 500 index has fallen by almost 10% in a little over two months as growth expectations have ebbed. The difference between yields on short-term and ten-year bonds, which typically turns negative before recessions, has fallen close to zero, spooking investors. To cap it all, the president has been attacking the central bank for raising interest rates, which it has done three times this year to try to ward off inflation.

Mr Powell seems to have wavered under the pressure. In October he hinted that investors should expect many more rate rises before the Fed’s work was complete; in November he suggested that hardly any more are needed. Mr

Powell is rooting around for a doctrine because the one he inherited when he took over the job in February, which calls for monetary policy to tighten roughly once a quarter, is becoming obsolete. A rate rise remains likely at the Fed's upcoming meeting, which concludes on December 19th. But it will probably be the last on a predictable schedule. In 2019 a fresh course will be needed—one that is fit for a new phase in the economic cycle.

The Powell doctrine should be centred on humility. The Fed's rate-setters have for years justified rate rises with predictions that America's jobs boom would soon turn inflationary. Yet even with unemployment at just 3.7%, core inflation—the measure that matters most—is slightly below target and falling. Headline inflation is on target, but may soon be dragged down by a falling oil price. Inflation expectations have fallen slightly. As the horizon darkens, rate rises will need weightier justification than an inflation risk that has been perennially exaggerated.

The central bank has a record of dangerous complacency late in economic cycles. Before the past two recessions it raised rates, pointing to low unemployment, despite signs in bond markets of a coming slowdown. Optimists explained away traders' apparent pessimism using arguments that have started to crop up again today. In reality, markets were ahead of policymakers, as they probably will be the next time trouble strikes. Economists typically fail to predict downturns until they are imminent (see [Graphic detail](#)).

The Fed's poor forecasting record has implications for monetary policy. Rate-setters should rely less on predictive models and more on realised economic and financial data. They should also abandon their insistence that unemployment is already unsustainably low, a claim that is at odds with the evidence and which will lead the central bank to hit the brakes too hard. And the Fed should state that it expects to hold rates steady in 2019 unless circumstances change materially.

Mr Powell may well worry about overreacting to bad news. Growth will surely slow as fiscal stimulus wears off, so softening economic data, in the housing market say, do not justify panic. Mr Powell may also need to signal that he will not kowtow to Mr Trump. (Though the president would struggle to remove the Fed chairman over policy disagreements, it may be possible.)

Central banks do not exist to prop up stockmarkets—which can fall for reasons, such as waning euphoria, that are mostly unrelated to the objectives of monetary policy.

The right balance can be found by raising rates now while signalling a change of course for 2019. The American economy can cope with another rate rise. But if the central bank continues to tighten monetary policy at the current pace, it is likely to make a costly mistake before long. To avoid that fate, Mr Powell must develop his own doctrine for the Fed.

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Kremlinology in Kinshasa

Can anyone stop Congo's president from doing a Putin?

President Joseph Kabila wants to install a pliant successor to keep the throne warm



AFP

Dec 13th 2018

CONGO HAS many problems, but paying the pensions of ex-presidents has never been one of them. Since independence in 1960 all its leaders have either died horribly in office or soon after being overthrown. Patrice Lumumba, its first prime minister, was murdered after less than a year in power. Mobutu Sese Seko, who ruled larcenously from 1965 to 1997, died of cancer shortly after being driven from his sumptuous palaces. Laurent Kabila, the Rwandan-backed rebel who toppled him, was shot by a bodyguard in 2001. His son Joseph has ruled ever since. But on December 23rd an election is due to be held, and Mr Kabila *fils* is not standing. It will be the first time that Congolese voters have peacefully replaced their head of government.

You might expect them to celebrate. Though less ghastly than Mobutu or indeed his own father, Mr Kabila has been a dismal president. His regime is

filthier than the untreated water that most Congolese drink. It barely governs the east of the country. It has failed to keep the peace in the centre, where 4.5m people have fled their homes to avoid men with guns and machetes. Mr Kabila tried to change the constitution to allow himself to remain in office. But unlike the presidents of neighbouring Rwanda, Uganda, Burundi and Congo-Brazzaville, he failed. Surely his departure is cause for cheer, even if it comes two years after he was legally supposed to have stepped down?

Alas, it is not so simple. The election will be unfair, perhaps farcical. The main opposition candidate, Moïse Katumbi, a former governor of Katanga province, was barred from entering the country to register his candidacy. Without him, the opposition has fragmented. In parts of the country afflicted by fighting, Ebola or both, many voters will be too scared to turn out. Most Western observers have been banned. Mr Kabila's handpicked successor, Emmanuel Ramazani Shadary, is likely to win.

Little about Mr Shadary inspires optimism. When he was interior minister, protests were crushed with such brutality that he is now under European Union sanctions. He lacks a personal power base. Mr Kabila is thought to have picked him in the hope that he will be like Dmitry Medvedev, Vladimir Putin's sidekick, who kept Russia's throne warm for a few years until the big man was constitutionally allowed to come back. In an interview with *The Economist*, Mr Kabila refused to rule out running again in 2023 (see [article](#)).

Still, puppets sometimes cut their strings, as Rwanda found out with Mr Kabila's father, and as Angola's ruling family found out when José Eduardo dos Santos, who had misruled since 1979, handed the presidency to João Lourenço in 2017. Mr dos Santos and his children have now been sidelined; Mr Lourenço has vowed to uproot the old regime's staggering corruption.

Congo will not improve until its leaders allow it to. There is only so much that outsiders can do, but the first task is to help make the election less ridiculous. Observers from the region should be intrusive. The 19,000 UN peacekeepers in Congo are barred from helping with the election's logistics, but they could widen the areas where people feel safe enough to vote. The fact that the ballot is happening at all is thanks to pressure from other African countries, which did not want to see Congo implode under a dictator-for-life. Western sanctions have helped, too. If Mr Shadary wins, the pressure should

stay until it is clear that he wants change. Donors should not shell out unless a new regime proves serious about reform, starting with cleaning up Gécamines, the abysmal state-controlled mining giant, which pays the bills. That is a remote hope, but hope is all Congo has.

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Letters

. **[Letters: Letters to the editor](#)** [Fri, 14 Dec 04:44]

Letters to the editor. On competition, housing, the IMO, Bangladesh, Sacha Baron Cohen.

Letters

Letters to the editor

On competition, housing, the IMO, Bangladesh, Sacha Baron Cohen

Dec 15th 2018

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

Monopoly games

Your fears about emerging monopolies are overblown (Special report on competition, [November 17th](#)). Monopolies have been as ephemeral as classical economics would predict. That is unless they benefit from a government scheme to keep out competition, such as the championing of AT&T during the 20th century. Once state support for AT&T's monopoly status was removed, the phone market became cut-throat.

One of the last acts of Lyndon Johnson's administration was to file an antitrust suit against IBM. Described by Robert Bork as the antitrust division's Vietnam, the suit was dismissed in 1982 during the Reagan administration. A few years after the launch of the Apple II computer, IBM was no longer feared as a monopolist. People used to worry that Microsoft's Internet Explorer had a stranglehold on the browser market. Who thinks that today? In both cases, time and technological innovation played their roles.

Today some worry about Google and Facebook monopolising their spheres of the online world. But their days on the top will end. Consumers' preferences will change, or some unimagined technology will displace them. Consumers and capitalism would be better served if governments followed *The Economist*'s recommendations to lower barriers to enter markets and to eliminate incumbent-supporting rents. That is what causes monopolies.

ANDREW TERHUNE
Philadelphia

The kind of antitrust regulation that sought to control national monopolies has given way to transnationally linked intangibles, multinational

corporations and complex supply chains that cannot be properly regulated except by effective global processes. Yet here we are in a world where such processes are increasingly constrained not only by economic and technological changes, which reward oligopoly and rent-seeking, but by a hollowing out of the state's regulatory capacity in ways not seen since the medieval era.

All of this has been supported by the hegemony of neoliberal ideology. Where the necessary paradigm shift is going to come from is unclear. A severe shock that is worse than the financial crisis may be increasingly necessary.

PHILIP CERNY

Professor emeritus of politics,
University of Manchester

Build, build, build!

Free exchange ([November 24th](#)) argued that there is more to high house prices in Britain than constrained supply. Well, yes, and no. The underlying cause of housing unaffordability is constrained supply. Real house prices may have increased by 161% since 1996 but that year was a low point of the cycle. In Greater London they have roughly doubled in real terms in every decade since the green belt was imposed in 1955. If we had built in England between 1991 and 2016 at the rate we built between 1966 and 1991 we would have 2.2m more houses, an additional 63%.

Nor is it just too few houses. It is a critical lack of supply where people want to live and would be most productive. In 2017, 1,130 houses were built in Barnsley. In Oxford, surrounded by a green belt, only 130 houses could be built.

Since constraints on house building, coupled with rising real incomes, have generated such powerful upward pressure on prices, people have been conditioned to expect future price growth, both absolutely and relative to other assets. Houses became even more of an attractive investment after the financial crash, especially to small investors (the median landlord holds just one property). Rents are the price of "housing services". The demand for

these responds mainly to real incomes which have not risen since the crash. No wonder rents have fallen relative to prices: yields have adjusted.

It is the alchemy of British policy, a failure of supply and strategy over 40 years, which has turned houses into gold.

PROFESSOR PAUL CHESHIRE
London School of Economics

How the IMO works

Contrary to your leader (“Agency problems”, [November 24th](#)), voting rights at the International Maritime Organisation are strictly one country, one vote. No country has greater weight in voting power. The IMO Council consists of 40 members elected by the Assembly of 174 member states. There is no “automatic” right to a council seat. Indeed, some of the largest contributors to the budget are not currently members of the council.

Moreover, which individuals represent member states is a sovereign matter for the countries themselves. And media reporting has been authorised and encouraged for the plenary sessions of private meetings of the IMO’s technical bodies since 2004. Assembly meetings are public. Significant reforms to transparency were approved by the council last July.

In addition, the IMO’s adoption in April of an initial greenhouse-gas strategy which pledges to halve annual emissions from ships by 2050 (compared with 2008 levels) is proof that we are serious about ensuring safe, environmentally friendly shipping.

FREDERICK KENNEY
Director
Legal affairs and external relations
International Maritime Organisation
London

Politics in Bangladesh

The imprisonment of Khaleda Zia, a former prime minister of Bangladesh, has nothing to do with her political status (“Electoral troll”, [November 10th](#)),

but rather her involvement in an embezzlement of funds that were meant for an orphanage. Nor is it true that the current prime minister, Sheikh Hasina, pushed for the trial and execution of “old men” just because they fought against her father, Sheikh Mujibur Rahman, the founder of Bangladesh. Those “old men” were criminals convicted for their participation in genocide and crimes against humanity committed during Bangladesh’s liberation war in 1971. Do you oppose hunting down war criminals elsewhere just because they became “old men”?

The EU in its 2014 resolution strongly condemned the violence committed by the BNP-Jamaat, and the Federal Court of Canada declared BNP a terrorist organisation. You also ignored this fact.

Mischaracterising justice as mere political retribution is offensive to the memories of the 3m people who sacrificed their lives and 200,000 women who lost their honour for the freedom of Bangladesh. The trials were conducted under the complimentary principle of the Rome Statute, and followed the standards for any international war crimes and crimes against humanity.

MUHAMMAD ZULQAR NAIN
Minister (Press)
High Commission for Bangladesh
London

Scene stealers

It is true that Sacha Baron Cohen “set” a movie in Grimsby (Charlemagne, [November 24th](#)). But it was not filmed there. Most of the English scenes meant to represent Grimsby were filmed in Tilbury. The people of Grimsby were not thrilled with his depiction of their town, although presumably Mr Cohen need not fear for his safety as much as he did when filming “Borat”. The scenes depicting Kazakhstan in that film were wisely shot in Romania.

SUHAIL SULEMAN
Cape Town

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Briefing

. **[Family offices: Super-help for the super-rich](#)**

[Fri, 14 Dec 04:44]

Family offices become financial titans. The growing ranks of billionaires' in-house investment teams.

Super-help for the super-rich Family offices become financial titans

The growing ranks of billionaires' in-house investment teams

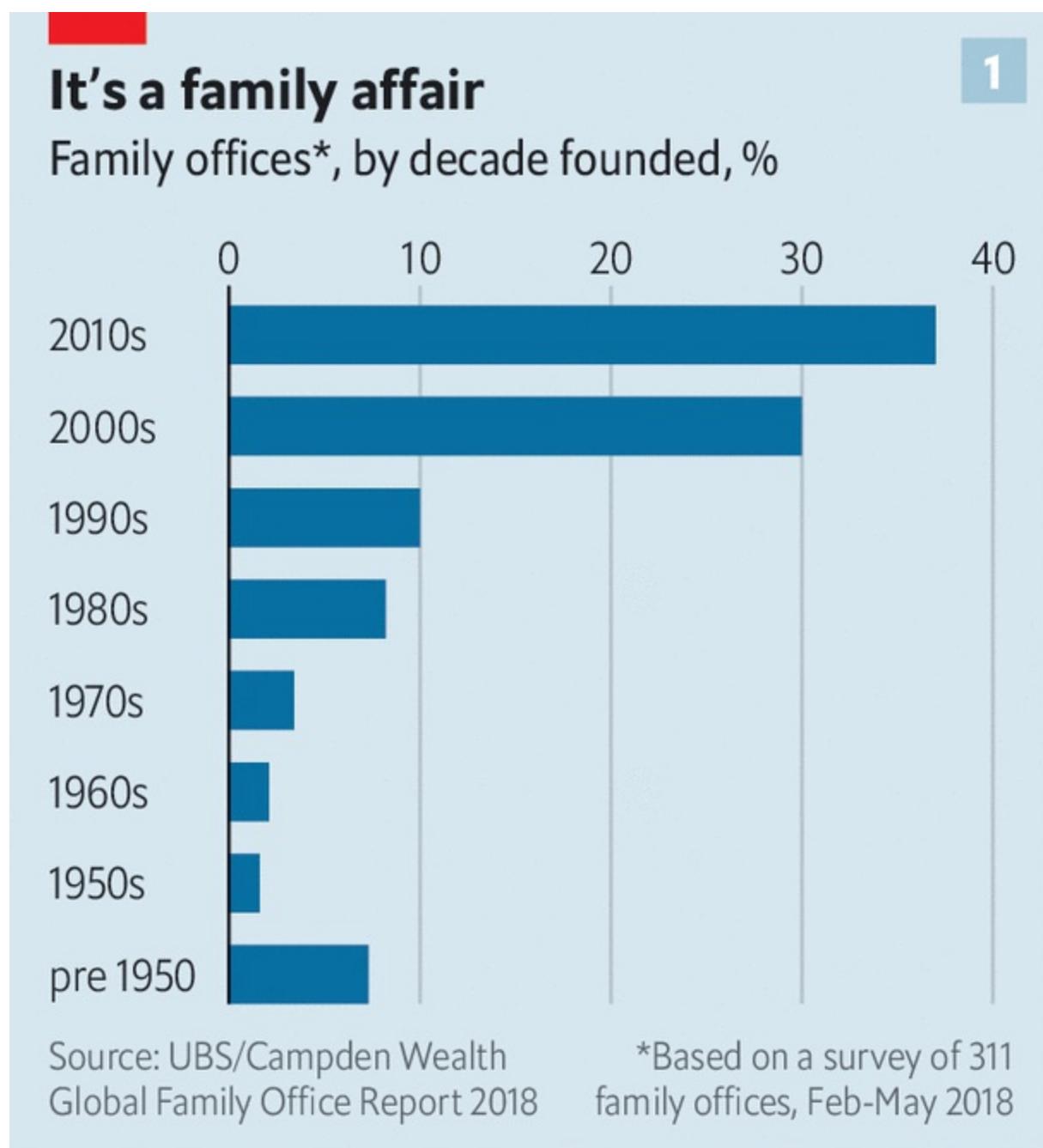


Dec 13th 2018 | DUBAI

HUSSEIN SAYED, a local anchor with CNBC, a TV network, beams from the stage as he welcomes participants to a conference on family offices (FOS) in Dubai. Among those present are billionaires and their offspring, advisers and money managers, and a smattering of investment-minded blue-bloods, including Prince Michael of Yugoslavia. “We think there may be over \$2trn represented in this room,” announces Mr Sayed, “though of course there’s no way of knowing.”

Now an essential part of every self-respecting billionaire’s stable, FOS are booming. Their roles include managing families’ wealth, administering their assets and often other services, from the mundane (paying bills) to the knotty (succession-planning). The biggest have become deal powerhouses, capable of competing with global banks and private-equity firms on big transactions. But they are also, by definition, private—and therefore little understood.

“We’re the most important part of the investment landscape most people have never heard of,” says one executive.



The Economist

The FO has its roots in the organisations that oversaw the fortunes of America’s 19th-century robber barons, such as J.P. Morgan and John D. Rockefeller. Several hundred have been in operation for at least three

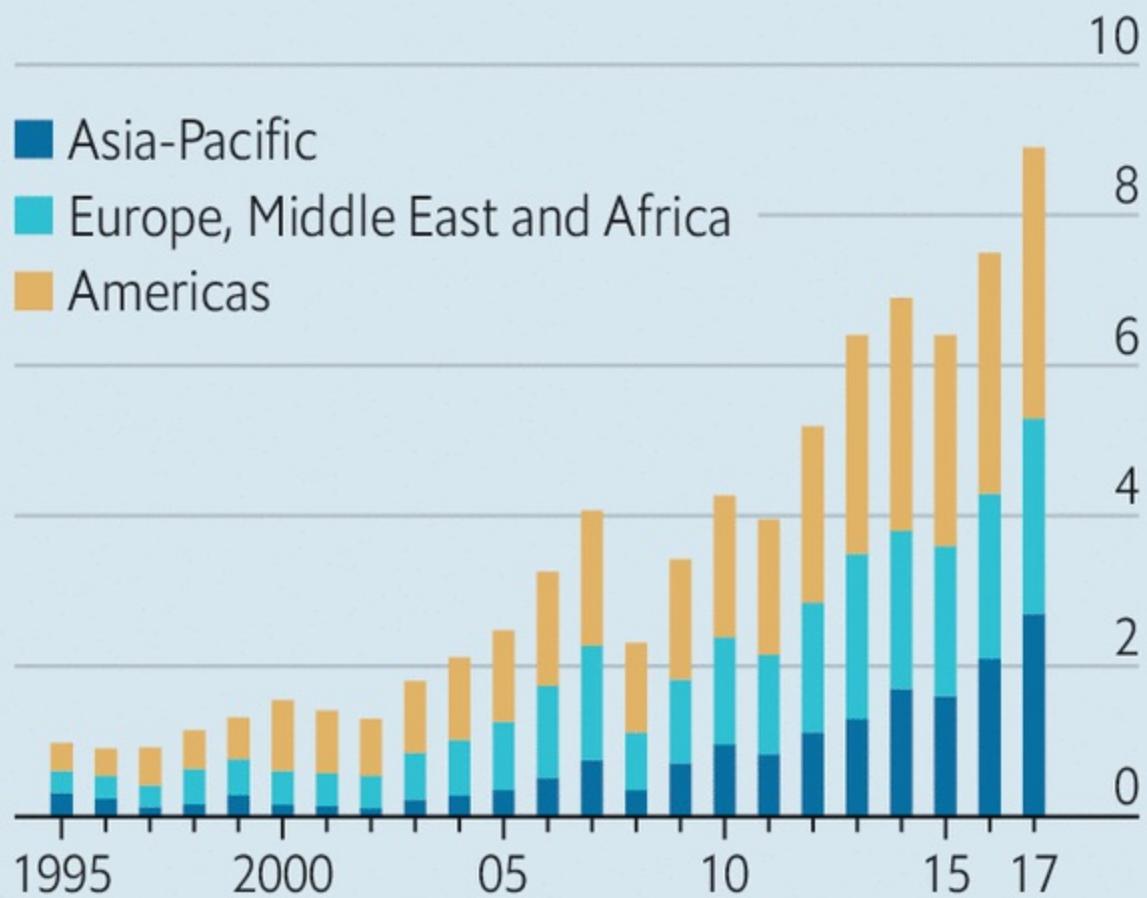
generations. Some now serve extended families with hundreds of members—over 600 in the case of France's Mulliez clan, owners of the Auchan hypermarket chain. Most, however, are recent creations. Of the 311 family offices that took part in the survey for the latest annual Global Family Office Report by UBS and Campden Wealth, published in September, more than two-thirds were established after 2000 (see chart 1) and over half are serving the first generation of wealth.

Keep it among kin

The wealthy of nations

2

Total wealth of billionaires, by region, \$trn



Source: UBS/PwC

The Economist

This spurt reflects an acceleration in the number of billionaires worldwide (see chart 2) and the wealth they control, now estimated at close to \$9trn. No one knows how much of that sits in FOS, but a reasonable guess is \$3trn-4trn. Several factors explain the growth. One is an increase in “liquidity events”: founders or their heirs cashing out of operating businesses, for instance through initial public offerings, and generating pools of cash that need managing. Another is fashion: newly minted billionaires, from Asia in

particular, feel increasingly that they are not full members of the club without one. A third factor, says Philip Marcovici, a wealth-management consultant, is disillusionment with third-party money managers, fuelled by scandals over opaque and abusive fees, and banks pushing their own expensive products, or those of partners, in return for kickbacks. “The feeling is that if you want the job done well, you have to take it in-house.”

The definition of an FO is slippery. Some investment firms with loose or no family connections claim the tag for reasons of cachet. Some big, more thrusting FOS reject it as sleepy-sounding, preferring “private investment firm”, “capital partnership” or the like. And no two dynasties’ priorities are the same, hence the old saw: “When you’ve seen one family office, you’ve seen one.” Most, though, fit into one of two categories. The purest form is the “single-family office” (SFO), often sprouting from a family-owned business and continuing to serve one family. It will, on average, have a dozen employees. Running costs are such that this only makes sense for families with at least \$100m-150m. Rebecca Gooch, Campden’s head of research, estimates there are about 5,300 SFOS, of which three-quarters are in North America or Europe.

“Multi-family offices” (MFOS), by contrast, serve more than one master. Most manage the affairs of a handful of families. The largest serve hundreds. Pooling costs makes them viable for clans with as little as \$25m. Some MFOS began as SFOS, branching out later in the search for growth. Others were established as multi-client businesses by third-party money managers. Mergers have created hybrids. London-based Stonehage Fleming was formed in 2014 when the office of Britain’s Fleming family (relatives of Ian Fleming, the creator of James Bond) merged with a fiduciary firm serving South African families that had fled the apartheid regime. It has some 250 families on its books.

Some MFOS act as a family’s sole FO, others as adjuncts. Sandaire, another London-based MFO, whose origins lie in the sale of Provincial, a British insurer, manages money for the former owners, the Scotts, and 31 other families. Some of these have their own FOS for some tasks while using Sandaire for others where it has expertise, such as asset allocation for stocks and bonds, says Alex Scott, the founder (and a great-grandson of Sir James

Scott, who set up Provincial).

The new buyout barons

This diversity means that FOS vary in size. The average one oversees \$500m-1bn. The biggest, mostly SFOS, administer far more. George Soros's manages \$25bn. Other giants include Pritzker Group, run by scions of the family behind the Hyatt hotel chain, and JAB, owned by Germany's Reimann family, whose holdings include Keurig Dr Pepper and other food and drink brands—though both prefer to see themselves as diversified investment firms and eschew the FO tag. The very biggest have hundreds of employees and engage in a dizzying array of activities besides managing money (or selecting outside managers to do so). This can include tax and legal services, compliance, cyber-security and monitoring invoices (yacht firms are notorious for overcharging if they think bills will not face close scrutiny).

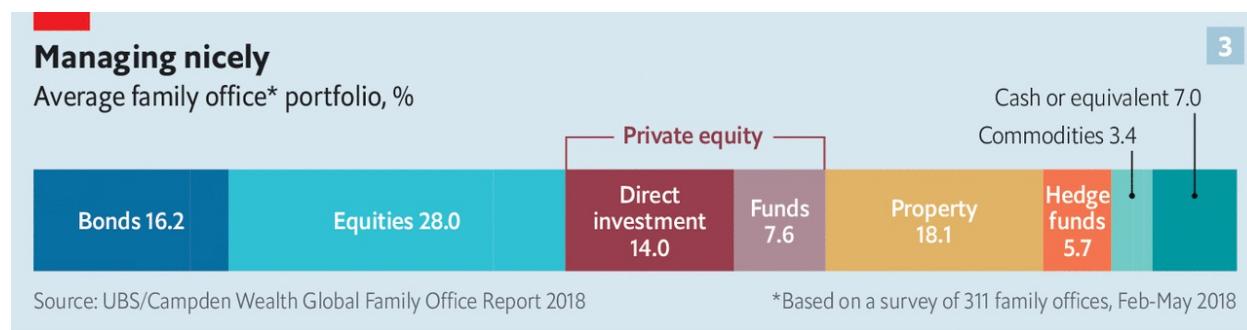
Some also offer more personal “concierge” services, such as arranging travel (down to ensuring limos are stocked with the right drinks), help with sensitive family issues, such as navigating marriage (pre-nups) or divorce, or preparing the next generation to take over. Some also help with the family's philanthropy, though most billionaires have separate charitable foundations to co-ordinate their giving.

At the top end of the industry, the aim is to offer the families whatever they need, whenever they need it, says Giuseppe Ciucci, Stonehage Fleming's boss. The role of the FO has evolved into being a trusted adviser on anything from an investment conundrum to a child going off the rails. Peter York, a British cultural critic, has described FOS as “super-help...for the super-rich”.

These financial butlers are not stuck in the past, however. For some FOS, preserving wealth matters more than growing it. When David Tice, an American investor, told the conference in Dubai “you guys are already wealthy and you only need to get wealthy once”, there was much nodding of heads. But many are comfortable at the cutting edge of finance. The FOS of the Pritzkers and Bill Gates, for instance, have reportedly been keen buyers of the riskiest “equity” tranches of collateralised loan obligations (a form of securitised debt).

FOS are also embracing sectors as diverse as cannabis, e-sports and crypto-investing. Of the workshops in Dubai, the biggest draw was one on blockchain startups and smart contracts. Some are unafraid to swim against the tide. The office run by the event's organiser, Anthony Ritossa, whose family money comes from Istrian olive groves, is said to have done well on contrarian bets related to subprime mortgages and European sovereign debt. Flexibility over controversial investments is possible because in many cases FOS answer neither to external investors nor regulators. In America, for instance, those managing money only for families or associates are exempt from disclosure and other rules governing investment advisers.

Open-minded investors with large sums of money have helped to shake up the world of corporate buy-outs, as FOS develop a taste for swooping on large stakes or entire companies. Private equity's share of FOS' portfolios has risen steadily. It now accounts for over a fifth of the average one—second only to equities (see chart 3). The \$100bn of deals done in 2016 was four times the amount invested in 2011, according to PitchBook, a research firm. Earlier this year Bloomberg called this burst of buying the “rich-ification of private equity”. Another recent report by Campden concluded that FOS' allocations to private equity—including both direct investments and those through funds—could rise by three-quarters between 2017 and 2019.



The Economist

From a target's perspective, FOS offer several advantages over banks and private-equity firms, including longer-term capital and generally a less pushy attitude. FOS typically want in for at least ten years whereas private-equity funds look to divest after five to seven. When the founder's son sold Ring Container Technologies, a maker of plastic containers, he picked Michael Dell's FO, MSD Partners, over private-equity and industry suitors, on the grounds that it would stay longer and care more about preserving the firm's

culture.

Such is the power of family wealth on Wall Street that some mergers-and-acquisitions rainmakers are building businesses around it. Byron Trott, a former Goldman Sachs partner, is one such facilitator, bringing FOS juicy deals, advising on investments and co-investing through his own vehicle, BDT Capital Partners. He worked on JAB's \$19bn purchase of Dr Pepper Snapple and is said to be close to the Pritzkers and the Waltons, the family behind Walmart. He is reportedly raising a new fund of up to \$9bn to channel family wealth.

Relatively well-off

A long tail of smaller FOS are eager participants in more modest deals. One such is Conexión Capital, whose founding capital came from the sale of Panamco, a Latin American drinks bottler set up by Albert Staton. It focuses on early-stage investments of \$1m-10m in consumer-goods firms with novel products, and looks to stay with them for at least ten years. It recently invested in a firm promising a creamier sort of almond milk, made by rehydrating crushed-almond paste. "Baristas love it," says Eduardo Arboleda Staton, the head of Conexión, and Staton's grandson. Conexión also serves as a kind of merchant bank for FOS, bringing other families, particularly from Latin America, into club deals—40-50 are now in the network. "There has been a big swing away from families being just a passive source of capital," says Mr Arboleda Staton.

Investments in hedge funds, by contrast, have been falling, and now account for only 6% of portfolios. Struggling in hostile markets and hobbled by regulation designed to quell their buccaneering urges, hedge funds have been a drag on FOS' returns for years. A steady stream have been returning investors' money and turning into FOS themselves, including Jon Jacobson's Highfields Capital (which once looked after a big chunk of Harvard University's money) and Leon Cooperman's Omega Advisors. Mr Cooperman, a Wall Street superstar, explained that he did not want to spend the rest of his life chasing the S&P500, and that seeing a doddery Kenny Rogers on stage made him realise you've got to "know when to fold 'em". Other hedge funds, like BlueCrest, are turning into family-and-friends offices, serving the firm's partners, traders and other staff.

Their growing heft means that FOS no longer struggle to attract the sort of talent that was once drawn to hedge funds. Ben Ingram of Berwick Partners, a recruitment firm, has seen “enormous growth” in the number of highly skilled finance professionals willing to consider working for one, thanks partly to their push into alternative investments. But those making the switch can also look forward to less regulation and public scrutiny, more control over whom they do business with and, typically, a better work-life balance. BlueCrest has lured top traders from Goldman Sachs and BlackRock since turning into an FO.

The most eye-catching hire has been Greg Fleming, once seen as a possible future leader of both Merrill Lynch and Morgan Stanley. With backing from Viking, an investment firm, he is leading the reinvention of the Rockefeller FO—which has served multiple families since the 1970s—into a wealth manager, advisory firm, brokerage and boutique investment bank rolled into one. Mr Fleming wants to quintuple the assets managed by the new firm, Rockefeller Capital Management (RCM), to \$100bn within five years.

Big banks, like private-equity firms, are keen to work with outfits like RCM. Most have growing groups that serve FOS. UBS’s is a joint-venture between its wealth-management and investment-banking arms, since it aims not only to help manage assets and risk but also to bring private-equity deals to FOS and arrange financing. J.P. Morgan is focusing on FOS with \$2bn or more at their disposal. Banks organise events to strengthen ties to well-heeled families. One gathering, arranged by Credit Suisse in Detroit in 2017 and ostensibly about urban regeneration, was reportedly attended by representatives from around 40 families worth a combined \$75bn.

Advisers from banks and consultancies are also jostling to help FOS navigate what many consider their biggest challenge: ensuring a smooth transition to the next generation. Heirs are expected to take control of two-thirds of such fortunes over the next ten to 15 years. But preparing the kids to steward assets is not easy. Children of 8% of the families in the Campden survey said they wanted no involvement in overseeing their wealth. “The threats to family wealth are primarily internal, not external,” says Mr Ciucci.



FOS play various roles in aiding succession. “It is the soft stuff that can be most helpful, preparing the children for the money rather than the money for the children,” says one executive. As well as managing financial assets, Market Street Trust Company—which serves, among others, the descendants of Amory Houghton, who founded America’s Corning glassworks—organises weekend family events designed to strengthen bonds between generations. Older members are encouraged to share inspiring stories, youngsters to air their fears about the challenges ahead.

Another way to bind the generations together is to accommodate younger family members’ priorities. A growing share of FOS, currently a third, do some “impact” investing—where the goal is a measurable social or environmental benefit as well as a financial return. Mr Marcovici says FOS are more interested in this type of investing than the typical wealth manager, in part because they see it as a good way to draw in millennial heirs with a social conscience. As they do more sustainable investing, often in tandem with owners’ separate philanthropic foundations, the biggest of them look increasingly like Wall Street heavyweights, only nicer, says Mr Marcovici.

Office politics

Not everyone thinks their growing influence is benign, however. Brooke Harrington of Copenhagen Business School worries that the growth of FOS is undermining meritocracy in capitalism. “The bigger the apparatus they have behind them, the harder it is for the market to discipline them,” she says. Chuck Collins of the left-leaning Institute for Policy Studies, in Washington, DC, frets over opacity—“they ensure ever more wealth goes off the ledger”—and their growing lobbying clout. He argues that billionaires and their FOS have worked tirelessly to exploit loopholes and rig rules to further their interests, most notably by helping to gut America’s estate tax. “They are in the dynasty-protection business, trying to arrest the normal, natural process of wealth dispersal,” he says.

FOS are nonetheless in expansion mode, opening satellite offices on other continents. The most popular location for new outposts is Singapore, whose government has greatly relaxed red tape in order to attract more FOS. The rush to Asia is partly about locating closer to investment opportunities and partly, for MFOS, about proximity to a fast-growing pool of potential new clients.

China alone produced two new billionaires a week in 2017. Rich Asians had preferred to keep their money in the businesses they created, reinvesting to build conglomerates. The new generation, having made much of its money in technology and services, is more comfortable cashing out, trading assets and transferring a slab of their wealth to an investment office. In the past ten years the number of Asia-based FOS has climbed from around 50 to somewhere between 500 and 1,000.

This increased willingness to release cash from the primary family business and invest it elsewhere, combined with the rise of the do-it-yourself approach to managing wealth, suggests that the number of FOS will go on rising. With upwards of \$2trn expected to pass from entrepreneurs to their heirs over the next 15 years, the family office is entering a Gilded Age.

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United States

- **[Criminal-justice reform: A first step](#)**

[Fri, 14 Dec 04:44]

Congress discovers a bill with bipartisan support that the president will sign. A measure to modestly reduce incarceration looks likely to become law.

- **[The White House: Going to the wall](#)**

[Fri, 14 Dec 04:44]

Donald Trump's administration is understaffed and under attack. The president maintains that "a lot of friends of mine" would like to be his chief-of-staff.

- **[The environment: WOTUS, WOTUS, everywhere](#)**

[Fri, 14 Dec

04:44]

The White House rolls back a rule on polluting wetlands. Donald Trump's Environmental Protection Agency is not keen on protecting the environment.

- **[Michael Cohen: The fixer, fixed](#)**

[Fri, 14 Dec 04:44]

Michael Cohen was sentenced to prison for things he did for his boss. The story of the president's personal lawyer is part American dream, part Russian novel.

- **[McCarthy in the museum: Rogue's gallery](#)**

[Fri, 14 Dec 04:44]

How Joseph McCarthy's hometown remembers a famous son. The museum in Appleton, Wisconsin, is not kind to the witchfinder general.

- **[Kansas politics: Wonk to the rescue](#)**

[Fri, 14 Dec 04:44]

Can Laura Kelly repair Kansas?. The governor-elect suggests the heartland is as allergic to her party as it seems.

- **[Lexington: Khashoggi's ghost](#)**

[Fri, 14 Dec 04:44]

Donald Trump's efforts to boost the Saudi alliance risk damaging it. By celebrating a peculiar relationship, the president has brought it into domestic politics.

A first step

Congress discovers a bill with bipartisan support that the president will sign

A measure to modestly reduce incarceration looks likely to become law



Getty Images

Dec 15th 2018 | WASHINGTON, DC

TOUGH, ANTI-CRIME rhetoric has been part of Donald Trump's public persona for decades. Well before he ran for office, in 1989, he took out full-page ads in New York papers that said, "Muggers and murderers...should be forced to suffer, and when they kill, they should be executed for their crimes." He announced his candidacy by inveighing against Mexicans "bringing crime", then courted support from rank-and-file police officers. His first attorney-general, Jeff Sessions, was a hoary drug warrior who reversed Justice Department efforts to help police departments reform and to send fewer people to prison. William Barr, Mr Sessions's prospective replacement, has similar views. In 1994 he chaired a commission in Virginia that recommended longer imprisonment and the abolition of parole.

But Mr Trump has also been receptive to personal arguments against harsh

criminal-justice policies. At the urging of Kim Kardashian, a fellow reality-television star, he commuted the life sentence of Alice Marie Johnson, a 63-year-old woman imprisoned for money laundering and drug trafficking. And at the urging of his son-in-law and adviser, Jared Kushner, he has become an unlikely champion of the First Step Act, a criminal-justice bill with bipartisan support. Reversing an earlier decision, Mitch McConnell, the Senate majority leader, said he would bring it up for a vote before the end of 2018. Despite gripes from some on the right who deem it too soft on criminals, and some on the left who feel it does not go far enough, its passage looks likely. That's right: a bipartisan bill will probably make it through Congress and then be signed by the president.

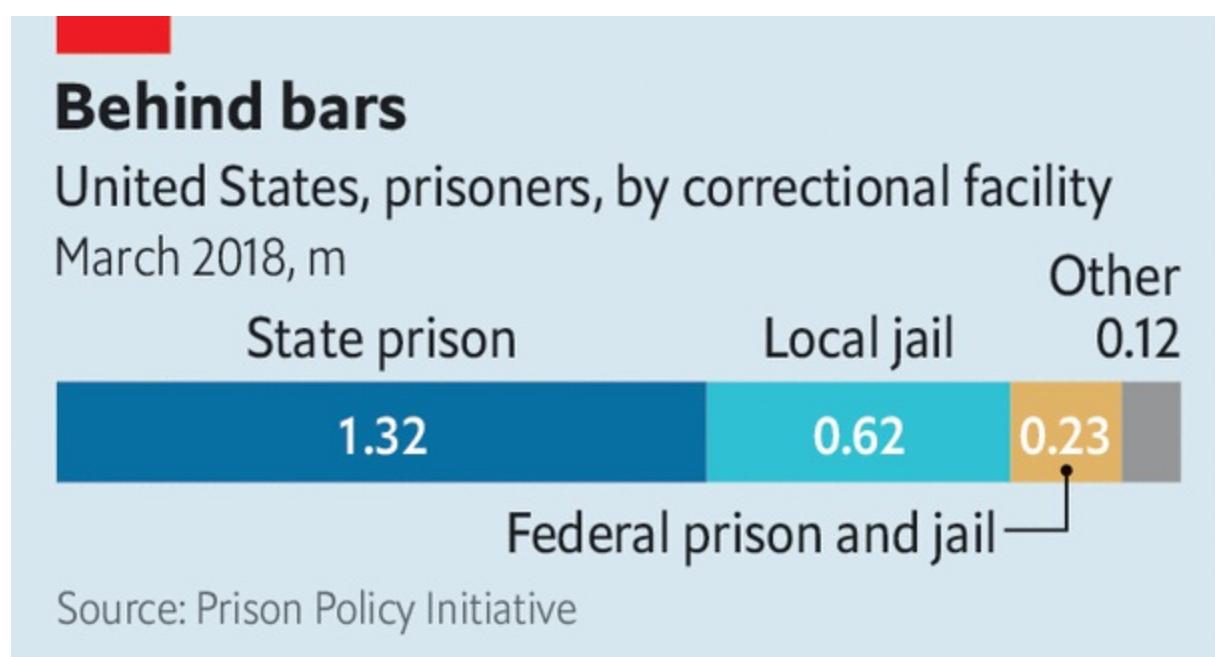
The First Step Act is a sentencing-reform bill that repeals some of the harsher federal laws passed in the 1980s and 1990s. In 2010 Congress passed the Fair Sentencing Act, which among other things reduced the sentencing disparity between convictions for crack and powdered cocaine. The First Step Act would make that measure retroactive, allowing nearly 3,000 offenders imprisoned for crack-cocaine offences to petition judges for early release.

It would also reduce the mandatory-minimum sentence for serious drug felonies from 20 to 15 years, and for conviction on a third drug-trafficking or violent felony from life to 25 years. Judges would have more discretion to sentence people with minor previous convictions to less than the mandatory minimum (at present they can exercise that discretion only for non-violent drug offenders with no criminal history). According to an estimate from the Congressional Budget Office, more than 2,000 people a year would be affected by that "safety valve" expansion.

Prisoners would no longer be sent to facilities more than 500 miles from their homes, and pregnant prisoners would no longer be shackled. The bill allows some prisoners, though not those convicted of most violent crimes, to earn time off their sentences by participating in rehabilitative programmes, and it expands federal funding for job-training and educational programming in prisons. More elderly and terminally ill prisoners would be eligible for compassionate release. And all prisoners would be able to reduce their time in prison by up to 54 days per year of their sentence for good behaviour. The Brennan Centre, a think-tank and advocacy group, estimates the bill would

result in the release around 5,000 prisoners and shorten sentences for roughly 100,000 more.

Though welcome, this would only nibble at the prison population. Roughly 2.2m people are imprisoned in America. Less than 10% of them are in federal prisons, and federal prisoners are the only ones affected by the First Step Act's reforms (see chart). Still, Inimai Chettiar of the Brennan Centre calls the bill "a good compromise"—the resigned view held by many advocates of criminal-justice reform. Given the rhetoric of Mr Trump and policies set by Messrs Sessions and Barr, it is probably as much as anyone could hope for from this administration. It may also encourage Democrats, particularly those eyeing a presidential run, to argue for bolder reforms.



The Economist

Even this modest change has its critics. Jonathan Thompson, executive director of the National Sheriffs' Association, calls the bill "a giant social experiment," and argues for "rational prison reform that doesn't just let people out hoping they won't recidivate." Tom Cotton, a Republican senator from Arkansas who has previously said that America has "an under-incarceration problem," blasted the First Step Act for allowing "early release for many categories of serious, violent criminals".

Yet while carjackers and bank robbers would indeed be eligible for sentence reduction by completing job-training and educational programmes, Mr Cotton is conflating “early release” with “early transfer to pre-release custody”. The federal prison system does not just wash its hands of violent criminals who manage to chip away at their sentences; they are instead sent to halfway houses, home confinement with ankle-monitoring and other types of supervised, conditional release.

The bill’s opponents may find themselves shouting into the wind. A version of the First Step Act passed the Republican-controlled House in May by 360 votes to 59, and may have as many as 75 supporters in the Senate. That will displease Mr Cotton, as it will leave a bitter taste in the mouths of reform advocates who wanted more. But that is the nature of compromise.

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Going to the wall

Donald Trump's administration is understaffed and under attack

The president maintains that “a lot of friends of mine” would like to be his chief-of-staff



Dec 13th 2018 | WASHINGTON, DC

DONALD TRUMP says he will shut down part of the federal government if Congress does not provide \$5 billion for his border-wall by December 21st. He may be bluffing. Meanwhile the president is already cutting the federal workforce, albeit unintentionally. White House reshuffles are usually stage-managed to suggest renewed purpose and vigour. Mr Trump’s latest redo suggests he is running short of competent people willing to work for him.

On December 8 he said his chief of staff, John Kelly, would be out to pasture by the end of the month. The next day his intended replacement, Nick Ayers, a 36-year-old aide to Vice-President Mike Pence, said he would rather go home to Georgia than be Mr Trump’s third chief of staff. Several other mooted replacements for Mr Kelly, who has been serially undermined by Mr Trump and is said to be hardly speaking to him, have also since ruled

themselves out.

They include Steve Mnuchin, the Treasury Secretary; Robert Lighthizer, the trade representative; Mick Mulvaney, the president's budget director; Rick Santorum, a former senator—and Randy Levine, president of the New York Yankees, who sounded startled to be included in the speculation, but wants to stay at the Yankees. Mr Trump maintains “a lot of friends of mine want it.” Indeed, he is said to be looking to ardent loyalists, including Newt Gingrich, a former Republican congressman; Matthew Whitaker, the acting attorney-general; and David Bossie, co-author of the book “Let Trump be Trump”.

Mr Trump has had more luck filling other important jobs. He has nominated a former attorney-general for George H.W. Bush, William Barr, to reprise the role. A spiky partisan, who has offered criticisms of the special counsel, Robert Mueller, Mr Barr is a serious lawyer with a fair chance of winning Senate confirmation. Mr Trump’s pick to replace Nikki Haley as ambassador to the UN, Heather Nauert, a former Fox News presenter who is currently the State Department’s spokeswoman, is less convincing. It suggests how highly he rates telegenic performance—and how lowly he rates the UN.

The administration’s staffing problems reflect how chaotically it has been run. Turnover in senior non-cabinet secretary roles stands at 62%, higher than that of Mr Trump’s six nearest predecessors. Several departments are undermanned, including the White House Counsel’s Office, which will soon field subpoenas from a Democratic-held House of Representatives.

Negotiations between Mr Trump and Democratic leaders over the threatened shutdown provided a teaser of what divided government may look like under Mr Trump. He invited Chuck Schumer and Nancy Pelosi, Democratic leaders in the Senate and House, to the White House to discuss the looming spending bill. He then tried to hijack the meeting by ushering in reporters to witness him claiming, falsely, that “tremendous amounts of wall have already been built” and challenging Mr Schumer and Ms Pelosi to pay for the rest.

Ms Pelosi, who unlike most Republicans is not cowed by Mr Trump, noted that the president’s party still has a majority in both chambers and so could fund the fortification tomorrow. And if it won’t support his wall, he can hardly expect Democrats to. The second half of Mr Trump’s term could be

even bumpier than the first.

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WOTUS, WOTUS, everywhere

The White House rolls back a rule on polluting wetlands

Donald Trump's Environmental Protection Agency is not keen on protecting the environment



Getty Images

Dec 13th 2018 | WASHINGTON, DC

AFTER WITNESSING near-biblical calamities, Congress passed the Clean Water Act in 1972. The Cuyahoga river in Ohio caught fire in 1969. That same year 26m fish died in Florida's Lake Thonotosassa, the largest recorded fish kill, because of pollution from food-processing plants. "Dirty Water", a song from that era about the repellent Charles river, remains an anthem of Boston sports teams to this day. Since the early 1970s the White House has interpreted the statute in different ways. President Donald Trump's team, who released a draft rule on December 11th, apparently want to take water law back to the 1980s.

Despite the simple intentions of the Clean Water Act, its language was anything but. It sought to eliminate the discharge of toxic pollutants into "waters of the United States" (WOTUS). Without further guidance from

Congress, that would seem to encompass everything from frog ponds to the Mississippi river. Sorting out exactly which waterways are subject to these pollution safeguards has been the subject of redefinition and litigation ever since. The Supreme Court's justices last considered the question back in 2006, and they too failed to muster a majority opinion. Writing for four of the nine, Antonin Scalia argued that federal authority extended only to "relatively permanent" waters. Writing for himself, Anthony Kennedy said that the rule should apply to waters that bear a "significant nexus" to navigable waters. Controlling precedent lies somewhere in the middle of these two nebulisms.

This is where we swam

Wading into the murkiness, the Obama administration issued a rule in 2015 that would clarify what counted as a water of the United States once and for all. It included wetlands and so-called ephemeral streams—those that flow only when it rains—on the theory that unregulated pollution of small tributaries will eventually accumulate in bigger bodies of water. The precarious health of the Chesapeake Bay and the "dead zone" of low oxygen spanning 9,000 square miles in the Gulf of Mexico are both caused by nutrient pollution of this sort. On December 11th the Environmental Protection Agency (EPA) announced that it would largely reverse the 2015 rule. The agency claims not to know how many streams and wetlands will be affected. But its own estimates, published a year earlier, suggest that protections would go for 18% of streams and 51% of wetlands.

Protecting wetlands has been a relatively bipartisan endeavour, at least at the federal level. Richard Nixon signed the original Clean Water Act. George H.W. Bush's administration declared a goal of "no net loss" of wetlands. One-third of Americans get some of their drinking water from the streams being deregulated. "This would be the most significant weakening of Clean Water Act protections in its history," says Jon Devine of the Natural Resources Defence Council, a lobby group.

For Mr Trump, the rollback completes a campaign pledge made to farmers, who objected vociferously to the Obama-era regulation. Organisations like the Farm Bureau, another lobby group, whipped up fears of government asserting authority over ditches and ponds. In truth both the regulation and the original law already contain generous carve-outs for farmers, says Caitlin

McCoy, a fellow at Harvard Law School.

The EPA's professed rationale for the change is to provide regularity, clarity and certainty. A look at its other recent actions suggest that the real aim is to please regulated industries. The agency pushed for rules allowing coal-power plants to resume dumping wastewater contaminated with mercury, arsenic and lead into streams and rivers. It has relaxed rules governing the disposal of coal ash—the toxic by-product of combustion that can leach into streams. And it is doing all it can to rehabilitate the struggling coal industry, which retains a political heft out of proportion to its economic value.

Because people admire Jeffersonian yeomen, farmers are frequently invoked by those keen on overturning environmental rules. Pinheaded bureaucrats insisting on permits for irrigation ditches offend what remains of America's sense of rugged individualism. But other groups also stand to benefit from diminished water protections: mining companies, factories and chemical processors are keen to see the Obama-era rule disappear. Property developers and golf-course owners often have their plans stymied by wetland protections (why Mr Trump might be sensitive to their plight remains a mystery). Fore!

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The fixer, fixed

Michael Cohen was sentenced to prison for things he did for his boss

The story of the president's personal lawyer is part American dream, part Russian novel



Dec 13th 2018

IT ALL BEGAN with a sign. In 2007 Michael Cohen was living in a Trump-branded property in New York. The building's board of directors wanted to remove the Trump name from the tower. Mr Cohen organised his fellow residents into a resistance movement. The directors were ousted, the Trump branding stayed, and Mr Cohen, then a lowly lawyer at the Trump Organisation on a salary of \$75,000 a year, was made an offer he could not refuse. Would he like to become an executive vice-president and special counsel to Donald Trump, with a salary of \$500,000 a year? Yes he would.

That decision led Mr Cohen to become personal lawyer to the president of the United States and, ultimately, to be sentenced to three years in prison on December 12th, for crimes ranging from tax evasion to lying to Congress. It would have been longer had Mr Cohen not proved helpful to the special

counsel, Robert Mueller, in his investigation into links between the Trump campaign and the Russian government.

Mr Cohen's tale reads like the American dream as told by a Russian novelist. His father, Maurice, was thrown in a Soviet gulag and, after he was released, emigrated to Canada, where he became a surgeon. His father-in-law also emigrated from the Soviet Union to begin a new life in the West. Mr Cohen junior's entanglement with the Russian state was of a different nature.

Throughout the 2016 Republican primaries he was trying to negotiate the building of a Trump Tower in Moscow, even swapping messages, through an intermediary, with Vladimir Putin's spokesman, Dmitry Peskov. He lied about this to give the impression that the project died before the Iowa caucuses in February 2016, when actually it continued until shortly before the nominating convention in Cleveland. And Mr Cohen did so, under oath and before Congress, to protect his boss and patron.

He lied about other things too, for more self-interested reasons. Court documents revealed that he understated his income by \$4m between 2012 and 2016. Much of that came from hustles made possible by his salary boost from the Trump Organisation. He bought taxi medallions on credit and leased them out. His cost of borrowing was 5% a year; he collected at 12%. He made a \$30,000 turn on a rare French handbag (*The Economist* speculates that it was a Birkin). The IRS was kept in the dark. While Mr Cohen was lowballing the feds, he was exaggerating his wealth on loan applications to banks, disclosing his income but not all his debts, which is another crime.

Mr Cohen's loyalty to Mr Trump also led him to break campaign-finance law. Faced with the prospect of several women going public with stories about affairs with the candidate in 2016, Mr Cohen organised payments and favourable deals to buy their silence. Because this was done to help Mr Trump with the Republican Party's "values" voters, prosecutors argued that the payments amounted to an undisclosed campaign donation. When it all came out, Mr Cohen insisted that he had done it on his own initiative, a fib that Mr Trump later exposed. Such betrayal helps explain why Mr Cohen turned witness.

At his zenith, Mr Cohen was not just the president's personal lawyer but a

deputy national finance chairman of the Republican National Committee. He dabbled in political consultancy, promising insight into, and access to, the president. He raked in millions of dollars; the clients got little in return, other than a feeling of being near power. It had taken him ten years from accepting that first, unmissable, offer from Mr Trump to get there. It all turned to dust in a little over ten months.

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Rogue's gallery

How Joseph McCarthy's hometown remembers a famous son

The museum in Appleton, Wisconsin, is not kind to the witchfinder general



REX Shutterstock

Dec 13th 2018 | APPLETON

HIS SUIT is rumpled. Thinning hair is slicked close over his skull. So prominent are his forehead and eyebrows that he appears to leer, poised for confrontation. An oversize bronze bust of Joseph McCarthy in a museum in his home town of Appleton, Wisconsin, is not a thing of beauty. It would be intimidating, but for the half-smile playing on his lips. In any case, no one is eager to show it off. Like an embarrassing relative the bust has been tucked away, put in a basement corridor next to an all-gender bathroom.

Matthew Carpenter, the museum's director, says the senator left an unhappy legacy. A small exhibition explains that he was "reckless", a "modern tragedy" and "demagogic" as he led anti-communist investigations in the early 1950s, which showed the "dark side of patriotism". Though some Appleton folk recalled that their local boy was "charming" and "social", his ideas and methods came to be reviled.

More than six decades after McCarthy died, “McCarthyism” is once again a potent term of abuse. President Donald Trump tells followers to “study” McCarthy, claiming spies monitored his election campaign in 2016. He has attacked Robert Mueller’s investigation by saying, late in November, that America is living through “our Joseph McCarthy Era”. Left-leaning commentators see McCarthyism differently. Jelani Cobb of the *New Yorker* called Mr Trump “the second coming of Joseph McCarthy” even before his election in 2016.

McCarthy proved to be a pathological liar, who exaggerated his war record and colourfully abused opponents. He dismissed one of his own party as “senile” and proposed getting a “man with a net” to lock him up. He jeered at leftists as “egg-sucking phoney liberals” or “communists and queers”.

The senator had a knack for drawing media attention by accusing prominent people of betraying the nation. James Patterson, a historian, wrote of reporters who felt obliged to cover McCarthy, though they had no effective means to challenge his lies. The senator in turn dominated the Republican Party. Establishment figures were shocked by “the ferocity of his attacks—and his apparent invulnerability to criticism”, wrote Mr Patterson. By an odd coincidence, Roy Cohn, who advised Mr Trump in the 1980s, once had McCarthy as a client.

Eventually McCarthy overstepped, launching a controversial investigation of the army. The press turned on him as, in time, did Republican senators, who censured him in 1954. The Appleton museum treats him with the enormous condescension he deserves. More appealing is a bigger exhibition on a brightly lit upper floor, which celebrates the feats of another local, a showman who amazed crowds by performing death-defying acts of escape, wriggling out of tight corners and slipping off handcuffs. For the modern politician, Harry Houdini, more than McCarthy, is the man to learn from.

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Wonk to the rescue

Can Laura Kelly repair Kansas?

The governor-elect suggests the heartland is as allergic to her party as it seems



Dec 13th 2018 | TOPEKA

IT LOOKS LIKE cruel, unusual punishment. Laura Kelly has been locked in a windowless conference room in Topeka for a week. Under fluorescent lights she pores over files and debates with colleagues how to balance the state books. Isn't this prolonged, tedious toil for the governor-elect? "No! I am totally a wonk. I'm having fun going through budget for days on end", she says, eyes sparkling and evidently pleased.

Ms Kelly is suited to apparently intractable tasks. She prefers scrutinising policy to campaign grandstanding. Few rural voters back Democrats, but in her 14 years as a state senator she put in long hours on the road in Wabaunsee county and won over farmers. In this year's race she got the backing of several Republican former governors. And though voters sent conservative Republicans to dominate Kansas's House and Senate, 48% picked her, a

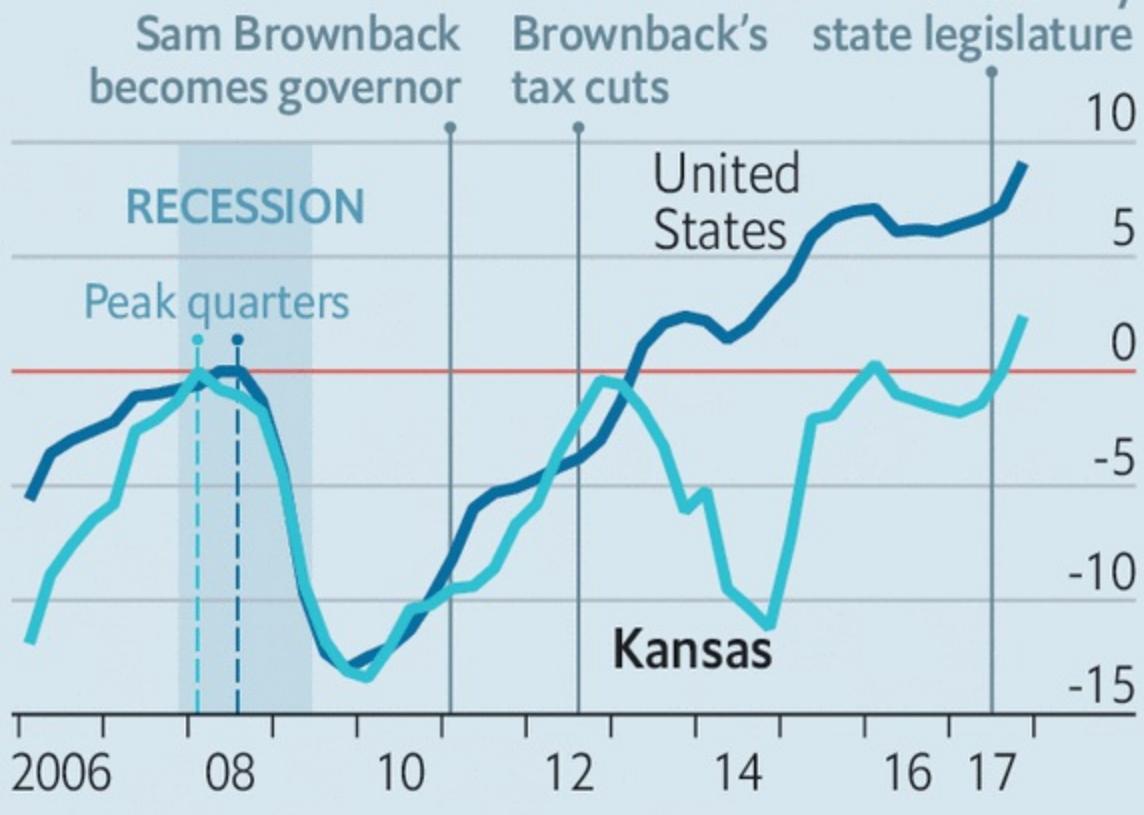
Democrat, as governor. Her Republican rival, Kris Kobach, got 43%.

Kansas is typically conservative but also has a tradition of pragmatic centrism. Ms Kelly grasped how to appeal to moderates: by discussing better health care and how to fix economic problems, while saying less about immigration, guns or Donald Trump. She has put moderate Republicans in her transition team (and will probably do so in her cabinet) while celebrating cross-party collaboration of years past.

Kansas Democrats generally rely on urban and suburban types, especially near the Missouri border. Her example suggests that, at least in a year where the president is not on the ballot, they can be more ambitious. She was also lucky in her clever but miscalculating opponent. Mr Kobach, the outgoing secretary of state, is a hard-nosed, far-right ally of Mr Trump who scaremongered over immigration and (non-existent) voter fraud. Pressed on the state's economic woes, he called for more of the tax and spending cuts proposed by the former governor, Sam Brownback.

The Laffer slump

Tax revenue*, % change from peak quarter in 2008



Source: Pew Charitable Trusts

*Adjusted for inflation,
four-quarter moving average

The Economist

Mr Brownback launched a deluded fiscal experiment early this decade. He cut income taxes sharply, let most small businesses avoid tax and prophesied economic nirvana. A catastrophic slump in state revenues followed. Total revenues between 2012 and 2014, when the new measures took full effect, dropped by nearly \$760m, a decline of 12% (see chart). That forced schools to close early and left roads unfixed. The Pew Research Centre notes that average incomes of Kansans grew by just 1.3% annually in the past decade,

lagging the national rate of 1.9%.

Some state institutions atrophied. Ms Kelly describes herself as a “front-row witness to the decimation of the state agencies”, illustrating the point by talking of foster care. Under Mr Brownback financial help fell for vulnerable families, pushing more children to be fostered. But a freeze on hiring social workers left the system understaffed, spread neglect and sent many children bouncing between homes. Some have been moved over 100 times or are forced to sleep in offices. Several fled. She says “60 or 70 kids have disappeared”.

Some of the fiscal mess is being cleaned up. Last year the legislature—with a veto-proof two-thirds majority that involved Democrats and moderate Republicans—overturned most of Mr Brownback’s experiment, restoring the old income and business taxes. That has brought a surprisingly bountiful upturn in revenues.

Despite this, problems lurk. A supposedly independent transportation fund was plundered to cover short-term costs. There were plans to raid other funds. The state skimped on paying into public pensions. After years of neglect, the Supreme Court ordered more spending on education, which has meant finding hundreds of millions of dollars from somewhere.

Kansans still pay unusually high levels of sales tax, even on food, and that hurts the poor especially. An obvious step would be to cut those while nudging up income taxes again. But Ms Kelly is cautious, vowing no more tax fiddling for now, aware that voters are fed up with yo-yoing changes. She knows, too, she has to deal with a legislature controlled by her opponents. “A piece of cake”, she says, drily.

Another worry is loss of talent. Kansas draws some Latino workers to meatpacking plants. But it struggles to attract and keep highly educated folk. Burdett Loomis, a political commentator, says state agencies especially saw an “unravelling” as Mr Brownback replaced experienced staff with cronies. That will take time to fix.

Ms Kelly agrees, lamenting that Mr Brownback appointed officials “for ideological reasons, not for talent”. She vows to do the opposite, and will

readily recruit from any party. “We are coming out of a world of hurt, we need someone with knowledge” to fix the state, she says.

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Lexington

Donald Trump's efforts to boost the Saudi alliance risk damaging it

By celebrating a peculiar relationship, the president has brought it into domestic politics



Dec 15th 2018

NOT SINCE Franklin Roosevelt met Ibn Saud aboard the *USS Quincy* in 1945 had an American president courted Saudi Arabia as zealously as Barack Obama did. He visited the kingdom four times, more than any of his predecessors, and twice as often as he called on any other Middle Eastern country. On his watch America sold the Saudis \$112bn-worth of arms and provided intelligence and jet fuel for their war against Yemen's Houthi rebels. Yet Mr Obama left office a Saudi hate-figure. The Saudis loathed his attempted pivot to Asia, his attempted detente with Iran, and above all his enthusiasm for the pro-democracy Arab spring. Had President Donald Trump studied the contradictions in his predecessor's record, his ambition to make closer Saudi relations the centrepiece of his Middle East policy might have stood a chance of success. By ignoring them—as part of his default effort to repudiate Mr Obama, as he thought—he has pitched America's oldest Middle

Eastern alliance into a far bigger crisis.

Mr Obama justly described United States-Saudi relations as “complicated”. The two countries share interests, including America’s desire for a predictable oil supply for the global economy, the Saudis’ for security, and both countries’ determination to peg back Iran. Yet they share no more values or political tradition than when Roosevelt met the kingdom’s first monarch on his way home from the Yalta conference. Saudi Arabia is an absolute monarchy that beheaded 48 people in the first four months of this year, and has just throttled and dismembered a *Washington Post* columnist in its Istanbul consulate. America is the world’s oldest democracy.

The result, over the past seven decades, has been a near-constant state of mutual incomprehension, cross-cutting interests and periodic blow-ups. The worst of these, writes Bruce Riedel in his recent history of the relationship, “Kings and Presidents”, constituted “near-death moments”. They include the Saudi oil embargo after the Arab-Israeli war of 1973 and a threatened second embargo during the second *intifada* in 2001. The fallout from Khashoggi’s murder, almost certainly on the orders of the kingdom’s crown prince, Muhammad bin Salman, has the makings of another, more complicated, existential glitch.

A bipartisan effort in the Senate to censure MBS has become a broader repudiation of the relationship and Mr Trump’s heightened ambition for it. This reflects how integral the crown prince is to both. The administration—especially Mr Trump’s own entitled princeling, his son-in-law Jared Kushner—bet that by cultivating MBS’s relaxed view of Israel, he might be persuaded to get the Palestinians to negotiate. By encouraging his anti-Iran zeal, it hoped to pile pressure on the regime in Tehran. Mr Trump, who made his first overseas trip to Riyadh, is also fixated on the airy promises of billions in investment he received there. The Senate, led by Republicans such as Lindsey Graham and Marco Rubio who are generally onside with the president, is unimpressed.

Mr Rubio predicted Khashoggi’s murder would “blow apart” Mr Trump’s Middle East strategy. Mr Trump’s subsequent effort to deny MBS’s responsibility for the killing, thereby contradicting America’s intelligence agencies, has riled Congress further. It recalls for many Republicans his

effort to absolve Vladimir Putin of blame for election-hacking, an issue they feel anxious about but less able to counter the president on. An arcane foreign-policy row has thus become implicated in domestic political disagreements. That will make it harder to resolve.

This is something all of Mr Trump's predecessors since Roosevelt sought to avoid, by two means. By coaxing the Saudis to improve their human-rights record, they tried to mitigate the main tension in the relationship. Only John Kennedy, who helped persuade them to abolish slavery in 1962 (the year the Beatles recorded "Please Please Me") had much success with that. Yet paying lip-service to American values helped maintain bipartisan support for the relationship. By keeping relations fairly low-key, America's leaders also sought to isolate that elite consensus from broader foreign or energy policy disagreements. As a result, every previous breakdown in the relationship has been between the kings and presidents of Mr Riedel's book title. This in turn allowed for the possibility of a revivifying compromise, when the logic of shared interest kicked in again. To end the oil embargo, Henry Kissinger persuaded Israel to withdraw from a scrap of Syrian territory; in 2001 George W. Bush pledged his support for a Palestinian state.

Mr Trump ditched both time-honoured precautions. Instead of softening the transactional nature of the relationship, he celebrated it. Many believe MBS could not have ordered Khashoggi's murder otherwise. Instead of keeping the alliance discreet, he trumpeted it, making the murder even more politically salient than it would otherwise have been. If Mr Trump ruled as a Saudi monarch, this might not matter. The Senate pushback shows he does not. And, to be fair, even monarchs need to be more cautious than MBS has been. His recklessness, of which Khashoggi's murder is only the latest case, has been condemned by some Saudi allies, including Morocco, and may foster dissent in the kingdom. It is bad enough that the US-Saudi relationship is now hostage to American politics. It may not survive being hostage to Saudi politics, too.

Just deserts

The disaster has at least revealed how unrealistic the administration's Saudi gambit always was. MBS is a mercurial figure. Yet the notion that the road to Middle East peace leads through Riyadh is a pipe-dream. Even royal dictators

worry about public opinion, and in Saudi Arabia it is against compromise with Israel. The idea that the Saudis could help topple Iran's mullahs was similarly exaggerated. The “Arab NATO” the Saudis have floated is a figment. And the notion that Saudi covert action is formidable was exposed, for all the world, by CCTV images of a bunch of Saudi thugs traipsing into Istanbul with a bone-saw.

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The Americas

. [**Oil in Alberta: Fuelish behaviour**](#)

[Fri, 14 Dec 04:44]

Justin Trudeau's climate plans are stuck in Alberta's tar sands. Canada is woefully unprepared for a shift away from fossil fuels.

. [**Colombia: Hard-break hotel**](#)

[Fri, 14 Dec 04:44]

They used to kidnap tourists. Now Colombia's ex-rebels run a hotel for them. The full guerrilla experience includes cold showers but no Marxism.

. [**Bello: A strangely durable gangster state**](#)

[Fri, 14 Dec 04:44]

Having wrecked the economy, Venezuela's rulers see no reason to change. A gangster state proves surprisingly durable.

Fuelish behaviour

Justin Trudeau's climate plans are stuck in Alberta's tar sands

Canada is woefully unprepared for a shift away from fossil fuels



Rex/Shutterstock

Dec 13th 2018 | CALGARY

PEDRO PEREIRA ALMAO is performing industrial magic in his lab at the University of Calgary. Lines from a row of tanks feed two greenhouse gases, carbon dioxide and methane, into a chamber the size and shape of a wasp's nest. Less than a minute later, the other end spits out carbon fibre, a more valuable material that is used in cars, planes, golf clubs and other useful things. Mr Pereira says the process, developed with a doctoral student, Mina Zarabian, could turn power plants, steel mills, or anything that burns fossil fuels into clean, green money-makers. Using waste gases to produce cheap fibre could give rise to new uses, such as ultra-strong plywood.

Mr Pereira and Ms Zarabian are not the only ones imagining a different future for Alberta, the Canadian province of which Calgary is the largest city. In another building on campus, Ian Gates and his team are turning sticky bitumen from the tar sands into pellets that can be transported in unheated

railcars. “Bitumen balls”, which look like liquorice sweets, could be refined into oil, acknowledges Mr Gates, but there could be a much bigger market for their use in other carbon-based products. Bitumen Beyond Combustion, a government-funded programme, is exploring what Alberta could do with the 165bn barrels of oil in the tar sands other than burning it. Promising contenders include using bitumen to make carbon fibres for high-tech composites, vanadium for batteries and steel, and high-grade asphalt for roads.

Tar sand trap

Alberta produces 81% of Canada’s oil and gas. It exports most of it. But it is going through a rough patch. Prices for Western Canadian Select, the benchmark for its heavy crude, began a steep slide in July, caused by over-production, refinery maintenance work and a lack of pipeline capacity. Nonetheless, Rachel Notley, who leads the province’s left-leaning New Democratic Party (NDP) government, is doubling down on fossil fuel. She is demanding that the federal government speed up construction of a new pipeline to the west coast. She wants a new refinery built, probably with government support. And she has said she will delay a promised cap on emissions from Alberta’s tar sands. Ms Notley dismisses as fantasy the idea that other industries could one day take the place of oil. “Back home we ride horses, not unicorns,” she recently told a gathering in Ottawa.



The Economist

This is bad news for Justin Trudeau, the Liberal prime minister, whose national climate-change strategy is in danger of coming apart. Canada's declared goal is to reduce emissions to 30% below 2005 levels by 2030. That means curbing Alberta's oil-and-gas production: the province leads the

country in greenhouse-gas emissions, producing almost 263 megatonnes of the country's 704-megatonne total in 2016, most of which comes from producing oil and gas. Along with Saskatchewan, a much smaller energy producer, it is one of only two provinces with double-digit increases in emissions between 2005 and 2016, even as the national average declined by 3.8%. In August Ms Notley withdrew her support for Mr Trudeau's plan when the federal government did not immediately appeal against a court ruling halting construction of the Trans Mountain Expansion, a pipeline (see map). It would have almost tripled the amount of Alberta crude carried to a terminal near Vancouver and onward to world markets. Ontario, Saskatchewan and Manitoba were already opposed to Mr Trudeau's plan. He has the power to force it through. But Canada runs on federal-provincial consensus.

Alberta's intransigence may not be in its own interest. Global pressure to decarbonise is growing. The province faces competition from the United States, its biggest customer by far and now a net oil exporter. Eventually, Alberta will have to reduce its dependence on oil. That conversation is already happening among academics, oil-and-gas workers and the broader public. But without political leadership the transition is likely to be rocky.

Ms Notley has political reasons for keeping her public focus on oil. By law she must call an election before the end of May. In opinion polls, her party is well behind the right-leaning United Conservative Party, led by Jason Kenney. It is easier for both politicians to blame the federal government than to admit that the oil industry and the province are suffering from self-inflicted wounds.

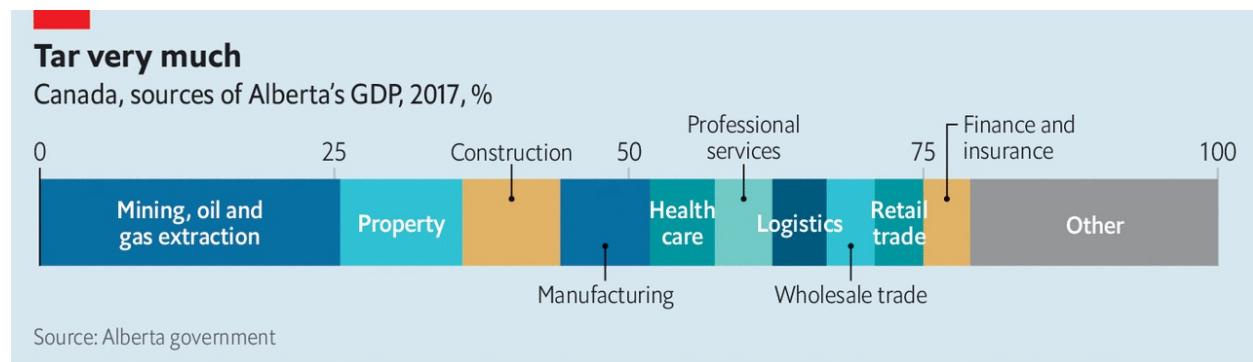
Alberta's fortunes rose when oil prices were high, but it did not save enough to cope when they fell. Money that poured into government coffers during a series of oil booms starting in 1947 poured out just as quickly. Alberta's sovereign-wealth fund, created in 1976, has been raided so frequently that it contains a paltry c\$17.5bn (US\$13bn). Norway's fund, set up 14 years later, has about \$1trn, partly because its oil wells are more lucrative but also because its leaders have been much thriftier.

The upside of this approach is that the province has good hospitals, schools and highways. The University of Calgary campus is full of gleaming new

buildings, with more under construction. Oil revenues have made Alberta the only one of Canada's ten provinces without a provincial sales tax. Its 4.3m people pay some of the lowest income taxes in the country.

But when oil prices fall, as they started to in 2014, government revenues plummet and budgets shrivel. Alberta is forecasting a deficit of C\$8bn this year and does not expect to balance the budget until 2023. The office-vacancy rate in Calgary is more than 27%, up from 4% in 2012. Unemployment is 6.3%, above the national average of 5.6%.

A second mistake was to rely for too long on just one customer, the United States, which buys almost all Alberta's oil-and-gas exports. This worked well for about six decades, until the shale revolution allowed America to pump vastly more. Its oil competes with Canadian oil for space in pipelines and refineries, and lowers the price for Alberta heavy crude, which needs more refining. Oil firms increased production despite the lack of pipelines. This caused a glut that prompted the price for Alberta heavy crude to nosedive by four-fifths earlier this year. On December 2nd Ms Notley took the unusual step of ordering production cuts of 8.7%. A promise in late November to buy railway carriages to get more of the surplus to market softened the blow. The moves have paid political dividends. But they do not deal with Alberta's underlying need to diversify away from fossil fuels.



The Economist

Even the most starry-eyed scientists do not imagine that Alberta can revamp its economy overnight. Oil and gas account for a quarter of the province's GDP (see chart), and will continue to be the largest slice for decades. The next two most important sectors, construction and property, rise and fall with the oil industry. But the reluctance even to face the need for change is worrying.

“A lot of people think we’ve always been oil and gas and they don’t think it’s possible to pivot,” says Terry Ross of the university’s Schulich School of Engineering. For a province of horse-riders, that is a dangerous shortcoming.

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FARC from the madding crowd

They used to kidnap tourists. Now Colombia's ex-rebels run a hotel for them

The full guerrilla experience includes cold showers but no Marxism



AFP

Dec 13th 2018 | MESETAS

WHEN THE FARC was a guerrilla army, among its many illegal sources of income was the kidnapping and ransom of tourists. It started disarming in 2016 but is still making money from tourists in a more peaceful way. In Camp Mariana Páez in Meta province, about eight hours' drive from Bogotá, Colombia's capital, visitors can "live like a guerrilla" with 260 demobilised FARC members. "This is not the first spot you will see on TripAdvisor," says Michael Soto, a visiting student from the University of Minnesota. But for tourists who want to explore "territories that haven't been run over by paved roads and buildings, this is as good as it gets".

The Jardín de la Montaña (Mountain Garden) Hotel is among several ventures in the settlement started by ex-guerrillas who are trying to make a living after the group reached a peace agreement with the Colombian

government. That has not been easy. Many are illiterate and have few skills beyond knowing how to fight and survive in remote forests and caves. When former FARC members sought work outside the settlement, reluctant employers told them, “Oh, no, you’re an ex-guerrillero. You, no,” says Luz Marina Giraldo, a founder of the tourism venture.

Under the terms of the peace accord, the government is supposed to provide ex-guerrillas with education to high-school level, housing and support for startup ventures. But these benefits have come slowly, and some demobilised guerrillas are still waiting. Many get little assistance beyond a monthly stipend of about 700,000 pesos (\$220). Most of those who do work are bodyguards at the National Protection Unit, responsible for the safety of Colombians facing violent threats, or are employed by the mine-clearance programme. Part of the problem, says an agent of the National Reincorporation Agency, which is tasked with integrating former fighters into society, is that ex-guerrillas are accustomed to following orders. They find it hard to motivate themselves. Camp Mariana Páez is not immune to such post-conflict lassitude. Just 40 people are in a government-sponsored training programme. Some former fighters while away their days playing billiards, drinking beer and listening to *ranchera* ballads.

But the mood in the camp seems to be brightening. Thirty-eight children have been born there since the conclusion of the peace agreement. The settlement grows fresh vegetables and raises pigs and chickens, enriching a diet that consisted mainly of rice, beans, maize and yucca during the war. Foreign NGOs are providing capital to the camp’s startup ventures, including the Amasando Sueños (Kneading Dreams) bakery, which employs women, disabled people and the aged. The manager is Yesenia Quintero, who joined the guerrillas at 14. Patrons converse over the squawking of pet parrots and wails of babies.

Hopes are high that the hotel, which will accommodate up to 60 people, will benefit from a boom in ecotourism that is taking place in parts of the country where fighting has stopped. It has power and cold-water showers. Guests who want the full “guerrilla experience” can bathe in rivers and wash their own clothes. Laying landmines and studying Marxism are not among the activities planned.

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Bello

Having wrecked the economy, Venezuela's rulers see no reason to change

A gangster state proves surprisingly durable



Lo Cole

Dec 13th 2018

ONE MORNING last month Luis Manuel Cómbita was trying to sell large green mangoes in a pedestrianised street in the historic heart of Bogotá, Colombia's capital. He was stopped by a policeman because he lacked a permit. Mr Cómbita, aged 24, rake-thin and with a peeling fake leather jacket, said he had arrived from his home town of Mérida in Venezuela two weeks before. "There's no future in Venezuela," he declared. On his wages as a building worker "you go a day and half a week without eating."

Mr Cómbita is one of at least 2.5m Venezuelans who have emigrated since 2014 (out of 32m). Some put the diaspora at over 5m. There is no sign of the exodus ending. What began as a political confrontation under Hugo Chávez, an authoritarian army officer first elected to the presidency 20 years ago this month, has under his chosen heir, Nicolás Maduro, mutated into a national

collapse.

Venezuela's economy has shrunk by half since 2014—a feat few others have achieved in peacetime. Hyperinflation began in October 2017: over the 12 months to November, prices have risen by 1,299,744%, says the finance committee of the opposition-controlled National Assembly. (The government no longer publishes figures.)

What remains of Venezuela's private sector is facing destruction, says a boss. The government has loosened some of the ruinous price and exchange controls it long relied on. Now the main problem for business is the plunge in demand as wages are shredded by inflation. Companies are closing down. The latest to do so this week was Goodyear's Venezuelan tyre factory, which was operating at 10% of capacity.

Venezuela's collapse is not the result of low oil prices, still less of sanctions imposed by the United States. Other oil producers have coped with low prices, and the sanctions mainly affect individual leaders of the regime. Venezuela has been mismanaged and looted by its rulers. Chávez squandered an oil boom, borrowed recklessly and shackled the private sector. Venezuela is now the world's most indebted country. Its foreign obligations equal five times its exports, according to Ricardo Hausmann, a Venezuelan economist at Harvard University. Even China and Russia seem reluctant to lend more to it.

Normally all this would mean the government's downfall. Voters do not like being robbed or impoverished, and outsiders are unlikely to bail out Venezuela while the same incompetent thugs remain in charge. However, Mr Maduro has taken precautions to avoid being ejected. The main opposition parties are banned, their leaders in jail, in exile or intimidated. Torture of prisoners is common. The National Assembly has been reduced to an impotent NGO. In municipal elections on December 9th, only 27% of voters were officially said to have turned out. The Cuban spies who protect the regime have disrupted several coup plots this year. Dozens of military officers are in jail.

Venezuela now resembles Cuba in other ways, too. Those with access to dollars can shop freely; the majority rely on state food rations, distributed

through a regime loyalty card. The opposition is starting to look like Cuba's disrupted and divided dissident groups. The difference is that "our struggle is against a failed and criminal state," notes Julio Borges, an exiled opposition leader. Connected crooks control petrol and cocaine smuggling, and gold mining.

Outsiders have failed to find a way to restore democracy in Venezuela. President Donald Trump has muttered about launching a military invasion, but after Iraq that is highly unlikely. On January 10th Mr Maduro will start a second six-year term following a rigged presidential election in May. Since his regime will lose its last speck of legitimacy on that date, many governments say they will cut or downgrade diplomatic ties. Mr Borges urges them to apply more individual sanctions against the regime's leaders. Some may. Latin American diplomats are withering about what they see as the naivety of Spain's new Socialist government, which is calling for yet more talks. Unless put under much greater pressure, everything suggests that Mr Maduro would use these, as he has before, to stall and divide the opposition.

Economists like to say that if something is unsustainable, it will eventually stop. Venezuela suggests that the unsustainable can endure for a very long time. Mr Maduro's well-armed regime does not care whether Venezuelans stay or go, consent or no, thrive or starve, and it has survived a national economic collapse. It is a grim lesson for the world.

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Methamphetamines from Myanmar are causing problems across Asia. As poppy cultivation dwindles, meth-making is booming.

Saffron stumble

India's long moribund opposition shows signs of life

Congress wrests three state assemblies from the ruling Bharatiya Janata Party



EPA

Dec 13th 2018 | DELHI

“ANTI-INCUMBENCY” has long been an iron rule of Indian elections. Yet that had seemed to change when Narendra Modi led his Bharatiya Janata Party (BJP) to national victory in 2014. Wielding the biggest majority in a generation, the new prime minister promised to rid India entirely of Congress, the party that had ruled it for most of the previous five decades. In state after state and vote after vote, the BJP did indeed trounce its doddering rival, spreading a widening swathe of saffron—the colour of Hindu nationalists—across the political map. With a general election due in the spring, and Congress’s toehold having shrunk to just three of India’s 29 states, Mr Modi looked set to waltz into another five-year term.

As the results of voting for five state assemblies trickled in on December 11th, this calculus changed. Two of those states, Telangana and Mizoram, are considered outliers: their polls were won by regional parties with little

national influence. But the other three, Chhattisgarh, Madhya Pradesh and Rajasthan, together home to some 168m people, form a giant chunk of the Hindi-speaking heartland that is the BJP's base. All three elections pitted incumbent BJP governments against Congress challengers. Polls and pundits had seen just one of them, Rajasthan, as vulnerable to a Congress surge. Instead, India's grand old party grabbed all three.

The BJP's stumble carries implications far beyond these three states. It has dispelled the aura of invincibility that surrounded the BJP and diminished the personal authority, built up over years of vigorous and uniformly successful campaigning, of Mr Modi himself. Conversely, it has transformed Congress's leader, Rahul Gandhi, from a derided princeling into a credible challenger. Twenty years younger than the 68-year-old Mr Modi, the scion of the Nehru-Gandhi political dynasty seems not only to have halted Congress's decline, but to have infused new energy since succeeding his mother, Sonia Gandhi, as the party's president last year.

Shifting popularity ratings aside, the sudden rise in Congress's fortunes augurs a crucial levelling of the playing field for the forthcoming general election. Indian politics is expensive, and donors disproportionately reward perceived winners. The BJP's declared income since 2014 has soared to many multiples of Congress's shrinking take. That equation will now change, as funders see more potential in the underdogs for future policy pay-offs.

More important still for the national election are the implications of the voting pattern in the three states the BJP lost. Of the 545 seats in the lower house of the national parliament the trio account for 65, of which the BJP holds 59. Given the typically close correlation between state and national results, that number will surely fall in the national vote. Moreover the outcome in Madhya Pradesh and Rajasthan may give a sense of public sentiment in the neighbouring, far bigger state of Uttar Pradesh, which furnishes another 68 of the BJP's 273 MPs, and whose electorate is concerned by similar issues. Neelanjan Sircar of the Centre for Policy Research, a think-tank in Delhi, is categorical about the party's chances in the spring. "If they perform in national elections the way they did yesterday, they stand no chance of winning."

Even so, Congress should not be gloating. Its wins in Madhya Pradesh and

Rajasthan were razor-thin. Mr Gandhi still faces an uphill battle to impress voters as a statesman of equal gravitas to Mr Modi. The party seems to have benefited by emulating the BJP's appeals to Hindu identity in place of its traditional secularism. But Mr Gandhi's much-hyped visits to temples and promises to protect cows (and promote the healing powers of their urine) have done nothing to give his party a clear ideological identity. It will still need to patch together a wide coalition of unlikely bedfellows, including regional strongmen, to challenge the BJP nationally.

As for Mr Modi's party, most observers predict not a period of introspection, but a doubling down. If the BJP's recent state campaigns are an indicator, the party may amplify rhetoric intended to polarise the electorate along sectarian lines. A recent, controversial change of personnel at the top of the central bank, in which a compliant bureaucrat replaced a respected economist who had resisted pressure to go easy on badly run banks, suggests that Mr Modi may also plump for what Andy Mukherjee, a financial columnist, terms "a market-pleasing credit binge".

In the past, the mix of Hindu nationalism and boons for business has served Mr Modi well. But the lesson of the BJP's losses may be that this is no longer enough. Minorities, people of tribal origin, lower-caste Hindus, jobless youths and farmers feel increasingly estranged from a party that promised "the best day" but has delivered few jobs and no coherent national response to rising inequality. Business enthusiasm for Mr Modi has similarly waned as a result of tougher taxes, capricious rule-making and a deepening impression that the prime minister is more committed to Hindu nationalism than to development or reform. India's political current is rushing towards a turbulent spring.

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Banyan

Fiji's ruling party is in the ascendant, but its voters are emigrating

Ethnic Indians feel more welcome elsewhere



Till Lauer

Dec 13th 2018

THIS COLUMNIST, naturally, is impressed by the magnificent banyan trees that stand guard in Suva, Fiji's capital. Yet there they have an unwholesome political connotation. It was said that the longest-serving prime minister since independence, Ratu Sir Kamisese Mara, who died in 2004, was like a banyan tree: nothing grew in his shade. Ratu Mara failed to cultivate a new generation of leaders to carry his legacy forward.

Likewise Frank Bainimarama, a former navy commander, seems in no hurry to hand the helm to anyone else. He has kept a tight grip on it since seizing power in a coup in 2006. When he at last allowed an election, in 2014, his FijiFirst party won in a landslide. Although another election last month whittled the party's overall share to just 50% of the vote, in the polling for individual MPs (Fijians elect 51 members from a single, nationwide constituency), 36.6% of voters backed Mr Bainimarama, twice the tally of the

opposition leader, Sitiveni Rabuka. FijiFirst has a comfortable three-seat edge and control of all parliamentary committees. The commander, at 64, has a full head of steam up, as if he will be around for years.

Mr Bainimarama is no details man. Day to day, the government is run by his Machiavellian attorney-general, Aiyaz Sayed-Khaiyum, de facto prime minister to the presidential Mr Bainimarama. They have some laudable achievements.

Racial conflict has long been Fiji's blight. From the late 19th century the British colonial overlords brought Indian labourers to work on sugarcane plantations. By the 1940s ethnic Indians outnumbered indigenous Fijians, who feared they would be marginalised, like New Zealand's Maoris. Nearly all political spasms since independence in 1970 have had inter-ethnic tensions at their heart. Complex battles over land ownership and tenure have a racial complexion (most land is held in trust for indigenous Fijians), while the success of those of Indian descent in education, business and the professions has stirred resentment.

Messrs Bainimarama and Sayed-Khaiyum have worked to ease these tensions. The government has declared all citizens to be Fijian, a term which indigenous Fijians once kept for themselves. FijiFirst is a multi-ethnic party (although it wins nearly all the ethnic-Indian vote). Above all, the two men have sought to bury racial strife under concrete. Singapore is their model, and widened roads, new bridges and gleaming buildings their monuments.

The picture is far from perfect. Mr Bainimarama hounds the opposition and bullies the media (he once won an apology from Fiji TV when it initially awarded him only second place in a personality contest among text-voting viewers). Relatives find their way to good jobs. A brother is a permanent secretary. A daughter runs the sports council and a brother-in-law, who at the wedding of another daughter beat a member of the groom's family to death, is director of prisons.

The unengaging Mr Rabuka, another former military man who set off Fiji's cycle of coups and counter-coups in 1987, will not hector Mr Bainimarama about that. During a pre-election debate, the prime minister appeared not to know what "nepotism" meant. But Mr Rabuka declared he would not press

the case. His own daughter, friendly with the president's, has a job at the sports council too.

Yet one consequence of Mr Rabuka's coup—launched, he said almost nonchalantly last month, because Fiji was not ready for an ethnic-Indian prime minister—is that tens of thousands of Indians have left for Australia, New Zealand and North America. Back in 1987 the racial mix was roughly 50-50. Today indigenous Fijians are three-fifths of the population and rising. The electoral arithmetic is moving against FijiFirst, with its dependence on the Indian vote. Besides, says Lynda Tabuya, an up-and-coming opposition politician, younger voters are fed up with old codgers' divisive politics and sense that they are not getting the benefits of development. For all the upgrading of Fiji's hardware, investment in education and work opportunities lags behind.

In truth, FijiFirst is less a party than a contrivance to hold Mr Bainimarama aloft. His attorney-general is too disliked (and, for many, too Indian) to be a successor. Even Mr Sayed-Khaiyum's father-in-law, an opposition MP, says he would make a great prime minister anywhere but in Fiji. So it is in the opposition that the next generation of leaders probably lies. Provided Mr Bainimarama lets go of the helm, that is—which he has been careful never to promise.

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No secrets

An Australian law to expose vice annoys the tech world

The government gives itself the right to tap into all online communication



Dec 13th 2018

MARK ZIRNSAK is a lonely man. In September he wrote to the government on behalf of the Uniting Church in Australia to endorse the Assistance and Access Bill passing through Parliament. The bill, he argued, would help fight crimes such as child pornography and human trafficking. The spread of such horrors is facilitated by “end-to-end” encryption, which allows people to communicate via social media without anyone else, including the police, being able to snoop on them. Forcing tech firms to provide a way for law-enforcers to peer into those encrypted spaces, as the bill does, is reasonable, Mr Zirnsak argued.

He was virtually on his own. Of the 343 letters sent to the government during the comment period, only his was in favour. The fear is that any peephole built for the good guys will inevitably be exploited by bad guys. Apple, an American tech giant, said the law would give the government

“extraordinarily broad and vague powers”. Australian academics said it would have “serious negative consequences for the cyber-security of Australians”. Human-rights groups and lawyers railed.

The bill passed anyway and came into force this week. The government can now oblige tech firms to create backdoors to their systems to allow the authorities to spy on their customers. The penalties for non-compliance are stiff: A\$10m (\$7.2m) for defiant firms and A\$50,000 for recalcitrant people. Exposing police snooping is punishable with five years in prison.

The boss of Australia’s biggest tech firm, Atlassian, which makes tools for software development, called the law a “self-imposed black eye for the global image of Australian technology”. Google, Microsoft and IBM all have big Australian offices, which could in principle be the recipients of requests under the law. Technologists are already asking whether firms should move offices and personnel out of Australia to avoid awkward demands and to avoid dealings with firms that do not relocate.

The law will be hard to implement anyway. Large American firms are unlikely to comply with it. Apple has faced down the FBI in America over similar issues. Australia is a relatively small market, so big tech firms will be disinclined to put business there before their global reputation. If the cost of providing privacy to a billion potential customers in, say, China or India is to lose access to 25m Australians, so be it.

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Breaking Burma

Methamphetamines from Myanmar are causing problems across Asia

As poppy cultivation dwindles, meth-making is booming



Getty Images

Dec 13th 2018 | DHAKA AND KUTKAI

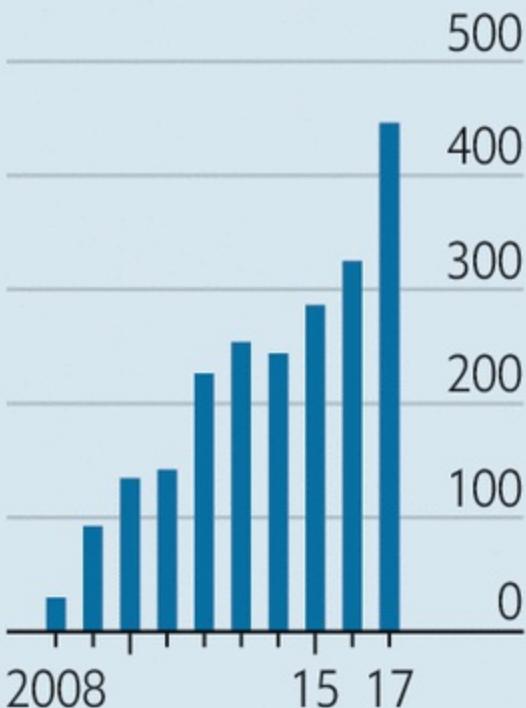
THE CHINESE cemetery in Kutkai, a town in the north of Myanmar's Shan state, is a popular spot to get high. Twitchy men with gaunt faces and wild eyes lurk near its entrance. The ornate tombs provide a good place to stash drugs and weapons away from home. The "Golden Triangle", where Laos, Myanmar and Thailand meet, has a long history of drug production and use. For centuries farmers have grown poppies on the hillsides and used them to make opium. For the past 50 years or so, much of that opium has been refined into heroin. More recently the region around Kutkai has become one of the world's largest production hubs for methamphetamine. *Yaba* (Thai for "crazy drug"), which is meth mixed with various adulterants, is a fifth of the price it was a few years ago. A single pill costs only 300 kyat (\$0.2).

Across Asia, demand for drugs is shifting from heroin to meth. In 2013 each drug had a market of about \$15bn in East Asia and the Pacific, according to

the UN Office on Drugs and Crime (UNODC). Since then the supply of heroin has tailed off, while meth production has surged (see chart).

Out with the old

Methamphetamine tablet seizures East Asia, m



Opium cultivation Golden Triangle, hectares, '000



Source: UNODC

The Economist

In 2017 some 450m *yaba* pills were seized in East Asia, up from 250m in 2013. Confiscations of crystal meth, a stronger, pricier form, rose from 14 tonnes to 33 tonnes. That suggests a huge market. Police guess that they seize barely a tenth of the total supply. In 2015 the region is thought to have become the biggest meth market in the world, overtaking North and Central

America. Demand still seems to be rising. Of the ten countries in South-East Asia, seven say they impounded more meth in 2018 than they did in 2017, says Jeremy Douglas of the UNODC.

Much of that meth gets cooked in Myanmar's ungoverned borderlands. Militias, which are backed by the army, and ethnic armed groups, which are not, control these areas. Drug-enforcement officials rarely venture there. When they do, the suppliers get tipped off. A raid in Kutkai in February led to the seizure of \$7m-worth of meth and heroin, but no arrests. The drugmakers had already fled.

The boom has several causes. A ban on poppy-growing in 2005, although far from universally observed, prompted some drugmakers to shift to meth. Around 2010 a series of ceasefire agreements between the government and various insurgents brought enough stability to do business, but not enough to let the state intrude on it much. Better infrastructure has also made trade easier. The four-lane main road in Kutkai is smooth and uncongested. Demand has risen too, as Asia grows richer and *yaba* more fashionable.

Drugmakers have upgraded their factories. Unlike opium, meth is a synthetic drug made by mixing chemicals. Output on this scale requires hundreds of laboratories with special equipment, such as pressure cookers and hydrogen-gas containers, as well as generators as big as those used by hotels and thousands of tonnes of ingredients, mostly trucked in from China.

The cooking process is sophisticated. The meth produced is of a high purity. Hydrochloric acid, one component, is deadly and explodes if heated to the wrong temperature. Yet no leaks of poisonous gas or chemical blasts have been reported in Shan state. That suggests the chemists are highly skilled, says a Western law-enforcement official: "These are not just some guys making meth in a bathtub in the jungle."

Finding out who is controlling the meth trade is tricky. Major De Khan of the Kwang Hka militia, which is based in Kutkai and has about 4,000 troops, claims to have no idea who is responsible. His group is not involved in the drugs trade, he insists, though individual members have been punished for trafficking. Experts scoff at such denials, pointing out that the army and militias maintain checkpoints on the roads and at border crossings. Lorries

full of chemicals and equipment could not pass unnoticed.

The most likely explanation is that militias, ethnic insurgents and the army are all involved. The money made is probably laundered through casinos and suspiciously empty restaurants owned by militia groups. Many believe the ringleader is the United Wa State Army (UWSA), an armed group that controls large parts of Shan state and has about 30,000 soldiers. Some call it the biggest international criminal organisation in the world.

In Myanmar *yaba* is now a feature of life, as it has been in neighbouring Thailand for years. It has spread from partygoers to casual labourers, not always by choice. Some opium farmers in Shan state are said to receive half their pay in pills. Jade-miners are reportedly given the drug to help them work 20-hour days, and then heroin at night to relax. When miners return to their villages, they bring addiction with them.

Smuggling meth out of Myanmar is easy. One way is to convince locals to strap on a meth-filled rucksack and walk through the jungle to Thailand, Laos or China. Another method is to truck it down to the Andaman Sea, where a fishing boat will motor a few miles from shore and transfer the drugs to a bigger vessel.

International trafficking is highly profitable. The retail price of a gram of crystal meth is about \$16 in Myanmar, but around \$300 in Australia. So distribution networks are fanning out. Drugmakers probably rely on UWSA's connections with organised-crime groups abroad, like China's triads, Japan's *yakuza* and Australia's motorbike gangs. Burmese meth has reached Australia, New Zealand, South Korea and Taiwan (see map).



The Economist

One fast-growing trafficking route is to Bangladesh. The number of pills recovered by authorities there has jumped from 3m in 2013 to 40m in 2017. Smugglers' jobs have been made easier by the crisis in Rakhine state, where murdering, raping soldiers have forced 700,000 Rohingya Muslims to flee to Bangladesh. Desperate and destitute, many refugees are paid by traffickers to take *yaba* across the border.

The new route has caused a surge in consumption. No official data exist on users, but some estimate that there are 6m of them, or almost 4% of Bangladeshis. Low-quality pills can cost \$1, less than a beer. Better ones go for about \$4, says a doctoral student and former addict. Her preferred brands are "CR7", a reference to Cristiano Ronaldo, a footballer, and "Champa", Bengali for the frangipani flower. She began taking *yaba* to increase her creativity and boost her sex drive. The habit soon spiralled and she started "chasing" daily, heating a pill and inhaling the fumes.

Government responses range from promising to awful. In May Bangladesh's government declared a "war on drugs", inspired by similar campaigns in Thailand in 2003 and the Philippines since 2016. Like its precursors, the crackdown has become a bloodbath. Suspects are often shot dead, the result, the authorities unconvincingly claim, of shoot-outs. "We find bodies on the

side of the road and in the paddy fields,” says Adilur Rahman Khan of Odhikar, a human-rights group. Since May his organisation has counted 380 extra-judicial killings of alleged drug users and sellers. The actual number could be two or three times higher, as ashamed families are reluctant to come forward when loved ones go missing.

Bangladesh would do well to learn from Thailand. The war on drugs there, which killed around 2,500 people, failed to diminish demand in the long run. It did, however, overcrowd the jails. Seven out of ten inmates are locked up for drug-related offences. The prison budget swallows half the spending of the ministry of justice. There is now a push to decriminalise drug use, and focus more on health and social services. A parliamentary vote on a new drug law is expected in early 2019.

Myanmar may be heading that way, too. Its drug-enforcement agency is understaffed and its rehab centres are underfunded. Communities shun drug users. But the government is slowly coming round, says Tom Kramer of Transnational Institute, a think-tank. In February it rolled out its first drug-control policy and amended its narcotics law. The changes stop short of decriminalisation, but do shift the focus from eradicating drugs to public-health interventions.

Such measures should help users. In time, demand for meth may fall. However, there is little hope of stemming supply. The conditions which make Myanmar’s wild borderlands an ideal place to produce drugs show no sign of changing. Up in the hills of Shan state, U San Maung Hla, the head of a village near Kutkai, shakes his head sorrowfully when asked about the future. He says a tenth of the young men in his village are drug addicts. The local rehab centre has no funding. The police do little to help. “The situation will not get better,” he sighs, “only worse.”

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China

- **[Synthetic drugs: Too many cooks](#)**

[Fri, 14 Dec 04:44]

The West once flooded China with opium. China is returning the favour. China's pledge to curb fentanyl production may not change much.

- **[Pollution: Changing the flow](#)**

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To curb pollution, China has appointed over 1m "river chiefs". It would help if they would answer their phones.

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[Fri, 14 Dec 04:44]

China should worry less about old enemies, more about ex-friends. American policy is driven more by disillusioned doves than longtime hawks.

Too many cooks

The West once flooded China with opium. China is returning the favour

China's pledge to curb fentanyl production may not change much



Satoshi Kambayashi

Dec 13th 2018 | BEIJING

WHEN POLICE raided an apartment used by a chemicals exporter in the northern city of Xingtai just over a year ago, they found a team of English-speaking saleswomen hired to advertise illegal wares on foreign websites. Last month their boss was among nine people who pleaded guilty in a Chinese court to producing and mailing narcotics to America. The drugs included fentanyl, a potent opioid painkiller that has killed tens of thousands of people. The investigation began with a tip-off from American police, who were investigating one of the gang's customers. They said the joint Chinese-American effort had prevented 20m doses of fentanyl from being sent abroad.

On December 1st China gave another hint that it was getting tougher on the drug that has blighted America (see [article](#)). The country's president, Xi Jinping, agreed to close loopholes that allow some unlicensed distributors of fentanyl to operate legally. Foreign governments, especially America's, have

for years been calling on the Communist Party to suppress the trade. The White House called Mr Xi's pledge, made during a meeting with President Donald Trump on the sidelines of a G20 summit in Argentina, a "wonderful humanitarian gesture". But it is unclear whether much will change as a result, in China or elsewhere.

In the 19th century China was defeated in two wars against Britain that were caused by British sales of contraband opium produced from Indian-grown poppies. These days the world's most popular recreational drugs are increasingly made from synthetic ingredients, not plants. The fringes of China's vast pharmaceutical and chemical industries have proved to be good places to produce them. The country is the world's biggest exporter of pharmaceutical ingredients and accounts for one-third of global sales of chemicals. Weak regulation has enabled the diversion of legally produced drugs into underground markets, according to the US-China Economic and Security Review Commission, a congressional body that gives advice to the American government on China policy. It has also made it easier for people to find the ingredients, kit and talent necessary to cook them up illegally.

For years the biggest such business was making stimulants such as amphetamines and methamphetamines, which are also produced in neighbouring countries (see [article](#)). Such drugs have been growing increasingly popular among China's drug-takers and in the rich world. But the synthetic opioid crisis in America has created new business opportunities. America says most illicit fentanyl comes from labs in China. Finished opioids or the ingredients needed to produce them are sold by Chinese distributors to gangs in Mexico and Canada, who smuggle them into America. They can also be bought online and shipped directly to American buyers using international mail services.

Fentanyl's unusual potency—30 times greater than heroin—makes it easy to smuggle powerful amounts in small, hard-to-detect quantities. It can be disguised, for example, as the tiny sachets of desiccant used to stop many packaged goods from going soggy. In 2017 America's Department of Justice guessed that fentanyl purchased in China for \$3,000-5,000 could be worth around \$1.5m on American streets. About 29,000 people in America died from overdosing on opioids such as fentanyl in 2017, up from about 5,000 in

2014.

Chinese officials say that drugs of this type are not yet commonly abused in their own country (the crisis in America owes much to copious prescription of legal painkillers; these have never been as readily available in China). Until recently the production and sale of synthetic opioids was not tightly controlled. For years Chinese distributors sold fentanyl openly to people abroad through their websites. Some still do. They have managed to stay ahead of gradually tightening laws by slightly altering their products' chemical recipes. The new types of fentanyl that result are not banned under Chinese legislation, but are just as dangerous as older ones.

Exactly how the Chinese government will implement Mr Xi's promise to close legal loopholes has yet to be spelled out. It appears to be mulling a restriction that would embrace all existing types of fentanyl, as well as fentanyl-like compounds that have yet to be invented (at present it has to introduce a new prohibition each time drug-cooks tweak their product). Lawmakers everywhere have usually preferred to avoid such all-encompassing measures, in part so as not to stifle pharmaceutical research, but lately they have been thinking again. America's Drug Enforcement Administration introduced sweeping new controls on all fentanyl-type substances in February. It said this was an emergency measure that would initially last two years. The hope on both sides of the Pacific is that China's new regulations—if and when they are enacted—will persuade at least some of the country's fentanyl-makers to find alternative work that does not threaten lives.

Yet enforcement will be a tough challenge. Local officials regard boosting economic growth as their priority. They are often reluctant to step up inspections that might impose costs both on government and industry. Some take kickbacks from manufacturers. Lapses in the regulation of China's drug and chemical industries are common, despite the government's incentive to avoid such slips and the public outrage they cause. (This summer Chinese parents found out that more than 200,000 babies may have been given substandard vaccines, the latest of several such public-health scandals.) Sending illegal materials by post is already banned. But the Chinese postal system handles more than 75,000 new parcels every minute. Finding drugs in

them, and tracing them to their source, is fiendishly difficult.

This is a good reason for America to focus on remedies at home. It could invest a lot more in finding ways to reduce the harm caused by opioid addiction, including treatments that reduce the craving of addicts. And China needs to prepare itself for the possibility that powerful synthetic opioids will catch on at home. The country's punitive drug policies, which include detaining many addicts, look even worse-suited than America's to handling the health crisis that may result.

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Changing the flow

To curb pollution, China has appointed over 1m “river chiefs”

It would help if they would answer their phones



Dec 13th 2018 | BEIJING

HUO YAN, the Communist Party boss of a small district in north-east Beijing, was recently ordered by her bosses to take on a second job. Now Ms Huo must find time in her busy schedule to conduct weekly patrols along the Bahe river—an ancient canal that flows through her patch. She is responsible for protecting the waterway, scooping out garbage (or hiring others to do so) and keeping an eye out for pollution-causing activities on its banks. The side gig comes without extra pay.

The “river chief” system began more than a decade ago in the eastern province of Jiangsu. In 2016 the central government decreed that every lake and river, or segment thereof in the case of larger ones, must have someone tasked with keeping them free of visible pollutants. By the end of June every river had at least one local official designated as its supervisor.

There are now nearly 1.1m river chiefs. The government says they will be accountable “for life” for any serious pollution that relates to a lapse on their watch, but penalties have yet to be specified. Promotions in their regular jobs will take into account their riverine duties. Liu Dengwei, a researcher at the Ministry of Water Resources, says chiefs will not be unfairly punished for filth from upstream.

It is a tough assignment. Earlier this year a government report said that surface water in nearly a third of “river sections” surveyed was too risky to touch, let alone drink. Water in nearly 15% of them was rated too dirty even for industrial use. Lakes are worse. The report says that out of 54 large ones surveyed, 29 contained water deemed unsafe for human contact.

The chiefs’ appointment may be a sign that the government is worried about public anger over its perceived failure to deal with the problem. Surveys by the Pew Research Centre, a think-tank, found that 37% of respondents in 2016 saw water pollution as a “very big problem”, up from 28% in 2008. Those polled expressed less anxiety about smog and the rising cost of living.

Ministries responsible for bodies of water have unclear and sometimes overlapping responsibilities. The result has been buck-passing and finger-pointing, says Mr Liu. This will be more difficult now that named individuals are accountable for water quality, the theory goes. Whether this is really so may become clearer in 2019, when the government is expected to release data from the first nationwide water-quality survey since rivers got their chiefs. But anecdotal evidence is promising. A man fishing in the Bahe river recounts how the water was “opaque green” and fetid just two years ago. Today it is clear and odourless. He credits the river-chief system.

Those with complaints about foul water can easily find out whom to call: noticeboards have been erected by almost every river and lake with the name and mobile-phone number of a chief. Ms Huo, to her credit, answers calls. The same cannot be said of many other chiefs in Beijing. Surprise inspections will be carried out next year. Mr Liu says they may involve random test calls. Shirking chiefs, beware.

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Chaguan

China should worry less about old enemies, more about ex-friends

American policy is driven more by disillusioned doves than longtime hawks



Dec 15th 2018

To FIELDMICE, rabbits and voles, every shadow overhead is a hawk until proved otherwise, condemning them to lives of needless panic. Chinese nationalists seem intent on ignoring that lesson from nature. Behind rising tensions with the West, they see dangerous anti-China hawks everywhere. Specifically they feel under attack from hardliners with President Donald Trump's ear, who are intent on keeping a rising China down.

Rather than hawks scheming to contain China, jumpy nationalists should be worrying about a different group: Americans and Europeans who were once advocates of engagement, but have been disappointed by illiberal, aggressive choices made by Chinese rulers. They are not so much hawks as unhappy ex-doves.

That runs counter to an official Chinese narrative that casts China as the

peace-loving victim of Americans with a cold-war mindset. In the words of a Chinese speaker at a recent policy forum: “[Cold-warriors’] feet have entered the 21st century but their heads are stuck in the 20th century.” This narrative is used to explain the trade war begun by Mr Trump. It is applied to the recent arrest in Canada of a Chinese businesswoman, Meng Wanzhou, on an American warrant linked to an alleged sidestepping of sanctions on Iran (see Business). The arrest of Ms Meng, chief financial officer of Huawei, a telecoms giant, and also the daughter of the firm’s founder, has angered public opinion in China. Dismayingly, many responses skip past the legal rights and wrongs of the case to denounce what they call an outrageous, political attack on a Chinese national champion.

More vitriol is poured on anti-China hawks than on Mr Trump in person, in part because China hopes to strike a deal with America’s president. That message discipline is striking but unhelpful. It is true that Mr Trump lends half an ear to anti-China hawks who think communist rulers incapable of changing. But for Chinese leaders, a trickier challenge is posed by ex-doves readying one last attempt to make them change. These diplomats, academics, politicians, executives and entrepreneurs from across the West are not America First unilateralists. Plenty are internationalists, worried that China is co-opting institutions such as the UN and the WTO to make them safe for authoritarianism, state-backed capitalism and other threats to a rules-based order. Above all, these ex-doves agree that 20 years of patiently cajoling China to change has not worked.

Lines between economic competition and national security are blurring. Western officials fret about Chinese hacking attacks on the home-country servers of big companies, only some of which have been reported. They murmur about Chinese investors visiting obscure startups or university researchers, offering to buy very specific technologies. That makes such officials more willing to endorse the idea that the West should insist on reciprocity in dealings with China—an idea they once heard as code for protectionism. They worry that China is taking advantage of a Western openness that now feels naive. That does not make them anti-China. It makes them ex-doves who read secret intelligence reports.

America’s China-policy machine, involving various branches of government

and members of both parties in Congress, wants to change tactics. Instead of writing wishlists of specific actions—here a new regulation, there a business licence—the machine wants to talk about high-level principles. That means telling China that it cannot rise at America’s expense. It involves explaining that granting foreign firms market access means little if the government is their regulator and (via state-owned enterprises) their competitor. Such scepticism may overshadow a reported Chinese offer to supplant a self-reliant industrial policy, Made in China 2025, with something more foreigner-friendly. Rather than haggle over every concession, America’s machine wants China to explain how it will change.

In recent months Chinese and American officials talked past each other, as China resisted a substantive discussion about how it operates. A worrying lesson from Western governments’ human-rights dialogues is that China is brilliant at turning debates about principles into empty talkfests. It complicates matters that America’s machine answers to a president who seems so uninterested in principles and norms. On December 11th Mr Trump told Reuters, a news agency, that he would intervene in the Department of Justice investigation of Huawei and Ms Meng if it was good for national security or for reaching a China trade deal. Aghast, Canada’s foreign minister, Chrystia Freeland, urged America not to “politicise the extradition process or use it for ends other than the pursuit of justice.” Soon after China threatened Canada with “serious consequences” for arresting Ms Meng, Michael Kovrig, a former Canadian diplomat turned analyst for the International Crisis Group (ICG), a think-tank, was detained in Beijing. ICG said he had been picked up by secret state-security police. China’s foreign ministry accused ICG of lacking operating permits. A China-based Canadian entrepreneur who has led tours to North Korea, Michael Spavor, is also missing after contacts with Chinese authorities, Canadian officials said on December 12th.

No-go for the status quo

At his worst Mr Trump makes his trade war sound like a rent renegotiation, through which he wants to make China pay more for access to the valuable property known as the American economy. But Mr Trump is not the only actor in China policy. Lots of decisions never reach his desk. Indictments of alleged Chinese spies and hackers are said to be on the way, along with

tighter visa rules. Wise tech-firms are examining whether sensitive supply chains that run through China are politically sustainable. Tensions may worsen quickly if China sticks with a state-dominated growth model. If so, expect accusations that anti-China hawks have achieved a long-planned victory. In truth, brokenhearted advocates of engagement with China will have failed.

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A puppet is set to replace the president. Joseph Kabila will still pull the strings after stepping down.

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Congo's election

A puppet is set to replace the president

Joseph Kabil will still pull the strings after stepping down



Dec 13th 2018 | KINGAKATI FARM

"WE WANT ELECTION day to be a party, not a day people lose their lives," says President Joseph Kabil (pictured). After a ballot scheduled for December 23rd, he is planning to step down, he says. Having ruled the Democratic Republic of Congo for 18 years, he is constitutionally required to.

Entertaining foreign journalists (a rare event) at his farm east of Kinshasa, the capital, he is mild-mannered. He chuckles at tough questions, and wanders off topic when disinclined to answer. Asked if the election will be free and fair, however, he is direct: "No question about that." Few outside his circle concur.

Still, it will be the first time that Congo has ever changed its leader at the ballot box. Mobutu Sese Seko, a kleptocrat who grabbed power in 1965 and used public cash to swill pink champagne and charter Concorde to go shopping in Paris, fled his palace moments before it was ransacked by

soldiers in 1997. The man who toppled him, Laurent Kabila, was shot dead by a bodyguard in 2001. His son has ruled ever since, locking up critics and crushing protests. In recent years thousands have died violently.

The election has been a long time coming. The constitution required Mr Kabila to step down in 2016. He tried to change it, failed, and stuck around for two more years anyway. The Catholic Church, one of Congo's few well-functioning institutions, organised peaceful protests calling for him to step down. On three Sundays, congregations in Kinshasa marched out of church after mass waving palm fronds and placards. The police sprayed them with tear gas and bullets, killing 18 people and dumping bodies in the river.

Mr Kabila probably will step down, having been pressed to do so by Angola, South Africa and other African states that fear chaos if he lingers. But it would be foolish to expect voting day to be jolly. More than 100 rebel groups are at large. A jihadist militia, reportedly with links to Islamic State, is terrorising an eastern area that is also being ravaged by Ebola. Many Congolese will be too nervous to vote.

Few trust the electoral commission, widely believed to be in Mr Kabila's pocket. Polling booths may well go up in flames. Two people were killed by police at an opposition rally in the capital on December 11th. Some 105,000 electronic voting tablets from South Korea have been nicknamed *machines à voler* (stealing machines). Delivering them to 84,000 polling stations, many in remote areas accessible only by helicopter, boat or motorbike, will be tricky. If batteries go flat, it will be hard to recharge them. Only 1% of people in rural Congo have access to electricity.

“Voting takes a minute,” says Corneille Nangaa, the commission’s head. It may take rather longer. Jean-Pierre Bemba, an opposition leader and former warlord barred from standing, says it will take an average of six minutes, partly because so many voters are unused to technology. If so, Congo’s 40m voters (in a population of maybe 82m) would need at least two days to cast their ballots. Mr Nangaa says voting must not exceed 24 hours.

If the election is too obviously flawed and enough people in and outside Congo complain, it could be invalidated and put off yet again—leaving Mr Kabila in power. If not, the winner is likely to be Emmanuel Ramazani

Shadary, Mr Kabila's handpicked successor, a former interior minister. The EU has just renewed sanctions against him for the part he played in suppressing protests in 2016 and 2017, so he will not be able to visit it. "Congo is as big as the European Union, so Shadary will have so many provinces to cover," says Mr Kabila breezily. "I don't think he will miss Europe."

Mr Shadary faces a weak opposition. Two of his most serious rivals, Mr Bemba and Moïse Katumbi, a former governor, were prevented from running. The rest of the opposition has splintered. In a short-lived moment of hope last month, seven opposition leaders said they had chosen a single candidate, but within a day two of them peeled off to form a rival coalition.

Mr Kabila says he will keep himself busy spending time with his mother. He will also lend a hand to Mr Shadary (or any other winner). He may even try to run again for president next time around, as the constitution allows, perhaps having pulled Mr Shadary's strings for five years. He is studiously vague about this: "2023 is way away." At a summit in August he told leaders that he would not say goodbye but rather "*à bientôt*" (see you soon). Did this mean he plans to return? "I was paraphrasing a movie I have seen very often...when Arnold Schwarzenegger says 'I'll be back'. So don't take lots of my jokes out of context."

Mr Kabila has stayed in power by keeping friends and rivals weak. The army is often without ammunition, save for the presidential guard. Mr Kabila's loyalists have been slotted into the constitutional court and electoral commission. Anyone who becomes too popular is in danger. Denis Mukwege, the winner of this year's Nobel peace prize for treating victims of wartime rape, survived an assassination attempt in 2012. An army general with a big following was murdered in 2014.

Mr Kabila will want his successor to protect the wealth he has accrued. He and his family have interests in mines, banks, real estate, farms and airlines. Their companies have permits for diamond mining that extend along Congo's southern border with Angola. His farm at Kingakati adjoins a game park teeming with imported giraffes, rhino and lions.

"What happens when the lizard becomes the crocodile?" is a Congolese

adage. Could Mr Shadary, once in office, bare his teeth at Mr Kabilia? If Mr Shadary were to follow the example of Angola's president, João Lourenço, he could tell the taxman to take a hard look at his predecessor's family. However, lacking a base of his own, most notably in the army or security services, Mr Shadary is unlikely to do so.

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The middle domino

Burkina Faso, west Africa's lynchpin, is losing its war on terror

Attacks are intensifying, but the authorities have no idea who is behind them

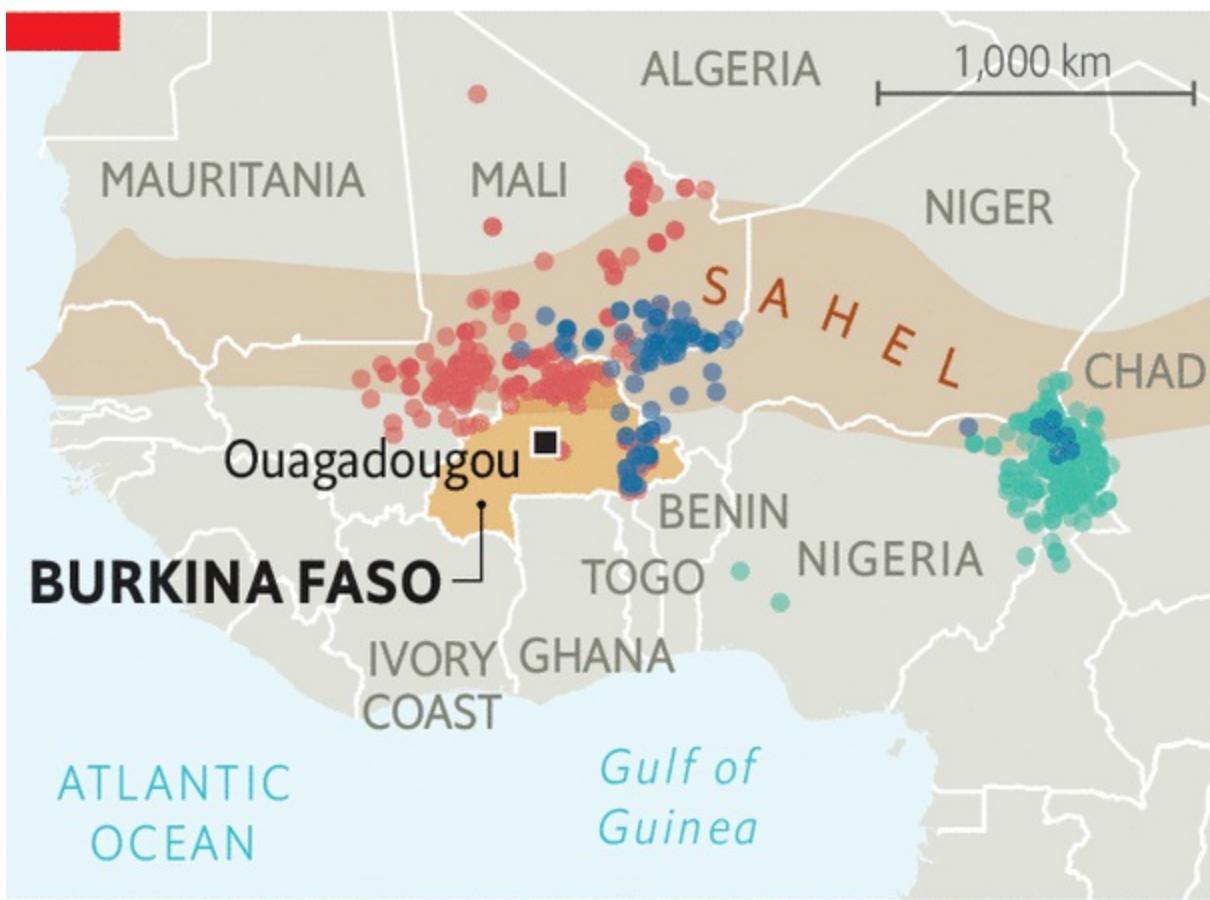


Dec 13th 2018 | OUAGADOUGOU

THE CAPPUCCINO patisserie in the centre of Ouagadougou, Burkina Faso's capital, offers freshly baked croissants and that rare delicacy in west Africa, a decent Italian coffee. Its other features are less charming: a thick security barrier and two twitchy soldiers with assault rifles guard its patrons.

This was the place where jihadist terrorism first came calling three years ago. Jihadists attacked Cappuccino and the nearby Splendid Hotel. Thirty people were killed and dozens were injured. A conflict that had been raging next door in Mali had just jumped into a lynchpin state. Burkina Faso has borders with six other west African countries; instability there could create a corridor by which jihadism might spread from the Sahel into states along the Gulf of Guinea. A long-overlooked country of 20m people is now seen as a vital battleground. And the fight is not going well.

Since January 2016 there have been more than 230 attacks in Burkina Faso. In 2017 jihadists killed 18 people in an attack on Aziz Istanbul, a Turkish restaurant. Another 16 people (including eight assailants) were killed in attacks on the French embassy and army headquarters in March.



Violence involving jihadist groups

September 2017-September 2018

- al-Qaeda in the Islamic Maghreb and affiliates
- Islamic State-related groups
- Boko Haram

Source: Africa Centre for Strategic Studies

The Economist

The conflict is concentrated mainly in two zones, along its northern border with Mali and in the east towards the border with Niger (see map). In both areas the jihadists are mobile and heavily armed. Their primary targets are

generally government offices and military outposts. More than 250 people have been killed.

Less clear is who is behind the fighting. Some attacks, such as the one on Cappuccino, have been claimed by al-Qaeda in the Islamic Maghreb, a jihadist group that operates across large parts of the Sahel. Others have been claimed by a variety of similar groups including Nusrat al-Islam, Islamic State in the Greater Sahara and Ansarour Islam. But more than 90% of the attacks remain unclaimed and unattributed.

Forensic work offers some clues. Brigadier General Oumarou Sadou, the chief of staff of Burkina Faso's army, says that there are similarities in the home-made bombs used in the north and east, suggesting that the attacks are linked. But beyond that, General Sadou is puzzled as to the identity of the attackers, particularly in the east.

Some suspect former members of the security services loyal to Blaise Compaoré, who ruled the country for 27 years before being toppled in a people's uprising in 2014. His fall led to the dissolution of his 1,200-strong presidential guard. Many of its members are disgruntled at having lost their privileges. There is no hard evidence of their involvement.

However, Mr Compaoré's henchmen had long-standing links to the jihadists. The International Crisis Group, a think-tank, says that his regime cut deals with armed groups in the region, giving them support in exchange for a promise not to attack Burkina Faso. This truce unravelled in 2013, after jihadist rebels took control of the northern half of Mali. France sent in troops to push them back and Mr Compaoré was forced to deploy 1,000 soldiers to the border with Mali.

Now Burkina Faso itself needs assistance, particularly air support, says General Sadou. "Mali was asking for help before they had their crisis. No one listened," he says. "If we do not get more help, I see the situation definitely getting a lot worse."

Neighbours including Togo, Benin and Ghana have sent troops to their borders near Burkina Faso and have raided suspected militant outposts. But it is not clear whether Burkina Faso will get much direct support. France has

already committed 4,500 troops to the region, yet they are stretched thin. The G5 Sahel, a counter-terrorism force consisting of 5,000 troops from Mali, Mauritania, Chad, Niger and Burkina Faso, which was established to deal with just this sort of threat, is struggling to get troops into the field.

Aziz Istanbul has yet to reopen since it was attacked. Its shattered windows and walls pocked by bullets offer a worrying vision of where the country may go.

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Look who's talking

Faint hopes of ending the war in Yemen

But a peace deal is still some way off



Dec 15th 2018

Editor's note (December 13th, 2018): After *The Economist* went to press the government of Yemen and the Houthi rebels agreed on a ceasefire in Hodeida. This story has been updated to reflect those developments.

“HOPE IS THE currency of the mediator,” says Martin Griffiths. If that is so, then the United Nations envoy to war-torn Yemen is spending liberally. As *The Economist* went to press, Mr Griffiths was wrapping up peace talks in Sweden, claiming progress on several fronts. The Houthi rebels and the government they pushed out in 2015 have agreed to exchange thousands of prisoners. The government and its foreign allies, which control the skies, say they will allow the airport in Sana'a, the rebel-controlled capital, to reopen. And, most important, the two sides have agreed to a ceasefire in Hodeida, Yemen’s main port.

The summit itself is an achievement. It has been over two years since the Houthis and the government sat around the same table. It has been four since the war began, drawing in other countries, including a coalition led by Saudi Arabia and the United Arab Emirates (UAE), which backs the government, and Iran, which supports the Houthis from afar. Tens of thousands of people have been killed in the fighting. Millions are at risk of starvation, says the UN. The promise of more talks early in the new year is thus welcome. But big obstacles stand in the way of a lasting peace.



The Economist

They start with Hodeida, which is controlled by the Houthis and has been under attack by forces aligned with the government. An all-out battle for the port, through which most goods and aid flow, risked exacerbating the humanitarian crisis. The ceasefire, it is hoped, will mitigate the suffering. The forces of both parties are meant to withdraw. The city will be placed under the control of locally recruited forces, whose make-up is still unclear, with

the UN monitoring the situation. But implementing the deal will be tough given the depth of distrust between the warring parties.

Fighting elsewhere shows how complicated the conflict has become. Pro-government forces control Taiz, Yemen's third-largest city, which is besieged by the Houthis. But there has been fighting even within the pro-government ranks. Forces aligned with Islah, an Islamist party, have clashed with fighters backed by the UAE, which is vehemently anti-Islamist. The UAE, despite supporting the government, has also worked with forces that want independence for South Yemen, which was a separate state until 1990. Other areas neglected by the government are pushing for autonomy and a greater share of the country's resources. It will be impossible to satisfy everyone. (Only the government and the Houthis were invited to Sweden.)

There are many who do not want peace. Powerful people on all sides are profiting from the conflict. In this effort, at least, supposed adversaries are working together, says the Sana'a Centre for Strategic Studies, a think-tank. Anti-Houthi commanders inflate the size of their forces to receive extra arms from the coalition. These are then sold to the Houthis. The import of cheap fuel from Iran seems to benefit only bigwigs who oversee or approve shipments. By the time it gets to the local market, the price has been marked up. "Without reining in the influence of the war profiteers, the chances of achieving peace are grim," says the centre.

International pressure to end the war is growing. Much of it is coming from America and directed at Saudi Arabia. The United States Senate looks likely soon to pass a resolution withdrawing American support for the coalition. President Donald Trump, who is cosy with the kingdom, will have the final say. But Saudi influence in Washington has waned since the killing in October of Jamal Khashoggi, a Saudi journalist, in the kingdom's consulate in Istanbul. Shortly afterwards, America ended in-flight refuelling for coalition aircraft in Yemen and called for peace talks.

Saudi Arabia gets much of the blame for Yemen's misery. It has bombed civilians and the government it supports is not popular. The Houthis, though, are also widely hated. They have been accused of torturing prisoners and running a police state. Many Yemenis, therefore, do not care who wins. But ending the fighting would just be a start. A political solution that assuages

everyone's grievances will take time. For now, there is only hope.

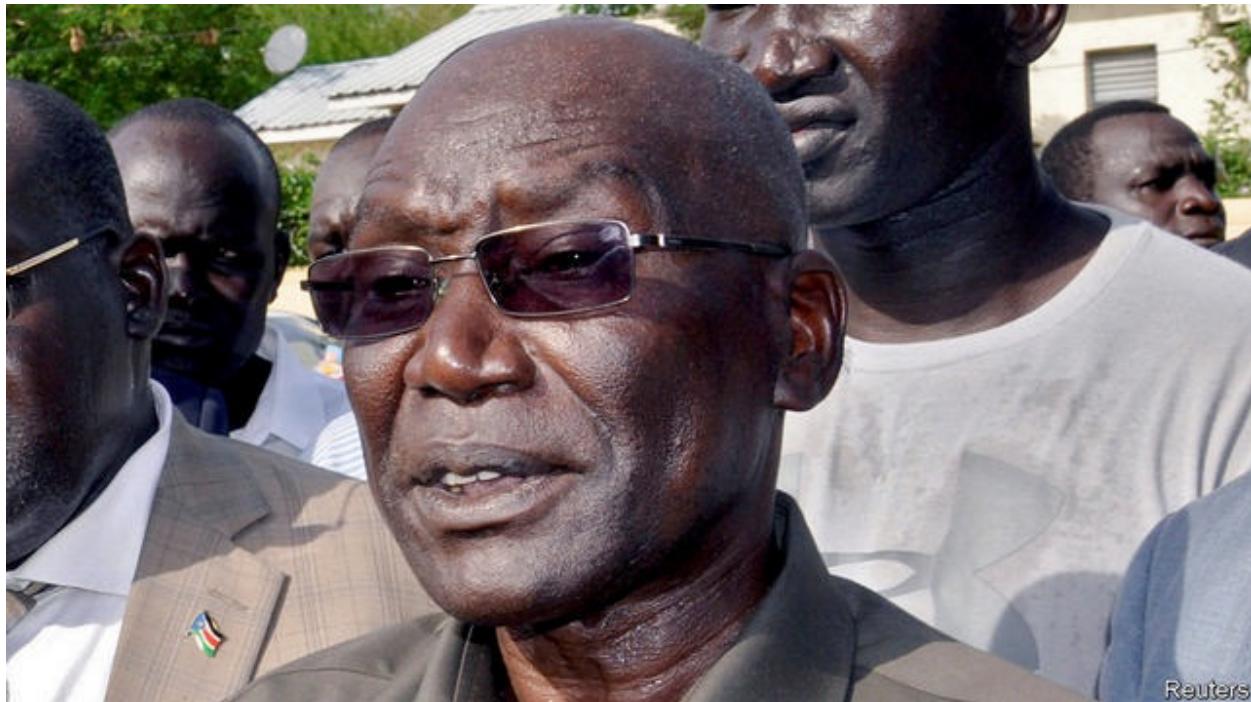
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War and fees

South Sudan's neighbours help launder the loot from its civil war

Pilfered petrodollars pay for plush pads in Nairobi



Dec 13th 2018 | ADDIS ABABA

“I AM NOT a rich man,” pleaded Paul Malong, the ex-chief of South Sudan’s army, in an interview on Kenyan television. Shaking his head, he denied having plundered state coffers or being responsible for war crimes committed by his troops. “I am just a family man,” he explained.

Really? The UN Security Council says he is implicated in the torture, abductions, rape and mass killings by men under his command. The Sentry, a watchdog backed by George Clooney, an actor, says that Mr Malong owns at least two big houses in Uganda and a \$2m mansion in a gated community in Nairobi.

Since South Sudan’s independence in 2011 its leaders have pillaged the country (see [article](#)). Nearly \$7bn has gone missing since 2012, reckons Kenya’s Institute of Economic Affairs, a think-tank. Petrodollars vanish.

Powerful wrongdoers are seldom punished.

Partly because the state is easy to plunder, big men fight for control of it. South Sudan's conflict, which started five years ago on December 15th, has caused perhaps half a million deaths, mostly by aggravating hunger and disease. Neighbours have hosted peace talks, paid for by donors. But they have done little to stop the laundering of the loot.

Much of this has been parked in Kenya and Uganda. The Sentry claims that both Salva Kiir and Riek Machar, South Sudan's president and vice-president, who were on opposing sides in the civil war, have expensive homes in Nairobi. Both deny it. The watchdog also claims that Mr Kiir is building a lakeside mansion in a resort town near Addis Ababa, the capital of Ethiopia.

South Sudan is now more or less at peace, thanks to a power-sharing deal struck in September between Mr Kiir and Mr Machar. But corruption risks undermining the fragile calm.

The prospect of a new transitional government in May 2019 has already led to a rise in last-minute looting by those worried that they will soon lose power, says a source in Juba, the capital. A report by a UN Panel of Experts raised concerns that oil firms were making large prepayments for oil that is yet to be produced. Although not necessarily corrupt, these deals are presumably concluded with those currently in power, rather than with those who will take over. "It looks like they were offshoring money very rapidly," says Klem Ryan, who served on the panel. Other resources such as teak and gold are also smuggled out of South Sudan. Some of the proceeds go to rebel groups and government forces.

International sanctions, first imposed in 2015 on a handful of generals from both sides, have done little to curb the theft. In August Gabriel Jok Riak, the new head of South Sudan's army, appeared as guest of honour at a private university in Uganda, in violation of a travel ban. He also travelled to Kenya in April for medical treatment. For two years after he was placed under sanctions by the UN, his Kenyan bank account was not frozen. Kenya's financial authorities have yet to take any action against banks suspected of holding South Sudanese loot. Both Kenya and Uganda lobbied against

America's efforts to impose UN sanctions, despite paying lip service to them, says Zach Vertin, the author of a new book about the war.

There are signs that the West is getting tougher about enforcing sanctions. In a visit to Uganda in June an American Treasury official warned local banks that they would be cut off from America's financial system if they did not stop South Sudanese bigwigs from buying property with dodgy cash. Kenya's banks may soon be "grey-listed" by the Financial Action Task Force, the world's primary anti-money-laundering body, which would discourage other banks from dealing with them.

But David Ndii of Africa Economics, a think-tank in Nairobi, doubts regional authorities will ever really clamp down. "Money-laundering is very big business," he says. "There is absolutely no domestic political interest to rock the boat."

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St Charbel to the rescue

Miracles are on the rise in Lebanon

Heavenly help for the hard-up



Getty Images

Dec 13th 2018 | BEIRUT

STRANGE THINGS happen to Nohad al-Shami. In 1993 her painting of St Charbel began oozing oil. Around the same time the long-dead saint appeared in her dreams. “I have come to operate on you,” he said. And so he did, curing her of hemiplegia (paralysis of half of the body), she claims. At the mountain-top monastery of Annaya, in north-west Lebanon, a mass is said every month to mark the miracle—and to pray for new ones. “The blind see and the disabled walk,” says Mrs Shami.

Miracles are on the rise in Lebanon. So says Father Louis Matar, the Maronite priest who keeps a tally of such things. St Charbel (pictured), the closest thing Lebanon has to a patron saint, gets most of the credit. He has notched up 26,000 miracles since his death in 1898, when villagers said light beamed out of his tomb. After slowing down at the start of this century, he has regained his form. “We’re seeing more miracles in these past two years

than we have in the past decade,” says Father Matar.

Polls show religious faith is declining in Lebanon, especially among the young. But many people still wear amulets to ward off evil spirits and visit faith-healers when they are sick. Miracles were often reported during Lebanon’s civil war of 1975-90 and its war with Israel in 2006. Saints even get special protection under the law. Mock one and you risk jail time. In July, after news spread that St Charbel had helped a woman conceive, police interrogated two men who suggested that the saint had slept with the woman.

Studies suggest that people often turn to religion in the face of hardship. Some Lebanese may be seeking help from St Charbel to cope with a slow-burning economic crisis, staggering inequality and the threat of renewed war with Israel. “People are at best totally dependent on their sectarian leaders and at worst left out in the cold,” says Paul Tabar, an anthropologist at the Lebanese American University. “It is this precariousness that’s driving many into the arms of saints and gods.”

Fortunately, St Charbel does not discriminate. About one in ten of his miracles heals a Muslim or Jew, says Father Matar. But the saint has been caught up in the sectarianism that poisons Lebanese politics. Though the tourist trade is struggling, officials are loth to publicise his acts, which might attract more visitors. “We cannot possibly promote the miracle of a Christian saint or any other religion,” says Avedis Guidanian, the tourism minister. “It would upset other sects.” If only St Charbel could heal Lebanon’s divisions.

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Europe

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Europe's summiteers have little to celebrate, besides not being British. Franco-German dysfunction makes it impossible to clear Europe's roadblocks.

The AKK era begins

Annegret Kramp-Karrenbauer takes over the CDU leadership

Angela Merkel prepares to make way for her hand-picked successor



Dec 13th 2018 | HAMBURG

“THE HARDEST births produce the most beautiful children,” quipped Annegret Kramp-Karrenbauer in 2011, after a tricky parliamentary process had elevated her to the top job in the Saarland, a small state in south-west Germany. If so, AKK, as she is universally known, is sitting pretty. On December 7th, at a party congress in Hamburg, she was elected leader of Germany’s centre-right Christian Democratic Union (CDU) by the slimmest of margins. Some supporters of her rival, Friedrich Merz, a former CDU parliamentary leader whose guerrilla campaign had electrified the party’s conservative old guard, vowed to quit the party in disgust. It was quite the ride for a genteel party unused to the twists and turns of internal democracy.

Mrs Kramp-Karrenbauer becomes only the fourth person to lead the CDU in 45 years. For now she will cohabit with her ally, Angela Merkel, who has taken the unusual decision to yield the party leadership while remaining

chancellor—perhaps until her term expires in 2021. In February Mrs Merkel plucked Mrs Kramp-Karrenbauer from the Saarland to appoint her CDU secretary-general, a clear sign that a successor was being groomed. About time, muttered some; Mrs Merkel had run the country since 2005 and the party for five years more. Many felt her split-the-difference centrism sucked the life out of politics.

Such folk were unlikely to take to Mrs Merkel’s anointed successor. Mrs Kramp-Karrenbauer’s first challenge has thus been to rebut the charge that she is merely a clone of the chancellor. The two women indeed share a low-key style and an instinct for consensus-building. CDU members who wanted a return to a flintier conservatism are right to feel defeated.

But the comparison can be overdone, for Mrs Kramp-Karrenbauer has a distinctive political outlook. Her “social market” philosophy is shaped by her experiences in a state ravaged by deindustrialisation: she backs minimum wages and does not share the tax-cutting zeal of some in the CDU. She has a Catholic’s view of matters like gay marriage and gene-editing, and tougher instincts than her mentor on immigration and security. Nor have the two always seen eye-to-eye, notes Kristina Dunz, co-author of “I Can, I Want and I Will”, an AKK biography; in 2012 Mrs Merkel was furious when Mrs Kramp-Karrenbauer abruptly ended her coalition arrangement in Saarland. “I’d be very surprised if anyone is calling her ‘mini-Merkel’ in a year,” says Jo Leinen, an MEP from the Saarland who has known Mrs Kramp-Karrenbauer for decades.

Another important difference, says an ally, is that Mrs Kramp-Karrenbauer confronts tricky issues head-on, whereas Mrs Merkel dithers until her hand is forced. Mrs Kramp-Karrenbauer fears that disputes over the chancellor’s decision to open Germany’s borders to refugees in 2015-16, which she backed, could poison the party for a generation. In the new year she will host a gathering of CDU local and state politicians to take stock of what worked and what did not during that crisis.

Her supporters hope such moves will assist her goal of restoring the CDU’s flagging fortunes. In 2017 Mrs Kramp-Karrenbauer cruised to re-election in the Saarland with over 40% of the vote, a figure that has taken on totemic significance in a party lately hovering at around 30% in a fractured political

landscape. A CDU woman through and through—she joined at 19, and worked her way up through endless committees and ministerial posts—she is an instinctive big-tenter who will look left and right for votes. In Hamburg she called the CDU the “last unicorn” in Europe, contrasting it with moribund mainstream parties elsewhere. Polls suggest she has broad appeal. One taken just after her win recorded a bump in CDU support.

Two tests lie ahead. The first is at the ballot box. If the CDU does well in European and state elections in 2019, Mrs Kramp-Karrenbauer will be primed to become its candidate to take over from Mrs Merkel, who will quit no later than the next general election. If it falters, others could step in. One name in the mix is Armin Laschet, minister-president of North-Rhine Westphalia.

Yet the CDU may not be master of its fate. The flailing Social Democratic Party (SPD), its junior coalition partner, had hoped a win for Mr Merz would allow it to reoccupy the centre ground of German politics. The SPD now faces tough questions. If it quits the coalition next year, Mrs Kramp-Karrenbauer could face a general election sooner than she expected. In the meantime, the SPD will give her headaches, starting with rows over a ban on abortion advertising, which it has sought to scrap, and the personal “solidarity” tax for Germany’s east, which it wants to keep.

Either way, Mrs Kramp-Karrenbauer must start to craft distinctive policies on matters that the next government cannot avoid, such as tax, pensions, energy and defence. She needs to deepen her ties in European political networks beyond France, and to assemble the rudiments of a foreign policy. And then there is the CDU awkward squad to deal with. In Hamburg Mrs Kramp-Karrenbauer held out an olive branch by offering the post of CDU secretary-general (the job she had just vacated) to Paul Ziemiak, head of its conservative youth wing. Jens Spahn, the right-wing health minister, who came third in the CDU race, retains fierce ambitions. And the search is on to find a nice job for Mr Merz.

Yet fears of a rupture may be overdone. More than any other party, the CDU, which has held the chancellery for 50 of the past 70 years, tends to rally behind its leaders, especially if they are proven vote-winners. It was that insight that meant that an unassuming woman who took over the party

leadership in 2000, amid the greatest of scepticism, is now executing an exit strategy entirely of her own design.

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The man with the golden desk

Emmanuel Macron offers protesters benefits worth €10bn

And he tries to sound contrite



Dec 13th 2018 | PARIS

EVEN BEFORE a terrorist opened fire at the Christmas market in Strasbourg, killing two people and injuring a dozen more, Emmanuel Macron was facing the first real crisis of his presidency. After two weekends of rioting and four weeks of protests, a pale and chastened Mr Macron addressed the nation from the Elysée palace on the eve of the attack. His brow creased, his tone contrite, the French president acknowledged his mistakes—"I know I have hurt some of you with my words"—and promised a range of fiscal measures to boost pay packets and pensions.

Mr Macron's address to the nation, watched by a staggering 23m people (more than watched France win the football World Cup in July), was the first time he had spoken publicly since violence engulfed central Paris on December 1st, as part of the country-wide *gilets jaunes* ("yellow jackets") movement. The president promised that those on the minimum wage—

currently €1,499 (\$1,704) a month—would receive a net extra €100 each month without any cost to employers (partly through an expanded wage subsidy). An increase in social charges on pensions for those on less than €2,000 a month will be cancelled. Overtime and end-of-year bonuses offered by employers would be free of taxes and charges.

Economists estimate that all this will cost at least €10bn a year, or about 0.4% of GDP. Bruno Le Maire, the finance minister, insists he will find spending cuts to compensate, in order to keep the budget deficit “as close as possible to the 3%” required by the euro zone’s rules. But the deficit was already forecast to rise in 2019 to 2.8%. If Mr Le Maire cannot find the savings, the new concessions could push it as high as 3.4%. That would risk a fresh crisis in the currency area, exasperate Germany and kill off any lingering French hopes of significant euro-zone reform. Italy’s deputy prime minister mischievously said he hoped France would now face sanctions, too.

Mr Macron’s decision to spend his way out of trouble did not meet all the protesters’ demands. He ruled out bringing back the wealth tax, a measure he had scrapped after taking office in line with a manifesto pledge, and which was one of the *gilets jaunes*’ gripes. Nor did Mr Macron announce a shift in underlying policy. “The main thrust of this presidency is not changing,” says Mr Le Maire.

Equally important was a shift in the president’s tone. Out went his know-it-all, lecturing manner. In came a degree of humility. A philosophy graduate and rationalist, Mr Macron does not do folksy politics, and true to style he opted for a conventional form, sitting at the gilt-edged desk in the Elysée palace, framed by the emblems of presidential power. But this time Mr Macron answered the charge of indifference to ordinary people’s concerns. “I may have given you the impression that this was not my concern, that I had other priorities,” he said. As an apology it was hardly grovelling, but it was something.

For many *gilets jaunes*, however, something will never be enough. The movement is without structure or leaders, and has no formal negotiating position. Its demands range from the reasonable (the cancellation of an increase in the fuel eco-tax, which the government has already announced for next year) to the extreme (including the resignation of Mr Macron). A fifth

Saturday of protest is planned for December 15th.

The protest movement is also fuelled at least in part by conspiracy theories and misinformation. After the Strasbourg attack, which led the government to raise the terrorism alert to its highest level, many *gilets jaunes* expressed horror. But others spread outrageous and baseless claims on social media that the government itself was behind the shooting.

Mr Macron's best hope now of restoring his authority rests on persuading the public that the protest movement is no longer reasonable. The numbers of *gilets jaunes* on the streets in recent weekends—around 130,000 country-wide—have dwindled. It is rather the scale of the violence, partly perpetrated by ultra-left and far-right infiltrators, and the backing of public opinion despite such violence, that has applied such great pressure. A poll after Mr Macron's address showed that a majority still expressed support for the movement, but 68% thought he had met their demands over the minimum wage and 78% on overtime pay.

It is hard to see, though, how the president can emerge from this drama with his reformist momentum intact. Mr Macron still enjoys a robust parliamentary majority and the French presidency's strong executive powers. Some of those close to him argue that he has turned the page. "Macron has acknowledged his past behavioural mistakes," said Philippe Aghion, an economist who advised him during his campaign but has judged him harshly since. "He can move on."

Yet Mr Macron has also now shown that he will back down if put under enough pressure on the street. That may bode ill for the future. One way or another, the *gilets jaunes* protest will doubtless come to mark a turning-point in his presidency. The best outcome would be if the rebooted, listening president can indeed "turn anger into an opportunity", as his speech promised, and build a fresh consensus around his plans. The worst, however, would be the end of his laudable ambitions to modernise and transform France.

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A strongman's bogeyman

Turkey's president finds a new enemy: "the famous Hungarian Jew"

Like so many autocrats, Recep Tayyip Erdogan claims George Soros is up to no good



Dec 13th 2018 | ISTANBUL

TURKEY'S PRESIDENT, Recep Tayyip Erdogan, has made sure the protests in France have a captive audience in Turkey. News outlets controlled by the government have offered breathless live coverage from Paris. With furrowed brows, senior officials have criticised French police for using excessive force. Mr Erdogan weighed in on December 10th. "From now on, nobody has the right to lecture Turkey about democracy, human rights and freedoms," he said.

Turkey's government has not had to worry about mass protests in years. According to the Reuters Institute, 65% of Turks fear that expressing their political views even on the internet could get them into trouble. Scores of people have suffered for expressing such views in the streets. Last month police arrested 13 civil-society leaders and academics, accusing them of

“attempting to overthrow Turkey’s government” by inciting a wave of popular unrest, known as the Gezi Park protests, back in the summer of 2013. All except one were later released. The man the police refer to as the group’s ringleader, Osman Kavala, has already spent over a year behind bars without an indictment.

Murat Celikkan, a human-rights campaigner whose wife was detained, fears more arrests may be coming. “This government needs to come up with new enemies,” he says. “It needs to consolidate its supporters.” Some 3.5m people took part in the protests of 2013. Eight people were killed. Hundreds were investigated on charges of involvement in a coup.

Mr Erdogan has always blamed the Gezi protests on outside forces, including the Gulenists, an Islamist movement believed to have orchestrated a genuine coup attempt in 2016, and on something he refers to as the “interest-rate lobby”. He recently identified a new culprit: George Soros, a billionaire philanthropist. “The person who financed terrorists during the Gezi events is now in prison,” Mr Erdogan said on November 21st. “And who is behind him? Soros, the famous Hungarian Jew.”

Less than a week later, the Open Society Foundation, a charity that Mr Soros founded and Mr Kavala had joined as a board member, announced it was ending operations in Turkey, citing a smear campaign by pro-government news outlets.

For a strongman in need of a bogeyman, there is something irresistible about Mr Soros. He is rich. He bankrolls charities that promote liberal values. He is —guilty as charged—Jewish. And he cannot hit back, because the conspiracy theories about his vast, illicit influence are twaddle. Which is perhaps why Mr Erdogan has joined Hungary’s Viktor Orban in decrying him.

But even Mr Erdogan’s well-oiled propaganda machine sometimes malfunctions. At one demonstration in Paris, a protester dressed in a yellow jacket started to heckle a reporter from a Turkish state news channel during a live broadcast. “They don’t report on any protests in their own country,” he yelled out, “but here they are reporting from France.” The *gilet jaune* turned out to be Turkish. The station, naturally, called him a terrorist sympathiser.

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Love island

Why lesbians flock to Lesbos

And why locals, once leery, now welcome them



akg-images

Dec 13th 2018 | LESBOS

INSPIRED BY THE erotic poetry of Sappho, who was born on the island 2,600 years ago, many languages—including English (“lesbian”), Greek (“lesvia”) and Japanese (“rezubian”—use the demonym of her birthplace to describe sexual attraction between women. This linguistic fact has spawned a growing tourism industry in Sappho’s birth village of Eresos, in a remote corner of the island of Lesbos. Joanna Savva, a local travel agent, estimates that 3,000-4,000 gay women now visit Eresos every summer, up from under 1,000 a couple of decades ago. The village has only 1,500 full-time residents, but three lesbian bars. Hundreds of tourists attend a women’s festival every September, where activities range from political discussions to beach parties. Many visitors to Eresos keep coming back every year, and some have even stayed on to run businesses. “I immediately fell in love with the place,” says Katie Kalt, who runs a café in Eresos from May to October, but designs data-management systems in Switzerland during the winter. “I felt very accepted.”

Although locals on Lesbos are now friendly towards lesbian visitors, this was not always the case. Homophobia used to be widespread. Ten years ago, three islanders even tried to reclaim the word “lesbian”: they unsuccessfully demanded that Greek courts ban its use to describe gay women. But attitudes have since softened considerably, as lesbian tourists have filled hotels, bars and restaurants in Eresos. As Ms Savva puts it, “People here have learnt the value of the pink dollar.”

Its value may have appreciated in recent years. Media attention during the migrant crisis in 2015, when the island became the entry-point to Europe for hundreds of thousands of asylum-seekers, scared off many visitors. Only 44,000 came last year, down 40% from 2015. But Ms Savva says tourist numbers in Eresos, which is also far from the camps, proved resilient.

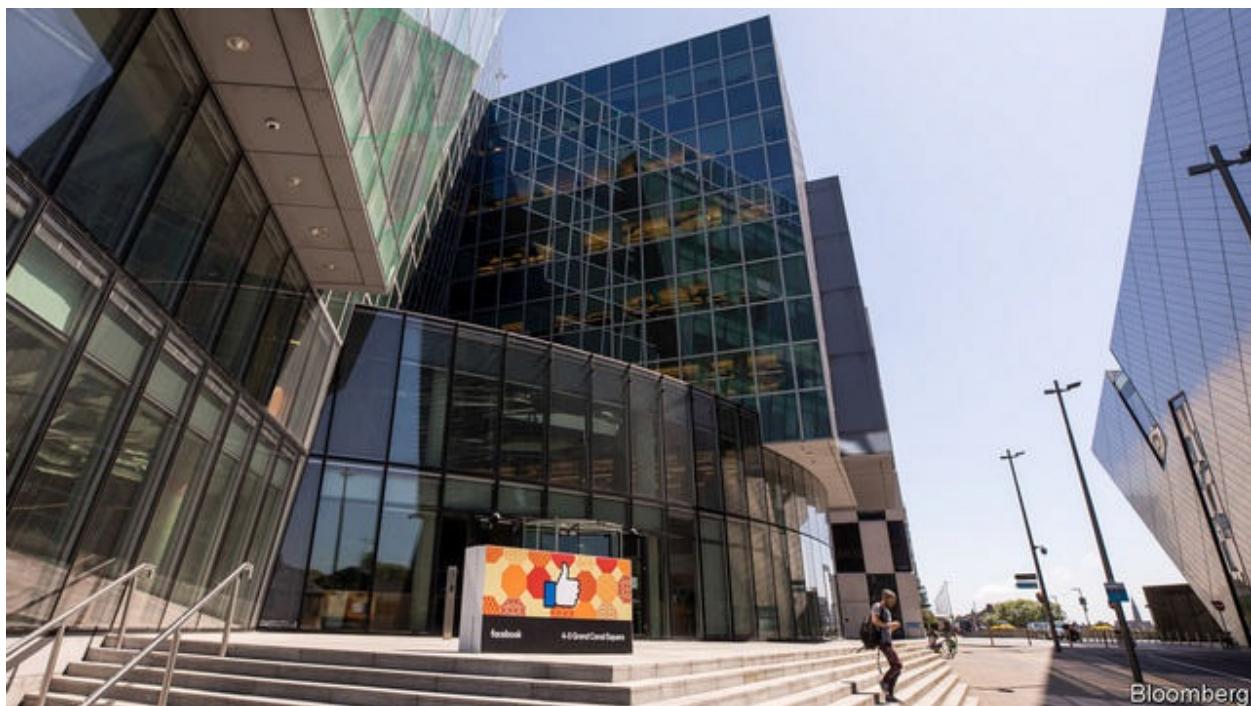
Lesbos is not the only Greek island to attract gay tourists. Nearby Mykonos has developed a reputation as a frenetic party hotspot for gay men. But with acceptance of homosexuality growing across the rich world, some wonder if places like these will appeal to future generations of gay travellers. Lillian Jensen, the Norwegian owner of a lesbian bar in Eresos, says many younger lesbians “want to go to more mainstream places”. But for now, she remains optimistic about Eresos’s prospects. “There’s nowhere else in Europe quite like it,” she says.

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On firmer foundations

Ireland's hot property market is a sign of health

Sorry, Brits: it's not all about Brexit



Dec 13th 2018 | DUBLIN

UNDER THE plane trees by the Grand Canal, the din of diggers drowns out the screech of seagulls. When gleaming new offices rise from the rubble, LinkedIn will take up residence. A short walk away by the canal dock, Google, which already employs 8,000 Dubliners, is building three towers and converting old flour mills. Facebook plans to leave the water for a campus with room for 7,000 in Ballsbridge, a posh central district that now houses AIB, a bank.

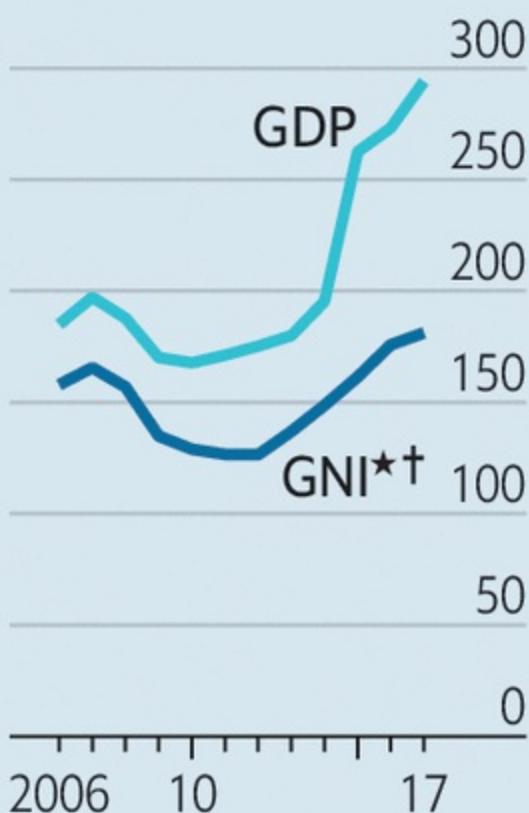
The tech giants' thirst for space is one sign of Ireland's economic rebound from the chaos of a decade ago. A wild, credit-fuelled property boom collapsed, leaving a glut of homes in the wrong places, banks heading for nationalisation and the state—which in September 2008 gave guarantees to the banks' creditors—heading for a bail-out from the EU and the IMF. It finally emerged from recession in 2012.

Gauging Ireland's economic health is not straightforward. At 7-8%, its GDP growth is likely to be western Europe's fastest for the fifth year in a row in 2018, but in Ireland's case this standard measure overstates both the size and growth of the economy. (Statisticians have devised a more useful alternative, GNI*, but it is published only annually and is not adjusted for inflation. It is about 40% smaller than GDP: see chart, left.) Still, other gauges look healthy, too. This year the central bank expects domestic demand to rise by 5.6%, underlying investment by 16.4% and employment by 3%. The unemployment rate, 5.3% in November, has fallen by more than ten percentage points since 2012.

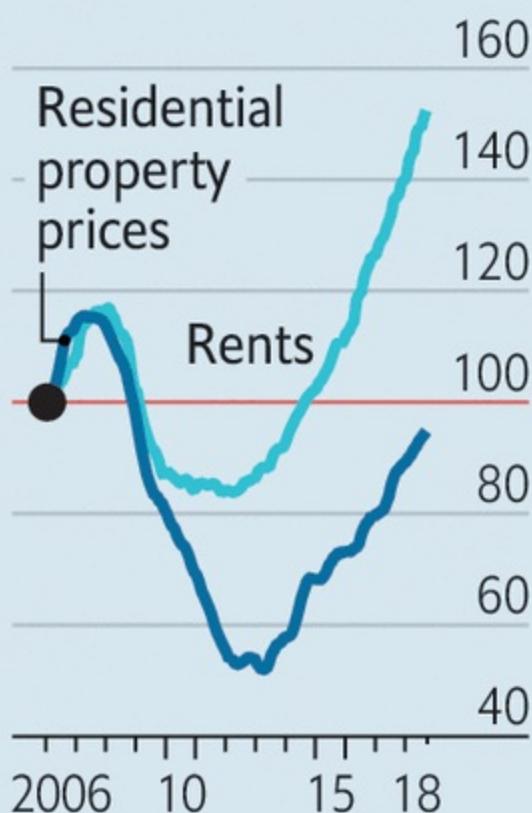
Green shoots

Ireland

€bn, nominal



January 2006=100



[†]GDP less net factor income from abroad, net EU taxes, profits of redomiciled companies and depreciation on R&D service imports, trade in intellectual property and aircraft leasing

Sources: National statistics; Daft.ie

The Economist

The revival owes much to foreign direct investment, for decades Ireland's most reliable motor. Since 2015 foreign firms have invested almost €1bn

(\$1.1bn) a month (not including intellectual property). Drugmakers—of which the biggest all have some presence in Ireland—have been investing at twice their trend before 2015, says Fergal O'Brien of Ibec, a business federation. He attributes much of the surge to new international tax rules requiring closer alignment of activity and reported profit. It is not confined to Dublin. Cork, in the south, is home to a pharmaceuticals cluster and a big base for Apple; medical-technology companies have sprouted in the west.

However, there are signs of overheating, chiefly in the housing market. Granted, Ireland has avoided another credit craze. The central bank has capped most mortgages at 80% of the value of a house (90% for first-time buyers) and 3.5 times borrowers' incomes. That has reined in prices, which are still 20% lower than in 2008. But rents have shot up, to 30% above the past peak, according to Daft.ie, a property website (see chart right).

Around 18,000 homes will probably be built this year. Most estimates of long-term demand are double that. In sprawling, low-rise Dublin—where those Googlers, Facebookers and others are adding to demand—height restrictions have constrained the supply of flats, though these are being relaxed. Economists and ministers alike bemoan planning delays. Marian Finnegan of Sherry FitzGerald, the country's biggest estate agent, laments a dearth of private investors, many of whom quit the market after the crash.

Brexit may not cool the market much. Still, though forecasting its effect is a mug's game, a hard Brexit will surely hurt. Britain is Ireland's second-biggest export market, after America. Most EU-bound goods travel via Britain. Tourism and smaller food businesses are vulnerable to a drop in sterling. Small and medium enterprises, says Michael D'Arcy, a finance minister, "are not as Brexit-ready as we would like". The government provided €300m in its recent budget for low-interest loans. Dan O'Brien of the Institute of International and European Affairs (IIEA), a think-tank, points out that Brexit may disrupt imports too—eg, of cereals, fruit and vegetables from Britain. Especially in food, supply chains wind back and forth across the Irish Sea and the border with Northern Ireland.

Yet Brexit's chief effect may be to widen existing sectoral and geographical gaps. Some industries that are already thriving will probably gain, by guaranteeing access to the EU's single market. Bank of America, Barclays and

other financial firms have chosen Dublin as their post-Brexit EU headquarters. Wasdell Group, a British drug-manufacturer and packager, has chosen Dundalk, just south of the border, as the site of a new factory. Vincent Dunne, its chief executive, says a base in the EU27 eases uncertainty about mutual recognition of standards and border delays.

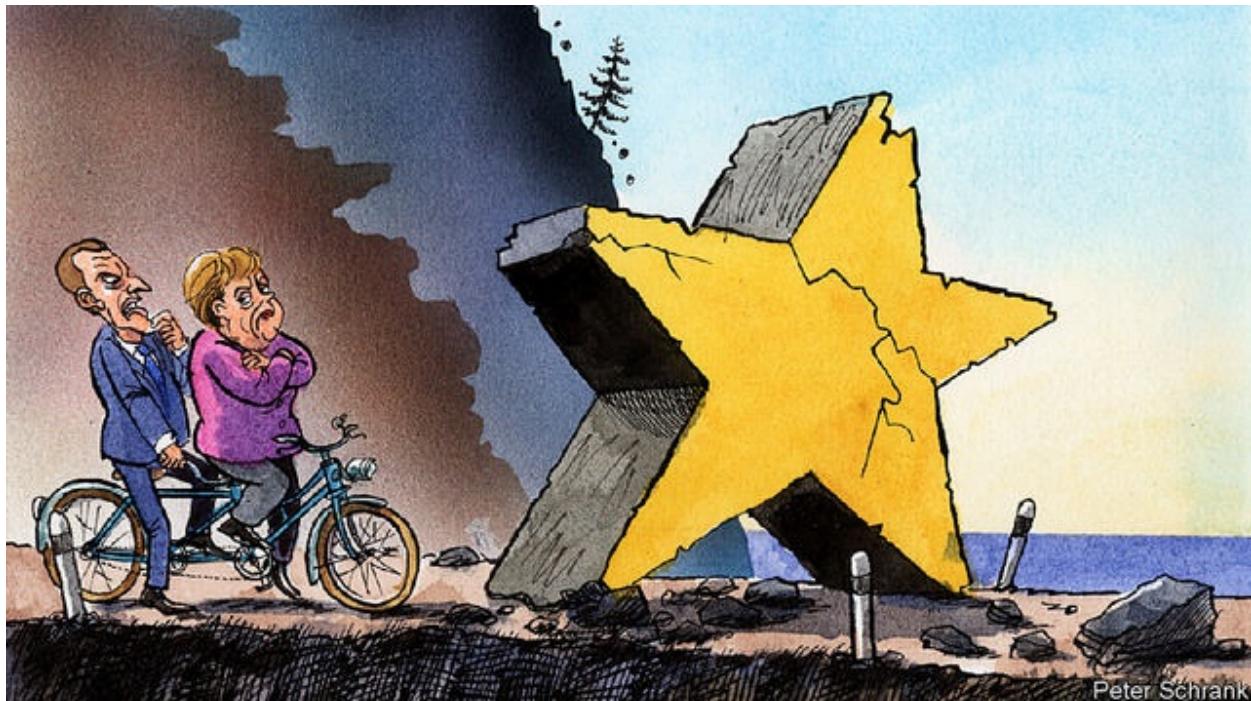
A change in the global economic weather—a slowing America, rising protectionism—is another, if less immediate, risk. Ireland is unusually reliant on corporation tax, which accounts for over 10% of the total take, and, notes the IIEA’s Mr O’Brien, varies with the cycle more than income tax. Just ten companies pay 39% of the haul. The crisis also casts a long shadow. Public debt still exceeds annual GNI*, a better measure than GDP of taxpayers’ capacity to service it. Bad loans still make up 10% of banks’ books. The state still owns over 70% of AIB and Permanent TSB, another lender, and 14% of Bank of Ireland, the biggest by assets. A small economy so open to the world will always have a bumpy ride, even if Brexit does not knock it off balance.

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Charlemagne

Europe's summiters have little to celebrate, besides not being British

Franco-German dysfunction makes it impossible to clear Europe's roadblocks



Dec 13th 2018

BREXIT MAY be tearing Britain's political establishment apart, but the 27 remaining states of the EU have held firm. The European Commission's red lines—principally the insistence that there can be no deal better than EU membership—have withstood the talks. As *The Economist* went to press, Theresa May was on her way to the European Council summit to beg for further concessions from EU leaders. They had ruled out any renegotiation of the Brexit deal and suggested only presentational tweaks, just stopping short of offering to repeat it more slowly and with pictures. Though few in Brussels relish the chaos in London and all are heartily sick of the Brexit saga, continental leaders allow themselves a little satisfaction at the competence with which their side has handled matters.

That, however, is to cling to a qualified success amid many failures. When

not listening to Mrs May's pleas, the 27 looked set to stumble through an agenda that reads as a gazetteer of roadblocks: problems where progress is proving glacial but which, if left unresolved, could ultimately fracture the union. All indicate the increasing dysfunction of the Franco-German relationship.

Above all, this was meant to be the summit to fix the euro zone. The election in May 2017 of Emmanuel Macron, a German-friendly French president, fuelled hopes that Angela Merkel and her colleagues might at last work with Paris to fix the common currency's structural flaws. That would mean completing a common banking union, to break the self-reinforcing link between wobbly sovereigns and wobbly banks, and creating quasi-federal fiscal tools to support struggling economies in downturns. Mr Macron proclaimed his vision last year, but has come off much the worse from his subsequent collision with the German political class. The consolidation of a hawkish "New Hanseatic League" of fellow northern states and the formation of a populist, expansionary government in debt-laden Italy have only buttressed the Teutonic wall into which the French president has crashed.

Leaders will probably approve some modest new powers for the European Stability Mechanism, the EU's bail-out vehicle, and leave the door open to a tiny euro-zone budget. But they remain split on whether this pot should be used to stabilise stricken economies. And the common insurance of bank deposits, the foundation of a coherent banking union, remains a distant prospect. Mr Macron despairs of Mrs Merkel's marmoreal intransigence. The president's announcement on December 10th that he would increase wage subsidies and make overtime tax-free threatens to lift his country's deficit above the EU's limit of 3% of GDP. His previous obedience to it had been totemic of his bid to woo the German establishment and thus sell his reform proposals, so the shift suggests a president downgrading or even ditching that fruitless charm offensive. It also hands the Italian government an invitation to escalate its own budgetary battle with the EU institutions.

Also on the agenda in Brussels is migration. Here the EU is edging towards expanded controls on its southern borders. But it lacks robust mechanisms to deal with future movements of people, including ways to share out those with valid claims to asylum in the EU and lighten the burden on Mediterranean

states. Lastly, the leaders were due to ponder the EU's next budget, covering the years 2021 to 2027, where disagreements over regional payments to illiberal member states and old bugbears like the wasteful common agricultural policy (CAP) make a final agreement before 2020 unlikely. Future shocks—the next euro-zone crisis, a new migration surge, a military crisis on Europe's fringes or a breakdown in east-west relations in the EU—will expose the heavy cost in unity, prosperity and security of the union's failure to achieve more.

Yet the outlines of a grand bargain are not so hard to discern. It might see defence laggards like Germany contribute more to common security; illiberal governments like that of Poland reinstate democratic norms and co-operate more on migration; northern "Hanseatic" states like the Netherlands tolerate more euro-zone integration and contribute to managing migration flows; debtor states like Italy accept write-downs of risky loans and greater common budgetary oversight; and big farming states like France accept a trimming of farm handouts in return for extra spending on regions, migration management and common defence. With compromises like this, the union could theoretically break its roadblocks and prepare for future crises. Such mega-compacts have helped advance Europe in the past. In the 1960s Germany got industrial integration in return for the CAP. In the 1990s France got the euro in return for German reunification.

The lost leader

That took a lot of persuasion. Yet the sort of political skill that can take voters along as wrenching changes are made seems to be in short supply; and without democratic consent, moves towards greater federalisation are doomed to provoke dangerous backlashes. Angela Merkel is on her way out. Annegret Kramp-Karrenbauer, the new chief of her Christian Democratic Union, is a fellow moderate, but must now heal wounds on the party's right, leaving her little room for grand European compromises, and unproven abilities when it comes to selling them. Mr Macron is deeply unpopular at home and seems to have given up on substantial German co-operation. A third participant in the Franco-German alliance might help bolster it, but Italy and Poland have turned to nationalist populism and Spain, though willing, remains politically unstable.

Things could change, of course. Perhaps a demob-happy Mrs Merkel, “AKK” at her side, will marshal her residual political capital for a last European push. Perhaps Mr Macron will recover his standing. But it requires a lot of optimism to see it. Today, when the modestly competent negotiation by the EU of a big member’s flounce-out counts as a success, that is in short supply.

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The prime minister and Brexit

Theresa May lives to procrastinate another day

The prime minister wins her party's confidence vote. But her chances of getting her Brexit deal through Parliament seem ever more remote



Reuters

Dec 13th 2018

THE RUMOURS of a leadership challenge to Theresa May were so long-standing that the event was something of an anti-climax. On the morning of December 12th the chairman of the Conservative Party's 1922 committee of backbenchers, Sir Graham Brady, set off a day of feverish speculation by announcing he had received the 48 letters from Tory MPs needed to hold a confidence vote in the leader. After a rumbustious prime minister's question time and a raucous and often emotional meeting of the 1922 committee, the vote was held that evening. Mrs May won by 200 to 117, a clear margin but not a large one. Under the party's rules she cannot be challenged for another 12 months. But to shore up support ahead of the vote, the prime minister felt compelled to promise her MPs that she would not lead the Tories into the next election, due in 2022.

The vote was triggered by disgruntled hardline Tory Brexiteers bitterly opposed to the Brexit deal that Mrs May has negotiated with the European Union. This deal was due to be voted on by the Commons on December 11th. But faced with the prospect of defeat by over 100 votes, the government pulled it at the last minute. As a habitual procrastinator, Mrs May refuses to say when the vote will now take place, although ministers have promised it will be before January 21st.

Surviving the leadership challenge may help Mrs May a little, and losing it may weaken the hardline Brexiteers. Deferring the vote has also bought her some time. But her win was not big enough to give her much of a boost, let alone to silence her critics—especially after her victory speech offered them few concessions. And her whistlestop tour of European capitals to persuade fellow EU leaders to change the Brexit deal to make it more palatable at home is not succeeding. She has been firmly told that, although words may be added to the political declaration about future relations, there is no chance of amending the legally binding withdrawal agreement that fixes the principal terms for Brexit.

This matters because the main target of the ferocious attacks on Mrs May's deal is the so-called Irish backstop, an insurance policy to avert a hard border between Northern Ireland and the Republic in all circumstances, which is part of the withdrawal agreement. The backstop would keep the United Kingdom in a customs union with the EU and align Northern Ireland with most EU single-market rules. Because it is an insurance policy, Britain cannot have a unilateral right of exit.

Mrs May's critics want her either to junk the backstop or to amend it to give Britain the power to leave when it chooses. She has promised merely to seek reassurances from her EU colleagues that the backstop is not intended to be used, and is also seen by all as temporary. Such reassurances might even be given the force of a formal European Council decision. But that is far short of a change to the legally binding withdrawal treaty.

Does she have an alternative? Some MPs want Mrs May to switch to a Brexit deal similar to Norway's, which means staying in the single market and adding a permanent customs union. But it also implies keeping free movement of people, which Mrs May's deal does not. Moreover, as she

points out, any Brexit deal requires an Irish backstop. And there is no sign of a Norway-like deal (or the more distant Canada-like free-trade deal promoted by the hardliners) winning a majority among MPs. Sarah Wollaston, a pro-European Tory, concludes that there is total parliamentary gridlock over any form of Brexit.

So what might the prime minister do? Her answer is to rely on the pressure of time. Brexit is due to happen, according to the two-year deadline set by Article 50 of the EU treaty, on March 29th 2019. If no agreement is reached before then, Britain could leave without a deal. A majority of MPs think this would be a catastrophically bad outcome. If Mrs May can persuade them that the choice is her deal or no deal, she might win a few more over. She can also point to the threat that Brexit chaos could produce a Labour government led by the far-left Jeremy Corbyn as another reason for Tory MPs to back her deal.

Yet none of this looks likely to work. Although the risk of a no-deal Brexit is rising, moderate MPs on both sides believe a way could be found of preventing it. And far from this being the only alternative to Mrs May's deal, many prefer another option that she cited several times this week: no Brexit. That the European Court of Justice (ECJ) chose this week to confirm a preliminary ruling that Britain can unilaterally withdraw its Article 50 request at any time shows that there is another way out.

Although time is tight, the prime minister knows she may need more than one go at getting her deal through. The position of Labour will be important. Yet Mrs May's efforts to lure a few pro-European Labour MPs to back her deal have not worked. Mr Corbyn wants to defeat it in hopes of securing a general election. He is under pressure from his MPs to table a motion of no confidence in the government to help bring this about. But Mrs May would probably win, just as she won the party confidence vote this week, because neither Tory MPs nor her Northern Irish Democratic Unionist allies, for all that they hate her Brexit deal, want an early election.

The absence of obvious alternatives explains growing talk in Westminster about putting the Brexit decision back to the people in a fresh referendum. This idea is favoured, naturally, by those hoping for no Brexit. But some MPs have also begun to suggest a referendum as the only way to break the

parliamentary gridlock. Indeed, a few Tories argue that Mrs May herself should resort to a referendum, giving voters a choice between her deal, as the best form of Brexit now available, and cancelling Brexit altogether. Holding such a referendum would require an extension of the Article 50 deadline, but the EU is likely to agree to this. Mrs May might even win a popular vote for her deal.

The truth is that there are few good places for her to go on Brexit. She was foolish to lay down the red lines of leaving the single market and customs union, ending free movement of people and escaping the ECJ. The Irish border was always going to make it hard to break fully with EU rules. Moreover, business was always going to press for the maximum continuity possible, especially of supply chains that are spread right across the EU.

Mrs May is now in the position of selling a deal that shifts away from her red lines in order to make necessary trade-offs. But, as became clear in the 2017 election and again this week, she is a rotten saleswoman. She may have just seen off one attempt to get rid of her. But her days at the top are clearly numbered.

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Feudal feuds

Residents of Sark are not yet sold on democracy

Until 2008 the crown dependency had a feudal constitution. Some people miss it



Fred Harter

Dec 13th 2018 | SARK

“THINGS TEND to move slowly around here,” explains one resident of Sark, a tiny British crown dependency off the coast of Normandy. The traffic trundling to the island’s polling station on December 12th, the day of its general election, confirms his observation. Cars are banned on Sark, so most voters arrive by bicycle or on foot. A few chug in on tractors. But the poll is nevertheless a sign of change: until 2008 Sark was governed by a feudal constitution that had remained largely untouched since the island was colonised in 1565.

The arrival of democracy has quickened pulses. Previously, the island was led by the *seigneur*, who leased it from the crown for the princely sum of £1.79 (\$2.26) a year. His rank entitled him to an 8% slice of all property transactions, as well as other perks including the sole right to keep an

unspayed bitch. Forty hereditary landowners dominated the Chief Pleas, the island's parliament. Now, however, elected commoners sit on its benches and the *seigneur* receives an annual stipend of £28,000.

Yet many Sarkees feel nostalgic for feudalism. The landowners would thrash out laws among themselves and, if residents had concerns, they could pop round for a cup of tea, says one islander. In contrast, democracy involves a lot of paperwork. Gesturing to a table stacked with papers for the next meeting of the Chief Pleas, Paul Amorgie, a hotel manager, lists the issues Sark's 18 unpaid parliamentarians must deal with, "from footpaths and dog shit to international legislation."

Sark has struggled to attract candidates; the previous two elections went uncontested. Kay Char, a retired businesswoman, argues that the new system is less democratic than the old feudal one, since the parliament's smaller size means it is more open to manipulation and its proceedings involve less debate. This week's vote, however, saw plenty of candidates, and many young ones elected for the first time.

Campaigners for democracy included Sir Frederick and Sir David Barclay, billionaire twins who live in a castle on Brecqhou, a nearby islet under Sark's jurisdiction. The brothers have hoovered up large chunks of Sark, buying three of the island's six hotels and opening a string of businesses. After the inaugural elections failed to return most of their preferred candidates, a representative of the Barcleys briefly suspended their businesses in Sark.

Opinion about the tycoons next door is split. Many believe they are trying to transform the island into their own personal fiefdom, citing attacks by the local paper, which is edited by one of their employees, against islanders who cross them. Others argue that the pair have brought investment and jobs to the island. "They have given Sark the little kick up the arse it needed," says Mini McCusker, who works in one of the island's pubs.

Some feudal quirks remain. An islander can take out an injunction by throwing his hat to the ground, taking a knee and reciting the Lord's Prayer in Norman French, for instance. Christopher Beaumont, Sark's newish *seigneur*, argues that the island's democracy must be given time. "England's road to democracy was a pretty bumpy ride which involved lots of people dying," he

points out. As ever, things are proceeding more gently in Sark.

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#MenToo

Police are recording more domestic abuse against men

As more male victims step forward, helping them is proving hard



Alamy

Dec 13th 2018

FOUR YEARS after what Paul Chivers calls “the event”, he still has flashbacks and nightmares. In 2014 his then wife split his head open with a hairdryer. By that point, says Mr Chivers, he had been on the receiving end of domestic abuse for ten years. His wife was given a 16-month prison sentence. Mr Chivers got custody of their daughter.

Police in Britain are discovering more such cases. Surveys of victims suggest that the prevalence of domestic abuse against men and women alike has not changed much in the past decade or so. About 4% of men and 8% of women report being mistreated at home. What has changed is that many more male victims are coming forward. Between 2012 and 2017 the number of male domestic-abuse victims recorded by the police each year more than doubled. (In the same period the number of female victims rose by 50%.) There is growing recognition that men can be victims of this crime, which encourages

them to report it, says Mark Brooks of the ManKind Initiative, a charity.

Domestic-abuse services, historically designed for women, are adjusting accordingly. About 200 organisations in Britain provide services for male victims, up from 70 in 2012. A growing number have a refuge or safe housing for men, though in some areas, including London, there is none. Some organisations have rebranded themselves to show that their doors are open to anyone. Last year, for example, Northampton Women's Aid became Northamptonshire Domestic Abuse Service. Images of men as victims are appearing more often on posters about domestic abuse.

Helping men is proving difficult. Dee Conlon of Victim Support, another charity, says they are less likely than women to accept assistance. One reason is that the abuse they suffer tends to be less severe: only about 5% of male victims are subject to what the law calls "coercive and controlling" behaviour, which affects 30% of abused women.

Another problem is that many men do not see themselves as victims at all. They view domestic abuse as something that happens only to women, says Iris Quar of Abused Men in Scotland, a support group. "They'll call and say, 'I'm not abused or anything, but...' and then they'll tell you this horrendous story," she says. Louise Branch of North Somerset council says that men who seek help are usually too few for a peer-support meeting, something women recovering from abuse find helpful.

Some men fear they will not be believed. Mr Chivers says he delayed abandoning his marriage because leaving his daughter behind would have been "a cowardly thing to do". Victim Support says many abusers have untreated mental illnesses. In recent years it has dealt with many older men whose wives are aggressive as a result of dementia.

A more sinister problem is that some of the men who present themselves as victims are in fact offenders. A review of 400 incidents of violence among couples by Marianne Hester of the University of Bristol found that about half of men recorded by the police as victims were named as perpetrators in other incidents involving the same partner. This is one reason why men seeking access to refuges and other services are screened, to make sure they do not pose a danger to others. That requires their consent and takes time, so some

offenders slip through. Meanwhile, many real victims remain in the shadows.

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Performance review

British productivity may not be as bad as it looks

A new study casts doubt on international comparisons of output per hour worked

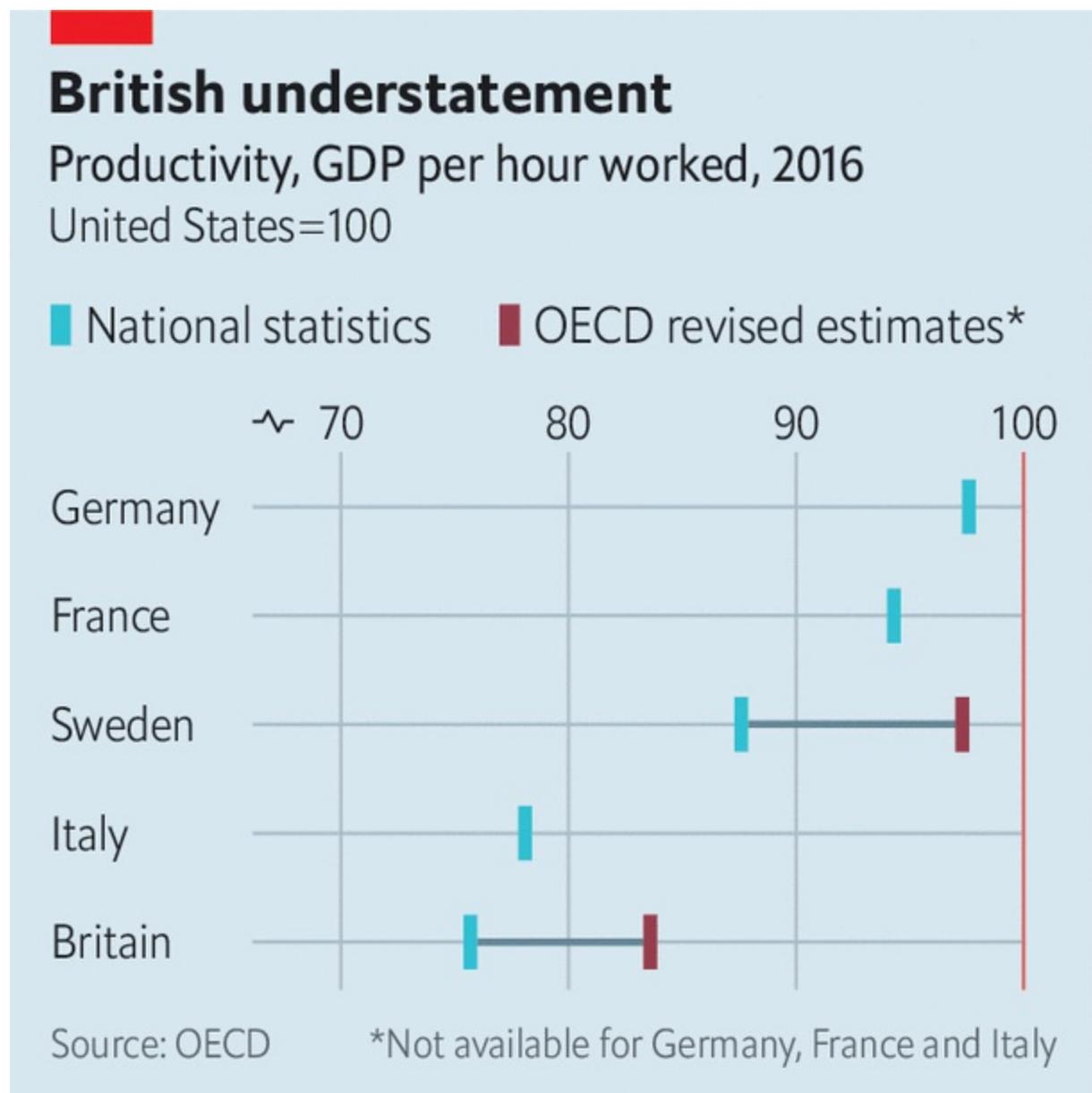


Dec 15th 2018

BRITAIN'S DEFINING economic problem since the financial crisis has been lacklustre productivity growth. Between 1950 and 2007 productivity grew at an average pace of 2.5% a year. From 2010 to 2016 it averaged only 0.2%. This gloomy observation is often paired with another: that labour productivity is much lower in Britain than in other rich countries. French workers, it is said, can produce in four days what it takes Brits a full working week to churn out. But such comparisons are now in question after researchers from the OECD, a rich-country club, closely examined the data.

Labour productivity is calculated by dividing output, which can be measured accurately, by hours worked, which are harder to track. Britain's Office for National Statistics asks people how much they have worked and more or less leaves it at that. Many other countries make all sorts of adjustments to survey

responses, to account for workers' tendency to underestimate how much holiday they take, for example. Those adjustments can reduce measures of hours worked—France, for instance, marks down employees' reported hours by nearly 20%—boosting apparent productivity.



The Economist

Introducing adjustments that are common elsewhere to the British data increases measured labour productivity by 10%, the OECD estimates. That closes the shortfall compared with France by roughly half, and compared

with America by about a third (see chart). By the new measure, British workers no longer appear less productive than Italy's (which makes sense, given that the Italian economy has been almost stagnant since the turn of the millennium). Another country benefiting from a boost is Sweden, which almost catches up with America on the OECD's new measure.

The report is no reason for policymakers to relax. Although the level of British labour productivity no longer looks as bad as it did, its growth has still been poor. Britain ranks sixth in the G7 for labour productivity growth since 2010, well behind the leaders, Canada and Germany. Still, there are some signs of progress. Smooth out the data, which are volatile, and productivity now seems to be growing at an improved 1% per year.

Competition for workers may be spurring firms towards efficiency improvements. Wages have risen by 3.3% in the past year, the most in a decade. Adjust for inflation and that is 1.1%—or roughly equal to productivity growth. That is why it is worth measuring productivity exactly: when it comes to workers' living standards, little matters more.

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Outsourcers in trouble

Interserve goes to intensive care

Lessons learned from the collapse of Carillion might reduce the chaos if another outsourcer goes under



Alamy

Dec 13th 2018

RARELY CAN a stock price have collapsed so spectacularly. Just an hour or so after Interserve confirmed on December 10th that it was in talks with its lenders about a rescue plan, the company's shares had dived by 75%. At one point they touched a measly 6p (8 cents), giving one of Britain's biggest outsourcing companies a value of just under £10m. As Interserve has debts of over £500m, it is easy to see why investors are spooked. The company says it will announce its restructuring plans in early 2019, but some doubt that it can stagger on to see in the new year.

Interserve employs 75,000 people worldwide, including 45,000 in Britain. Just four years ago its shares were worth more than £7. Its fall reflects the humbling of an entire sector. Britain led the world in government outsourcing, whereby public services are contracted out to private companies.

But the corporate giants that do this work have been beset by mounting losses and profit warnings. In January Carillion, one of the biggest, went bust.

At that point Interserve, which issued its first profit warning in May 2016, was already high on the worry list. The fear now is of another Carillion-style disaster. The consequences could be terrible. According to Tussell, a consultancy that scrutinises public procurement, Interserve has 51 government contracts, worth £2.1bn. The biggest is with the Ministry of Justice; Interserve is the largest provider of probation and rehabilitation services in England and Wales, in charge of 40,000 offenders. The company also has contracts with London's fire brigade and police force.

Like all outsourcers, Interserve has suffered from taking on low-margin contracts. To expand their business, bosses bid low for work that ended up being unprofitable. Like Carillion, Interserve also strayed into areas where it had no expertise. It has lost a lot of money on projects supposed to generate energy from waste, after glitches in untested technology led to delays and cost overruns.

Interserve and Carillion have much in common. But the Carillion debacle, which cost taxpayers some £150m, has made the government take steps to minimise its losses if another outsourcer goes under.

Whereas Carillion continued to be given large contracts even as it wobbled, the government seems to have been reducing its exposure to Interserve. According to Tussell, in the 12 months to September Interserve won £250m less in new public-sector contracts than in the previous year, unlike other outsourcers like Capita and G4s, which increased their business. Still, ministers have stopped short of banning the company from bidding for further business, as the Labour Party demands, for fear of delivering the *coup de grâce* to a firm that relies on the government for 70% of its revenues. The Cabinet Office thinks Interserve is in better shape than Carillion was. On December 10th it won a £25m construction project from the Welsh government.

The government has also been working with the firm to ensure that its work can be swiftly transferred to others if it goes bust. Mournfully, this is known as a “living will”. The company hopes it will never be needed—and so must

taxpayers.

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Scaling the ivory tower

New rules will push universities to cut entry requirements for poor pupils

It is hard to see how else targets can be met



Dec 15th 2018 | WESTON-SUPER-MARE

APPLICATIONS FOR most universities are due by January 15th, so sixth formers have a month to pick a course and come up with anecdotes for their personal statement. It is a tricky process, but especially so for those not at a school which packs pupils off to university by the busload. Despite this, much progress has been made in the past decade or so. Largely thanks to the expansion of higher education, 18-year-olds from the poorest parts of the country are now almost twice as likely to go to university as they were a dozen years ago.

But most of the incomers end up in less prestigious universities. So the focus is now on widening access to elite ones. On December 13th the Office for Students (OFS), a new regulator, published its plans. School leavers in parts of the country where university attendance is most common are five times more

likely to attend a top university than pupils in parts where it is most unusual to go. The regulator wants to cut this to 2.8 times by 2024-25, as well as to improve these students' eventual results. It can fine institutions that fail to make sufficient headway.

The slow progress so far is not because the fanciest universities treat poor applicants less favourably than their richer peers. Mark Corver of dataHE, a consultancy, says the admissions system is "astonishingly fair" when judged on whether people go where they would be expected to given their grades. Some 69.2% of teenagers who apply to elite institutions from areas where university attendance is uncommon receive offers, compared with the 69.4% who might be expected to based on their grades and chosen courses. Thus offer-making accounts for little of the big gap in university participation.

So how will universities meet the target? They could improve efforts to get more poor schoolchildren to apply, and to be more ambitious in their choice of institutions. Until recently, such schemes have been characterised by munificence—last year universities spent £750m (\$950m) to widen access and support disadvantaged students—if not success. Many relied on poorly targeted outreach programmes. Others too often used (and still use) bursaries as a way to snatch the best applicants from rivals, rather than to help those most in need of financial support.

Belatedly, more universities are thinking seriously not only about how to raise awareness of university in general, but also about how to improve attainment so that children are in a position to apply. This tends to involve building deeper relationships with fewer schools, and sometimes funding charities like IntoUniversity. It runs 30 learning centres, which aim to replicate the supportive homes of better-off peers, in parts of the country with low university participation. Children come after school to do their homework and other activities. At a branch in Weston-super-Mare, primary-school tiddlers solemnly explain what they want to study at university. One mother, whose daughter is an aspiring fashion student, says the centre "gives her hope for the next generation."

The OFS will spend money to figure out how to do such work effectively. But these efforts will take time to produce results. So to meet the new targets, universities will also have to make more use of "contextual admissions",

which adjust expectations for an applicant's circumstances. Someone who would be, say, the first in their family to go to university might be given a closer look by admissions officers, or even allowed in with ABB grades at A-level rather than AAA. The thinking is that lower results achieved in trying circumstances indicate a similar level of ability to better ones achieved by public schoolboys. Indeed, research suggests that students from worse schools are more likely to get a first or upper-second-class degree than those with the same grades from better schools (with the exception of those at Oxbridge).

Anna Vignoles, an education expert at Cambridge University, estimates that half of universities already use contextual admissions in some form, though the rigour of the criteria used and the extent to which they publicise it varies. The OFS knows it is fighting against incentives imposed by university league tables, since students' A-level results are one of the factors used to rank institutions (so those admitting pupils with worse results may drop down the rankings). And one crucial test remains. If middle-class voters' children are kept out of the best universities by peers with lower grades, politicians may well become less enthusiastic about widening access.

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A Merky business

Why Stormzy's success should spook the music industry

The south-London rapper has topped the charts and launched a business empire with little help from major labels



Dec 13th 2018 | SOUTH NORWOOD AND THE GROUCHO CLUB

UNTIL FOUR years ago, Tobe Onwuka was a junior at a car dealership, trusted to reel in the customers but not to clinch the deals. Now he's chomping on a crispy duck salad at the Groucho, his private members' club, and chatting about Stormzy, the rapper from south London responsible for this change in fortune. (He still won't order the scallops, for fear of being seen as posh.) Sitting in a tracksuit top, Mr Onwuka explains the success of Stormzy, the childhood friend whom he now manages. "We've cut out a bunch of the middlemen," he says.

The global music industry has been transformed by the internet. In 2000 music sales made up a little under two-thirds of revenue. By 2017 they made up less than two-fifths, as earnings from live events jumped, according to MIDiA, a consultancy. The industry has responded with "360 deals" that give

labels a cut of artists' non-musical earnings. Although merchandise and sponsorship make up a relatively small share of revenues, that slice has more than doubled in the same period. Cash from gigs and merchandise thus partly offsets dwindling revenue from music sales.

Now a savvier generation of musicians, whom the industry calls "artist-entrepreneurs", are building their own brands through social media, and are no longer relying on labels for merchandising deals. "They want to develop themselves into the assets," says an industry bigwig. Stormzy, a 25-year-old whose real name is Michael Omari, was among the first to spot this power shift. "I know it's sick, I know it's marketable," he has said.

Everything he considers sick (great) is marketed as #Merky, the umbrella brand for his empire. There are #Merky records, #Merky books and even Stormzy-funded scholarships at Cambridge University. But until January he refused to sign with a label. Although he shunned the industry, his first album topped the charts in 2017. Next year he will headline the Glastonbury music festival. "Stormzy is his own media company," says Sally-Anne Gross, a music-industry expert at Westminster University.

Rappers and punk bands have long snubbed labels. Jay-Z, an American rapper, began his own. But the breadth of Stormzy's empire is unusual. His publishing imprint, a joint venture with Penguin Random House, will hold a competition for new writers from minority backgrounds. #Merky is a "hub of endless possibilities", says Stormzy. There could be hospitals, schools—even, he has said, a #Merky shade of black. When Stormzy at last signed a record deal, it was on his terms: a joint venture with Atlantic Records, with Stormzy as its first (and so far only) signing.

Musicians have often cashed in on their fame. Elvis Presley licensed lipsticks, bracelets and a "Love Me Tender" necklace. But #Merky is different, says Roisin O'Connor, a music critic. "This is clearly his own idea." Stormzy texts Mr Onwuka at 3am with his latest schemes. Traditional merchandising flops today, his team reckons. Social media have brought fans closer to their idols and enabled them to call out attempts to flog tat. "We're in the most honest age of music," says Mr Onwuka. At Stormzy's old high school in South Norwood, his "south-side story" resonates. "He is his brand," says Jaheen Reid, 17. "Because we like him we're more likely to buy into his

products.”

For now, his finances are, well, a little murky. His businesses do not have to report profit-and-loss figures so it is hard to gauge their success, though they are nowhere near the size of the industry’s titans. His most public financial disclosure was by rap. “A young black boy made a milli’ off grime,” he says in “Cold”.

The industry bigwig claims none of this worries him. The fact that Stormzy now works with a label proves that “you can’t go it completely alone,” he says. The most successful artists will need the industry to manage the logistics of global stardom. Yet by then they may have the power to strike better deals. Stormzy’s team appears to call the shots. It is rooted in the holy trinity they say black Londoners hold dear: faith, family and music. #Merky may fizzle out yet, or it could live up to the hype. Either way, it won’t be caused by the industry’s marketers. For, as Stormzy has put it, “man don’t work with clowns.”

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Bagehot

Across the world Anglophilic is giving way to Anglobemusement

The confidence vote in the prime minister is the latest event to cause a reassessment



Nate Kitch

Dec 13th 2018

THIRTY MONTHS after the British voted to leave the European Union, the country's cultural divisions are more entrenched than ever. Politicians may have promised to bring the country back together and metropolitan journalists may have made grand tours of Leave-voting Britain to find out what the natives were thinking. But the result of two years of hand-wringing has been to confirm the two sides' low opinion of each other. Remainers continue to regard Leavers as stump-toothed xenophobes. Leave-voters still see Remainers as hoity-toity snobs.

Yet even if Brexit has frozen thinking at home, it has unfrozen it abroad. Before Brexit a striking number of foreigners had a benign view of Britain. The British might seem a bit difficult at first—stand-offish and addicted to odd things like monarchy and Marmite—but they were fundamentally

sensible. They were pragmatic and trade-minded people: a nation of shopkeepers, in Napoleon's phrase. They were conservative and sensible, not the sort to take leaps in the dark. For all the talk of "fog in the Channel, Europe isolated", they were champions of global openness.

This view has been shattered by Brexit. Foreigners increasingly talk about Britain in the way they would talk about an admired relative who has gone stark raving bonkers. Whenever this columnist travels abroad he is besieged with questions: what is going on with the country I love? Whatever happened to its pragmatism and common sense? Are you deranged? These remarks reveal a profound sense of loss. It is not just that Europe is losing a close partner. It is that the world is losing a particular version of Britain. Brexit Britain is becoming less like its sensible self and more like the worst sort of foreign country—chaotic and headstrong.

The first thing foreigners focus on is the sheer chaos of it all. "Isle of madness" is one headline from *Der Spiegel*. "A Shakespearean tragedy" is another from *La Tribune*. There is some merriment over bizarre procedures, like the struggle this week between a Labour MP and various flunkies in tights over the parliamentary mace. But there is also genuine worry that chaos will lead to catastrophe, with Britain crashing out of the EU without a deal.

The second thing is the amateurism. Britain was thought to have a Rolls-Royce government. This reputation was so solid that the EU's Brexit negotiators initially wondered if the incompetence of their British counterparts was a clever ruse to lull foreigners into a false sense of security. No longer: it turns out that the Rolls-Royce is more of a Morris Minor. European politicians puzzle over how a fellow member of their tribe could begin the Brexit talks without a plan, or appoint an addlepated popinjay such as David Davis to act as chief negotiator.

Then there is the eccentricity of so many of the players. Many foreign observers instinctively shared Walter Bagehot's view that Britain was divided between an "efficient" branch, led by the government, and a "dignified" branch, represented by the monarch (even if in their view the operative "d" word was not "dignified" but "deranged"). Britain could afford to be such an endearingly odd place, with its bloated royal family and tub-thumping tabloids, because it had a genius for putting sensible people in charge of the

things that mattered. Today the general view abroad is that this formula has malfunctioned. The circus acts and charlatans have taken over, in the form of Boris Johnson and Jacob Rees-Mogg, and the sensible people have been locked up in the Tower of London.

Britain is hardly alone in its problems. America is paralysed, France is in flames and even sensible Sweden cannot form a government. Britain also continues to enjoy some of the greatest reserves of soft power in the world. Yet this only underlines the tragedy of Brexit. Britain is missing a golden opportunity to rally the West behind a liberal vision of the future that sees the EU as a building block of a free-trading world order, rather than as a post-national state. The northern Europeans, Britain's closest allies in the EU, are particularly worried about Brexit, on the grounds that it will strengthen the Franco-German axis and shift the balance of power to southern Europe. Polls suggest that Brexit is already sapping Britain's soft power. The country's problems are unleashing an unpleasant strain of Anglophobia. A German comedian, Dietmar Wischmeyer, demands that, rather than waiting for the British to get their act together, the EU should simply "throw them out" because they are "the purulent appendix of the continent".

Britain hasn't even succeeded in turning itself into the leader of the opposition to Europe's technocratic elite. In the aftermath of the referendum some conservatives in Europe hailed Brexit as a glorious example of British exceptionalism, showing that Britain alone had the courage to stand up for common sense and democracy in a Europe hijacked by federalist fanatics. This view was always weakened by the fact that it attracted some dubious supporters, such as Marine Le Pen, the French far-right leader, and Steve Bannon, an architect of Trumpism. It has now been completely sidelined by Britain's habit of tripping over its own feet. The likes of Ms Le Pen have dropped their flirtation with "Frexit". One of Brexit's many ironies is that it has raised the reputation of the Brussels bureaucracy to heights not seen for decades.

Found in translation

The biggest worry is not that the world's view of Britain is changing. It is that this darker view of Britain is more realistic than the previous one. The Brexit vote could almost have been designed to reveal long-fester

problems with the country: an elite educational system that puts too much emphasis on confidence and bluff and not enough on expertise; a political system that selects its leaders from a self-involved Oxbridge clique; a London-focused society that habitually ignores the worries of the vast mass of British people; and a Conservative Party that promotes so many pompous mediocrities. The reason Brexit is doing so much damage is not just that it is a mistake. It is a reckoning.

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International

. **[Postnatal care: Beyond baby](#)** [Fri, 14 Dec 04:44]

Why so little is done to help new mums cope. Public-health systems focus on babies but often neglect their mothers.

Beyond baby

Why so little is done to help new mums cope

Public-health systems focus on babies but often neglect their mothers



Stephanie Scholz

Dec 13th 2018 | TOKYO

THE PREMISES are as spick-and-span as any health centre. But unusually for somewhere full of newborns and mothers, a quiet calm prevails. Setagaya Postpartum Centre in Tokyo is a rare place. Mothers with babies four months old or younger can stay the night to receive support from midwives and therapists. Some want help breast-feeding; a good few need counselling; others want to recover physically from giving birth, says Kumiko Nagamori, a midwife and director of the centre.

Kaori Ichikawa, who heads the Association for Antenatal and Postnatal Care Promotion in Tokyo, says that Japan is slowly realising that it needs to do more to support women after they give birth. A few years ago the government improved the postnatal care it offers. That was prompted by a fall in the number of births and a rise in reported cases of child abuse. Now, she says, the focus is on the women themselves. Alarm grew this year, when

it was revealed that suicide was the leading cause of death among pregnant women and new mothers in 2015 and 2016.

Japan is not alone in waking up to the inadequacy of care in early motherhood—“the fourth trimester”, as it is sometimes called. Women are suffering, but feel that they have to act as if everything is fine, says Sarah Verbiest, a public-health expert in North Carolina who runs a research project on the fourth trimester. The system in America, as elsewhere, she says, tends to focus on the health and well-being of the baby, rather than that of the mother.

Baby blues

The needs are glaring. Some 10-15% of women in America and around a quarter in Brazil are reckoned to suffer from postpartum depression. The physical toll of giving birth is less well studied, but some 90% of women may tear their pelvic-floor muscle during birth, and 6% of them suffer a serious injury, according to Britain’s Royal College of Obstetricians and Gynaecologists.

The growing focus on postpartum care is in part a consequence of good news: childbirth itself is safer than it has ever been. From 1990 to 2015 the number of maternal deaths around the world fell by almost half, to 216 per 100,000 women, thanks in large part to women delivering their babies in proper medical facilities. Nearly all of these deaths (99%) are in developing countries. However, this article focuses on the rich world, where, with the notable exception of America, maternal mortality has fallen.

A second reason for the new attention being paid to care for new mothers is that women, including famous ones, have been speaking out about their unhappy experiences. Serena Williams, a tennis player, has written of the “funk” of postnatal depression. Keira Knightley, an actor, wrote about her experience of childbirth: “Hide. Hide our pain, our bodies splitting, our breasts leaking, our hormones raging.” Ali Wong, a comedian, delighted and shocked Netflix fans by yelling about women’s “demolished-ass bodies” and her horror at finding out that new mums who advised her to steal nappies from hospital meant not for the baby but for herself.

The importance of the postnatal adjustment has been implicitly recognised in traditional rest periods such as China's *zuo yuezi* ("sitting the month"), when new mothers follow timeworn practices such as refraining from washing their hair or consuming cold drinks, or *la cuarentena*, a 40-day rest, observed in Mexico and other Hispanic countries.

Yet this is poorly reflected in modern health systems, which tend to offer plenty of check-ups during pregnancy, but very few after it. It is usual for women in countries including America and Britain to receive just one visit from a health worker when their babies are six weeks old. American federal law does not even oblige employers to give women paid time off work.

Journey without maps

After childbirth many women suffer mental-health problems. Different women struggle with different things—trauma related to the birth, the difficulty of adapting to caring for the baby, or the change in self-image, says Jacqueline Glynn, a counsellor in London. In Britain, France and Japan a survey is conducted at six weeks to detect postpartum depression. But depression can hit much earlier—or later. Ms Glynn says that many women struggle to tell whether their feelings are normal or something more serious. They may fret that their baby will be taken away if they admit to a professional that they are depressed.

A survey of Britain's National Health Service found that more than half of first-time mothers felt they were not given enough information about emotional changes they might experience. Suzi Barling, who was diagnosed with anxiety after her son was born in Australia in 2017, counts herself lucky that she got help. "It is because I have a history of it and so I and my husband recognise the signs," she says.

Women's physical health, however, both during pregnancy and after birth, is perhaps even worse catered for. Often mothers are ignorant of basic facts about what will happen to their body during and after childbirth, including tears to their pelvic floors, reckons Emily Oster, an economist at Brown University in Rhode Island, and author of books about pregnancy and birth. She was surprised when she bled for days after giving birth. In 2015 Britain's Care Quality Commission found that only 51% of women giving birth for the

first time thought they were given enough information about their physical recovery. Some care providers use euphemisms, such as “tidying up down there” for stitching up tears. “People say ‘how are you?’ but they don’t really want to hear about what is going on in your vagina,” says Ms Oster.

One result of this reticence is that too many mothers think symptoms such as incontinence are inevitable. Some are actually told as much. When Emma, a 37-year-old British lawyer, went to her doctor to complain of incontinence a year after giving birth, he suggested she ignore it, especially if she were planning to have more children. Her response was: “If I had broken a leg, would you advise I didn’t worry about then running a marathon?”

Dealing properly with postnatal problems means starting with childbirth, says Neel Shah, an obstetrician at Harvard Medical School. In some countries there is too much intervention in the birth itself. Unnecessary medicalisation can make it more traumatic. In contrast, other women have notions of a perfect “natural” birth and are upset if it does not happen as planned. Surprisingly little attention is paid to the factors that make a pelvic tear more likely or to what experience women want to have. They are rarely consulted during labour.

“Childbirth is one of, if not the most, important times of a woman’s life, but too often they feel like they are on a plane being held on the tarmac,” says Mr Shah. He is trying to find how doctors and midwives can involve women more in the birth. The preparation is “labour is going to be difficult. But bring a Swiss ball,” says Ms Barling, referring to a big exercise ball some women sit on during contractions. “How different is that from other areas of medicine where doctors talk you through [the] chances of certain outcomes?”

Some countries do it better. The Netherlands has the most comprehensive postnatal care. Every new mother is assigned a *kraamverzorgster*, or care worker, who visits her home daily for eight to ten days after birth. Trained to check the health of the mother and baby, the carer will also perform chores such as shopping and cooking.



France leads the way for physical rehabilitation with *la rééducation périnéale*. All women who give birth get at least ten sessions of rehabilitation for their pelvic floor—a practice in place since 1985—and more than that if needed. Caroline Mollard, a physiotherapist in Paris, says it has become normal in France for women to know that they must make an effort to rehabilitate after birth. “In the past women would have issues, such as prolapse, and struggle with it until they needed surgery,” she says. “Now we are preventing problems.”

Few other rich countries have improved postpartum care in more than patchy ways. Since 2015 Japan’s government has subsidised municipalities that offer postpartum-support services. It also encourages them to carry out surveys to detect postnatal depression at two weeks or a month after birth. But uptake is slow.

Rich women receive better postpartum care than poor ones, a gap that is starker in countries, such as America, with scantier public provision. Such disparities could grow. If demand for better care rises and governments fail to

provide it, the private sector will fill the gap—but only for those who can pay. In Taiwan the number of private postpartum centres increased fourfold in the decade to 2016.

More data are needed. Ms Verbiest's work is a rare example of research that asks women what they need. But more solid information on every aspect of childbirth and its effects is lacking, says Ms Oster. Public authorities in America and elsewhere already record whether a birth is vaginal or by Caesarean section. They could also track pelvic tears and the physical and mental health of new mothers.

In the interim, it would help if women had access to more information. The prenatal classes most countries offer could be improved, to give future parents a better idea of what to expect. Early evidence from Mr Shah's experiments suggests that some simple steps, such as asking a woman how she feels during childbirth can make the delivery a better experience emotionally, if not physically.

More postnatal care would add costs to strained public-health services, yet besides sparing women unnecessary suffering, it might make economic sense. Better childbirth procedures could prevent problems, and better postnatal services could stop them growing, saving money for medical services in the long term, and allowing women back into the workforce earlier. Moreover, the mother's well-being affects her child's future health and educational attainment. A depressed mum is less likely to stimulate her child. An exhausted one is less likely to breast-feed.

Following Japan

Across the rich world women are having their first child later in life. Older women are at greater risk of pelvic-floor tears and other injuries. Physical recovery takes longer for them, says Ms Nagamori, the midwife. The average Japanese woman first gives birth at 31, up from 26 in 1970. Delayed motherhood is a consequence of a happy trend: that women are spending longer in education and forging careers. But like all big changes, it comes with side-effects.

<https://www.economist.com/international/2018/12/15/why-so-little-is-done-to-help-new-mums-cope>

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Time-tested ways of holding business to account are crumbling. Despite being more in the public gaze, firms are less closely scrutinised.

Arrested development

Can Huawei survive an onslaught of bans and restrictions abroad?

Worries in Western countries about national security might reverse its rise



Dec 13th 2018 | SHANGHAI

MENG WANZHOU did not seek the spotlight. The daughter of Ren Zhengfei, founder of Huawei, one of China's biggest technology firms, she started as a receptionist and worked her way up over 25 years to become chief financial officer. In a culture which makes celebrities of businesspeople, she has kept a fairly low profile.

But on December 5th the spotlight found her. Canadian police said she had been arrested four days earlier in Vancouver, en route to Mexico. The Canadians were acting on behalf of the American authorities, who accuse Ms Meng—and other Huawei staff—of fraud connected to dodging sanctions on Iran, and are seeking her extradition. Both Ms Meng (pictured above) and Huawei deny the charges. On December 11th a court in Vancouver granted her bail, subject to electronic monitoring.

Justin Trudeau, Canada's prime minister, and Robert Lighthizer, America's most senior trade official, have both insisted that Ms Meng's arrest is purely a criminal justice matter, part of an investigation into Huawei and its trading partners that has been running for several years. Politics is intruding nonetheless. China has demanded Ms Meng's release, and threatened Canada with "serious consequences" for carrying out the arrest in the first place. Donald Trump, America's president, undercut Mr Lighthizer when he announced on December 11th that he might be tempted to intervene in the case (presumably on Ms Meng's side) if it would help America's ongoing trade talks with China.

Huawei has long caused anxiety. It has grown rapidly from a small maker of cut-price electronics into the world's biggest supplier of telecoms gear. Its sales have increased from 93.8bn yuan (\$12.8bn) in 2007 to 603bn yuan today, putting it in the same league as firms like IBM and Microsoft. It recently overtook Apple as the second-biggest seller of smartphones.

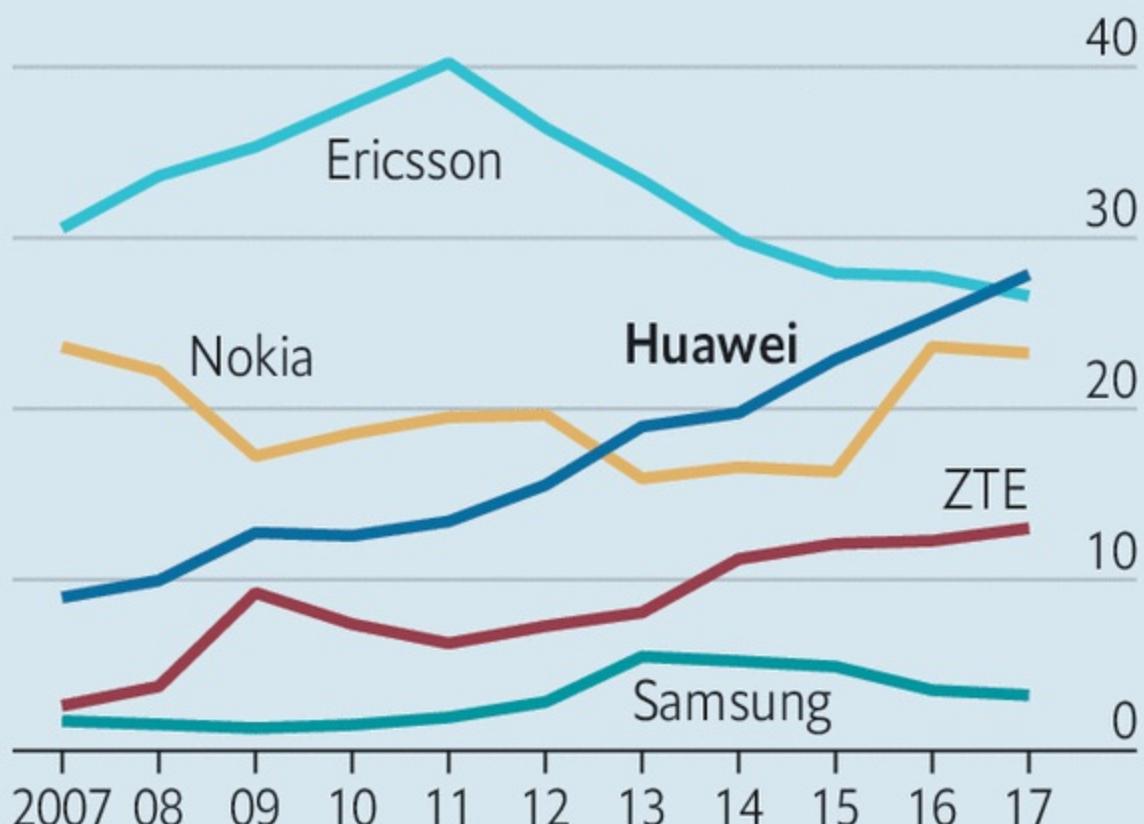
With its plan to dominate the market for the back-end kit necessary for telecom firms to offer "fifth-generation" (5G) mobile-phone networks, Huawei is a key part of the "Made in China 2025" initiative to create leaders in cutting-edge industries. As a consequence both of its success and its ambitions, it sits at the heart of a tangled web of Western worries about national security and China's economic clout.

Its route to the top was not easy. At first China's government favoured a state-owned champion, ZTE. Huawei was one of hundreds of private hopefuls that rose from Shenzhen, a capitalist hub. That lack of mollycoddling, says Dan Wang of Gavekal Dragonomics, a research firm, drove Huawei to develop more competitive products and to seek customers overseas.

Huawei to go

Mobile-network infrastructure

Global market share, %



Source: IHS Markit

The Economist

China is Huawei's biggest market, accounting for half its revenues. It has also enjoyed success abroad, signing contracts for network infrastructure from Denmark to India and wolfing market share (see chart) from firms such as Ericsson, a Swedish company, and Nokia, a Finnish one.

Code Red

As more and more data flows over mobile networks and as Huawei has

become more ubiquitous in them, governments have grown uncomfortable. Soon after Ms Meng's arrest, Andrus Ansip, an official at the European Commission, said people were right to worry about Huawei, warning of the possibility of malicious code built into its products that might funnel information back to Beijing—or even grant access to state-sponsored hackers.

Some countries, especially America's allies, have therefore been resisting the firm's expansion. Australia has banned it from selling equipment to local firms, as has Taiwan. Just before Ms Meng's arrest an initial request by Spark, a New Zealand-based firm, to buy 5G gear from Huawei was rejected on security grounds. A few days later Japan announced a new policy seemingly designed to bar Huawei and ZTE from operating within its borders.

Huawei rejects the spying allegations, and points out that no evidence of subversion has ever been found. Vincent Pang, the president of Huawei's western Europe division, says the firm has strong incentives not to spy on its customers. "We operate in 170 countries," he says. "It would destroy our markets". One former senior Western defence official admits that it is impossible for Huawei to prove a negative, ie, that it is not spying. That does not reassure the doubters, who point to Mr Ren's background in the People's Liberation Army, as well as to Chinese laws compelling private firms to assist the state if asked. As Edward Snowden's leaks in 2013 showed, America's spies are not above modifying products made by national tech firms to listen in on their targets. It would be odd if their Chinese counterparts were not at least pondering similar tactics.

Safe house

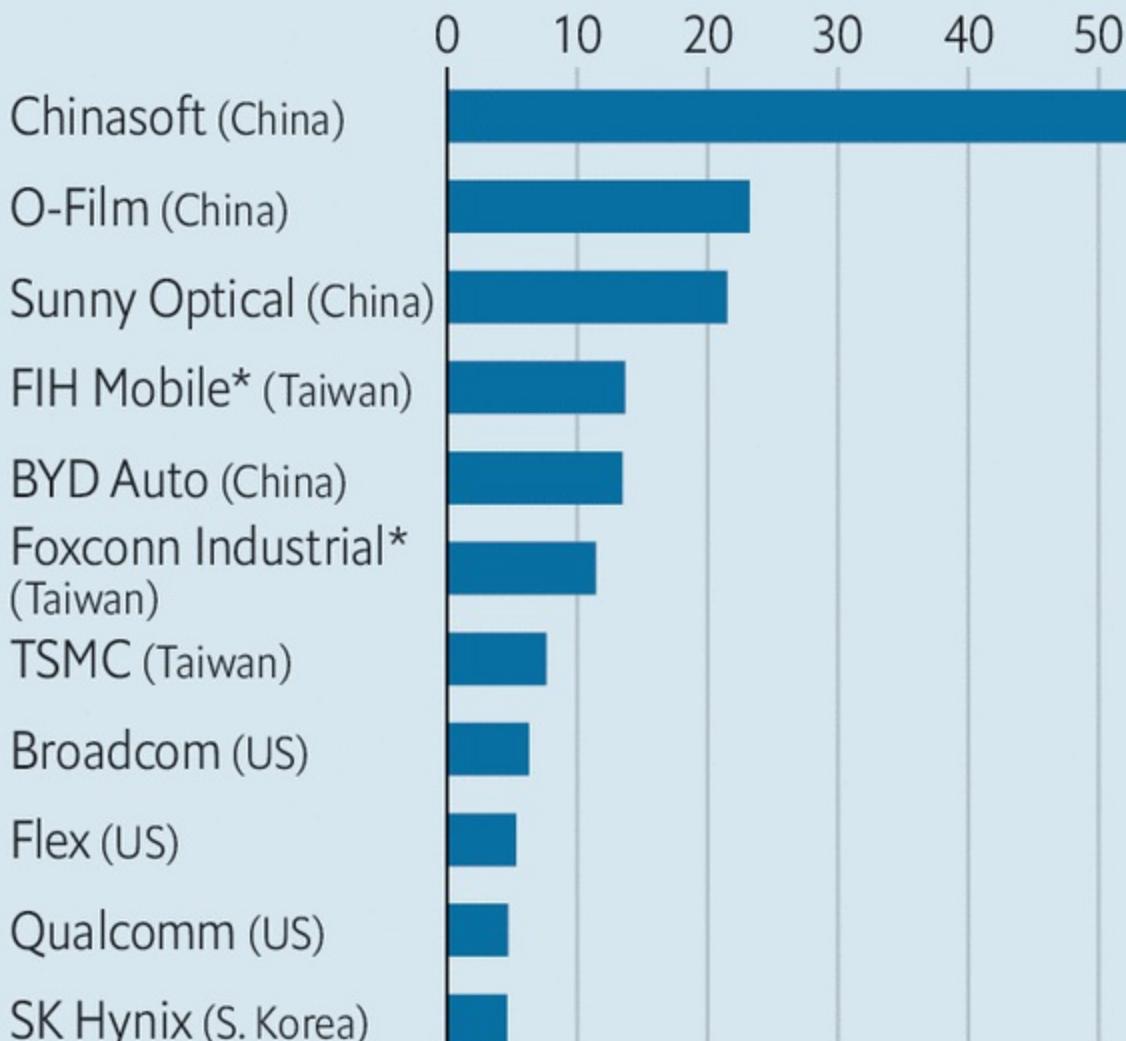
Other countries have been friendlier. On December 5th Huawei announced a contract with Altice Portugal, a mobile operator, to install 5G kit. After Ms Meng's arrest France and Germany both stated that the firm is still welcome, although sensitive investments might be blocked. One particularly important market, says Shaun Collins of CCS Insight, a firm of analysts, has been Britain, despite its membership of the "Five Eyes" electronic-spying pact alongside America, Australia, Canada and New Zealand. The British government has insisted that the firm pay for a laboratory, called the Huawei Cyber Security Evaluation Centre, to scrutinise the hardware and software

that Huawei supplies. It has never found a back door, only programming errors. A recent report found potential problems with Huawei's code, which the firm will fix. For Huawei, British scrutiny has come to serve as a badge of trustworthiness that helps it mollify concerns elsewhere. A similar lab was opened in Germany, in conjunction with the government's cyber-security agency, in November.

Chain gang

Huawei, main suppliers

Estimated revenue exposure, 2018, %



Source: Bloomberg *Subsidiaries of Foxconn Technology Group

The Economist

How bad Ms Meng's arrest might be for Huawei depends on other countries' reaction. Most important will be decisions made in America, where

scepticism about it is strongest. America is ramping up pressure on its allies, particularly in Europe, Huawei's second-biggest market, to ban or restrict it. That would be painful, says Mr Collins, but not fatal. Prospects elsewhere, especially at home, are still rich. China is expected to be the biggest and fastest-growing market for 5G networks for years.

But there is another possibility. Looming over Ms Meng's case is a similar one in 2017 against ZTE, which was convicted of breaking sanctions on Iran. The firm then lied about having complied with the court's punishment. As a consequence, in April American firms were banned from selling it goods. That throttled the company, which relies on American chips and software in its products. Relief came only when Mr Trump reversed the ban, reportedly as a favour to Mr Xi. In its most recent earnings report ZTE said it expects to post a loss of up to 7.2bn yuan for the year, against a profit of 4.6bn yuan last year.

Ms Meng has not yet had her day in court, let alone been convicted of trying to dodge punishments. But that has not stopped some American politicians, including Mark Warner, the Democrat vice-chair of Senate Intelligence Committee, from arguing that similar measures may need to be taken against Huawei.

If that happened it could cripple the firm, although the Chinese government or state-owned banks would probably bail it out if necessary. Like ZTE, Huawei relies on American components, such as Google's Android and chips from Qualcomm. In a recent report, Jefferies, a bank, noted that Huawei would be unable to build smartphones or mobile-phone base stations without these firms. Like many other tech firms, it also relies heavily on chip designs licensed from ARM, a British firm owned by SoftBank, a Japanese company. Having previously said it believed Huawei's gear was safe, SoftBank is now planning to remove at least some of it from its networks.

Huawei, in other words, looks vulnerable. Mr Pang counters that it is a big revenue-generator for Western firms. In November Huawei held an awards ceremony for its 92 top suppliers, of which 33 are American. Two—Intel and NXP, both chipmakers—got gongs marking a decade of working together. Mindful of that past co-operation, Mr Pang is optimistic that the current chill will pass. Even in markets that have banned Huawei or which are considering

it, he says, “we will never give up”.

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When Marlboro Man met Mary Jane

A tobacco giant hashes out a deal with a cannabis company

Faced with declining smoking rates, Altria moves into the weed business



Dec 13th 2018

THOSE WHO fret about America's health must have rejoiced in November when the Centres for Disease Control and Prevention, a federal agency, announced that smoking rates had fallen to their lowest in recorded history. Just 14% of American adults smoked cigarettes in 2017, compared with around 42% in 1965. The trend is a boon for the public's health but for tobacco companies it raises existential questions.

On December 7th Altria, a tobacco giant which sells Marlboro in America, pointed to a possible solution. It announced that it was spending \$1.8bn to buy a 45% share in Cronos Group, a Canadian cannabis firm, with an option to purchase a further 10% in the future. The news boosted Cronos' share price by 29%; Altria's crept up by 2%.

As demand for cigarettes has fizzled, Altria has increased its prices and cut

costs to try to drive profits. A move into cannabis, which was recently legalised in Canada, is no quick fix but the long-term prospects for the cannabis market, if and when the drug is more widely legalised in America, are tempting. At present recreational cannabis is legal in just ten states. Some reckon the total market could be worth between \$40bn-70bn, equivalent to America's spending on wine or spirits. Altria's revenues in 2017 were a little over \$25bn.

The success of Altria's move will in part depend on how people decide to consume cannabis in the future. Most still smoke it the conventional way—in those states where it is legal the market share of the cannabis flower, typically rolled into a joint, is 60-65%. Edible cannabis products and vaping represent around 10-15% each, according to Trevor Stirling, an analyst at Sanford C. Bernstein, a research firm, but vaping pot is on the rise. Flavoured vaporisers can conceal the telltale smell of pot, reducing social stigma. Such products would also mean opportunities for branding, which has in the past been crucial to tobacco firms' success but which is impossible when selling illegal, loose ganja.

The predicted shift to vaping explains reports that Altria also plans to acquire JUUL, a vaping firm that has captured around 75% of America's growing e-cigarette market. Altria has said it will stop selling its own MarkTen and Green Smoke e-cigarette products, citing their weak financial performance, and increasingly burdensome regulation. JUUL has in the past been keen to stress its independence from big tobacco. But now it can probably do with Altria's help in order to navigate an increasingly rocky regulatory landscape.

This year the Food and Drug Administration has announced restrictions on vaping products and mooted a ban on menthol cigarettes (Altria's minty cigarettes are just under 30% of the menthol market). Cannabis products may face similar rules.

Meanwhile big booze is also eyeing up the potential in cannabis. Constellation Brands, brewer of Corona, invested \$4bn in Canopy Growth, another Canadian weed firm, in August, lifting its stake from 9.9% to 38%. The alcohol groups are less vilified than cigarette-peddlers. But cannabis-laced treats are slower to take effect than vaping. Who will claim the pot of gold?

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Bartleby

Wall Street may be finding new ways to perpetuate the old boys' club

Some financiers are dealing with #MeToo by avoiding women



Paul Blow

Dec 13th 2018

BACK IN THE 1980s, Tom Wolfe described Wall Street traders as “masters of the universe”. Over the past three decades, they seem to have turned into the equivalent of what Robert Burns called “wee, sleekit, cowran, tim’rous beasties”. The cause of the funk? Women.

A recent story from Bloomberg, a news provider, based on interviews with 30 executives, revealed that some of the titans of finance are avoiding one-on-one meetings with women, sitting next to them on flights or having dinner with them alone. The #MeToo movement, which started with rape accusations against Harvey Weinstein, a Hollywood producer, and which has spread to most industries, has caused many men to fear being accused of behaving improperly.

Responding as the financiers reportedly are is worrying on all sorts of levels.

Either the men concerned do not know how to behave properly, or they think the female half of the population has nothing better to do than to make up false allegations of sexual harassment. On the latter point, think of the difficulties that accusers face in terms of the damage to their career prospects or the difficulty in getting compensation. These may have lightened owing to #MeToo and the support for women generated by the cause, but the risks involved are still huge. Who would needlessly put themselves through such an ordeal?

Men who take the view that females, especially young, attractive ones, are best avoided at work, may end up excluding them from career opportunities and failing to mentor them. They might even refuse to hire them in the first place. That could land their employers with sex-discrimination lawsuits, but in truth there is plenty of room to turn a cold shoulder with few consequences.

Since men dominate the upper echelons of finance, this gives them an excuse to perpetuate the old boys' club. Rather than change their behaviour, they pretend that it is women, not men, who create the risk. Instead of an inconvenient truth, this is a convenient lie.

Part of the problem is that men systematically underestimate the problems that women face inside the office and out. A new Ipsos Mori survey found that American men believed that 44% of women had suffered sexual harassment at some point in their lives, for example, while the actual proportion was 81%.

Some of the behavioural changes that are occurring on Wall Street might be perfectly sensible in their own right. Earlier this year, this column proposed Bartleby's Law that "80% of the time of 80% of the people in meetings is wasted." Work-related dinners are another waste of time; their chief purpose is usually to eat and drink at someone else's expense. It is hard to find any good reason to have a meeting with a colleague over dinner, of either sex, that could not be achieved over a coffee, for much less time and expense.

Holding a meeting with the door open, as some male managers now practice, is acceptable, provided it is done for all employees. Glass-fronted offices are another option to ensure "literal" transparency. In practice, the main benefit

of these changes will usually be protection for the women not the men. Other precautions are simply common sense. Asking a subordinate staff member on a date is out of the question. If Wall Street professionals cannot work this out for themselves, they are not smart enough to be handling other people's money.

But avoiding unwanted advances is the very least women should expect. A broader question is how to make it easier for them to achieve success in male-dominated sectors like finance. A study* by two Columbia Business School academics compared two approaches. One was to emphasise gender differences, and to celebrate perceived female qualities of warmth and sensitivity. The other was "gender blindness" which downplays differences between the sexes. They found the former approach reduces people to a stereotype and sends women into a limited range of roles, such as human resources. Gender blindness was far more effective in increasing female confidence, while (unsurprisingly) having little effect on men.

So the lesson to Wall Street leaders is "get a grip". Do not think of those other people in your offices as men or women. They are colleagues.

* *What "blindness" to gender differences helps women see and do: Implications for confidence, agency and action in male-dominated environments* by Ashley E Martin and Katherine W Phillips

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Cheque in the post

Japan Post finally faces deep structural reforms

The postal service needs to survive with less help from banking and insurance



Alamy

Dec 13th 2018 | TOKYO

How CAN national postal services survive after privatisation, deprived of government support? That is a question facing many countries' operators, including that of Japan, which the government has privatised and is slowly selling off until it owns just a third by 2022. The process has trundled along slowly since being forced through parliament in 2005 by Junichiro Koizumi, the then-prime minister.

All post offices must contend with drastic declines in letter-writing. In Japan the population is shrinking to boot. Nonetheless, Japan Post is obliged to keep its full network of 24,000 outlets, greater even than the number of elementary schools or convenience stores. Many post offices are in rural and hard-to-reach corners of the archipelago, serving as hubs for ageing local communities.

Japan Post is owned by a listed umbrella company, Japan Post Holdings, whose shares have gone nowhere for years, and which owns two other subsidiaries, Japan Post Bank and Japan Post Insurance. The environment for them is tough too, owing to negative interest rates imposed as part of the Bank of Japan's quantitative easing programme, and restrictions designed to stop them competing unfairly with private rivals, such as caps on the amount of deposits. Still, Japan Post Bank, the country's second-biggest bank by deposits, provides most of Japan Post Holdings' profits. The insurance company, Japan's largest, is not doing badly either. But Japan Post needs to curb its dependence on both since under the privatisation plan Japan Post Holdings must sell off half the bank and the insurance unit over the next few years (it does at least keep the proceeds).

The post office's response has several elements. It has moved into parcels and logistics, which is something its German counterpart, Deutsche Post, also did following privatisation. Japan's parcel-delivery companies handle vast volumes because of expanding e-commerce, delivering around 4bn packages in 2017, up by 50% from 2000. Japan Post itself has increased its market share of such deliveries from 15% in 2016 to 20% this year. It possesses one big advantage over private firms such as Yamato, Japan's leading delivery company, and Sagawa: owing to Japan's extreme labour shortage (1.6 jobs exist for every applicant, the highest level for 44 years), parcel-delivery companies are having to cut service and raise prices to survive. Japan Post can instead transfer some of the thousands of people working in the declining mail business to the growing and more profitable parcels side.

Japan Post is also raising charges for mail delivery—and will follow suit with parcels as it wins market share. Japanese are used to impeccable, and therefore inefficient, levels of service. Masatsugu Nagato, president of Japan Post Holdings, says the postal service has to persuade people that they need to pay for it. "We used to say we have four things free in Japan—air, water, safety and good service," he says. "We now need to charge properly for the last." In 2017 he raised the cost of sending postcards from ¥52 (46 cents) to ¥62 in the first postal price rise for 23 years. Rates have risen for parcels from wholesale customers.

Such measures are helping. During the six months to September the postal

arm of Japan Post Holdings turned its first ever profit, of ¥19.1bn. Yet few think that is enough to render it sustainable. “We need to go abroad,” says Mr Nagato. He is interested in acquiring companies in Asia and America. But finding the right target is hard. Japan Post has been chastened by its experience of paying too much (under Mr Nagato’s predecessor, Taizo Nishimuro) in 2015 for Toll, an Australian logistics firm that operates primarily around the Pacific Rim. That obliged Japan Post to make a write-down of ¥400bn in 2017, producing a ¥29bn loss for its first year as a listed company. Mr Nagato says before purchasing anything else he must “turn around” Toll.

He also wants to cut costs, a tall order as long as branch closures are ruled out. In November Japan Post started testing delivering light post by drone to help serve remote locations more cheaply. Mr Nagato is looking at the possibilities offered by self-driving cars. A more conventional cost-cutting measure is to ask the government if it can stop delivering on Saturdays, which would make a substantial difference. The communications ministry is likely to accede, since Japan Post Holdings has political clout despite Mr Koizumi’s assault on its privileges. The fourth postal service, so the joke goes, is a lobbying wing, an affiliate Japan Post gets to keep.

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Vice without virtue

The biggest brand in digital media has lost much of its lustre

Its new chief executive, Nancy Dubuc, has a hard task to revive it



Dec 13th 2018 | NEW YORK

SOON AFTER the new year in 2015 Shane Smith, co-founder of Vice Media, enjoyed an epic run at the blackjack tables in Las Vegas, and spent \$300,000 of his \$1m winnings on dinner and booze with his buddies, according to media reports. It was a heady moment to be gambling in, and on, digital media. BuzzFeed and Vox Media, which like Vice were rapidly accumulating young audiences coveted by advertisers, would eventually be valued by investors at \$1.7bn and \$1bn respectively. By June 2017, Mr Smith had charmed the likes of Fox, Disney and TPG, a private-equity firm, into investing a combined \$1.4bn in his rapidly expanding news, cable, video and advertising operation. Vice, which started out as a print magazine called *Voice of Montreal*, was valued at \$5.7bn.

No longer. Vice and other formerly hot digital media properties are on a losing streak, as Google and Facebook have squashed all competitors in the

digital-advertising marketplace. The duopoly commands the majority of the \$100bn internet advertising market in America; Vice, BuzzFeed and Vox combined get less than 1% of that market. Vice fell well short of its total sales target for 2017, of \$800m, and will fare little better in 2018, with perhaps \$700m in revenues. Previously profitable, Vice is losing money. The company has also been beset with allegations of sexual harassment and reports of a misogynistic culture. In March Mr Smith stepped aside as chief executive and was replaced by Nancy Dubuc, the boss of A&E Networks (which helps oversee Viceland, a Vice-operated cable channel). Ms Dubuc has said she plans to trim the workforce to reach profitability next year. In November Disney disclosed it had written down its \$400m investment by \$157m. That puts the value of Vice Media at around \$2.5bn to \$2.7bn, a steep drop.

Even that is optimistic, industry analysts say. Fire sales are in progress elsewhere in the industry. On December 11th Verizon, a wireless giant, wrote down the value of its digital-media properties—a combination of Yahoo and AOL—by \$4.6bn, as they had simply failed to build a robust ad business. (Verizon acquired Yahoo's core business for \$4.5bn only 18 months ago.) In November Mic Network, which had raised \$60m and was valued last year at \$100m, fired most of its staff and was sold to Bustle Digital Group for just \$5m. BuzzFeed, which has raised \$500m to date, is looking to merge with other digital companies in what would amount to a bloodbath for investors. Jonah Peretti, chief executive of BuzzFeed, has acknowledged that the best way to compete for digital-advertising dollars would be to combine his firm with as many as five of its peers.

Dominique Delport, global chief revenue officer for Vice, contends that the company is diversified enough beyond digital advertising to avoid the fate of its peers. He points to Vice's cable channel and a daily half-hour news show Vice produces for HBO, "Vice News Tonight"; a studio business that produces television shows, documentaries and feature films; and Virtue, an in-house ad agency that produces both branded content and more conventional campaigns for clients. He also notes that the company operates in several dozen markets, producing content daily in Spanish, Arabic, Hindi, Chinese and so on.

But studio production is a commodity business with thin margins. Viceland,

the cable channel, is little-watched. And it is not clear how long HBO will keep the nightly show, for which it pays at least \$60m a year (the network may discontinue a separate hour-long weekly news magazine show, which would mean a loss for Vice of tens of millions of dollars in revenue).

What can yet differentiate Vice from its digital peers, analysts say, is its brand halo. Vice still has some of the edgy cachet manifested in the free-spending, free-living antics of its co-founder. “There’s certainly a business there, but I do think they need a major reset,” says one executive whose firm considered investing in Vice several years ago. But Vice needs to convert its brand into content and advertising that customers will pay a premium for; a challenge in an age of proliferating content and given how easy it is to place targeted ads on Google, YouTube and Facebook.

Not all Vice’s investors will fare equally poorly. TPG’s investment was structured so that its stake would be protected if the firm’s value diminished, increasing from its initial level of 8% and diluting earlier investors, according to sources close to the firm. Ms Dubuc has said the company’s valuation is of little concern as Vice is not for sale. That seems wise; no one sane would pay top dollar for punts on digital media.

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A spoonful, with sugar

India's wine industry is growing in the most delightful way

Sula's rich vintages are drawing in the middle classes



Alamy

Dec 13th 2018 | NASHIK

RANGING FROM the soaring Himalayas to the swampy jungles of Bengal, India's landscape has few rivals for variety. More recently however, tourists have been drawn to a surprising sight, of vines growing on their preferred terrain of gentle hill slopes. Outside Nashik, a city around 160 kilometres north-east of Mumbai, dozens of billboards advertise wineries along the country roads. At Sula, the biggest and oldest of the farms, some 350,000 people visit each year for tours and wine tastings, which happen on the hour. A majority, say staff, will never have tasted wine before.

India is consuming more booze than ever. In 2016, according to the World Health Organisation, each resident on average drank their way through about six litres of pure alcohol per year, mostly whiskies with faux-Scottish names such as “Royal Stag”. That is more than double the figure a decade before. Yet almost nobody drinks wine—last year each Indian consumed on average

a little more than a tablespoon. Trying to change that is Sula, which now produces roughly half of the wine consumed in India. In 2018 it became the first Asian winery outside China to sell 1m cases in a year. It is largely thanks to Sula that consumption has grown from a thimbleful to a tablespoon.

Making wine in India is not for the faint-hearted, admits Rajeev Samant, who founded Sula after returning to India from California in 1999. Whereas grapes grown in temperate climates are harvested quickly around September, in Nashik, they are grown in winter, not summer, so are harvested between January and March, an unfamiliar schedule. Intense heat means that, once bottled, the wine has to be transported in lorries filled with dry ice to stop it oxidising on the way. Then there are the regulations: each of India's 29 federal states has its own alcohol policy, and alcohol-sellers require licences from each.

Most of Sula's wines are not going to take the world by storm. They tend too far towards the sugary side for most mainstream taste. "The Indian consumer does have a sweet tooth," admits Karan Vasani, the firm's chief winemaker. But that probably does not matter. Mr Vasani sees his mission as making wine accessible. His market is the fast-growing English-speaking middle class, not wine snobs. Clever marketing, as well as sugar, helps the medicine go down: among other things, the firm runs one of the biggest annual dance-music festivals.

Why make wine in India at all, when places like Australia have plenty to spare? It is true that without import tariffs of 150% the business might not exist. A bottle of Sula still costs a lot more than a bottle of decent imported wine would if it were traded freely. But before Sula, almost no Indians thought to try wine, and would have struggled to find it. Today it is available in bars in big cities. Foreign winemakers should hope the new taste does not wither on the vine.

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Money in your purse

Paypal is thriving by defying conventional wisdom

The company's "refounder" boss saved it from conflict and possible irrelevance



Getty Images

Dec 13th 2018

IN SILICON VALLEY people are besotted by the latest thing, which is why techies rarely give a thought to PayPal, a digital-payments firm that turns 20 this month. If its name comes up, it usually has to do with the "PayPal mafia", a group of entrepreneurs, including Tesla's Elon Musk and Peter Thiel, a venture capitalist, who made their first fortunes when eBay bought their firm for \$1.5bn in 2002. Ask tech employees about the Valley's largest, high-flying firm and PayPal is unlikely to make their list.

What PayPal lacks in terms of its profile, it has made up for in performance. After languishing under eBay's control, in 2015 it broke away and re-listed. Today PayPal has a market capitalisation of \$101bn and is one of Silicon Valley's most valuable technology firms, larger than either Goldman Sachs or Morgan Stanley by value.

This year it is expected to facilitate digital payments worth around \$582bn, roughly four times more than in 2012. PayPal acts as a digital wallet and profits by charging merchants a fee when consumers use it for their online transactions. In 2018 the firm is expected to bring in \$3.4bn in operating income.

That offers a counterpoint to Silicon Valley's conventional wisdom about how to build and run companies. One credo is that founders are the best bosses, which explains why they get so much leeway and are brought back to run companies (as Jack Dorsey was at Twitter).

For PayPal's boss, Dan Schulman, who ran the telecoms firm Virgin Mobile and worked at American Express before taking over in 2014, being an outsider appears to have helped. PayPal had previously embraced a strategy of clashing with rivals, including credit-card firms, as it gets higher fees if people link their bank accounts to PayPal instead of credit cards. According to Lisa Ellis of MoffettNathanson, a research firm, "Everyone hated them. They had a culture of disruption and fought with everyone." Had Mr Schulman not changed tack, "PayPal could have been dead by now."

Share of wallet

PayPal share price, \$



Source: Datastream from Refinitiv

The Economist

Instead Mr Schulman brokered around 40 partnerships with would-be rivals, including Visa, MasterCard and Google Pay, to extend PayPal's reach. For example, shoppers who use Google Pay to check out can link their PayPal accounts. For such openness the firm should partly thank Krav Maga, a form of martial arts developed by Israel's army, of which Mr Schulman is a devotee—he sometimes shows up to the office with a black eye and cuts. “I’m a big believer because of martial arts that the best way to win a fight is

to avoid a fight,” he says. This strategy has given investors confidence that credit-card firms and other tech firms would not try to stamp out PayPal, a concern that had hurt sentiment.

Mr Schulman is part of a cohort of little-known chief executives who did not found their firms but have lifted performance at stagnating companies. Dan Rosensweig, who is not a founder but is the longtime boss of the education-technology firm Chegg, calls this group “re-founders”. Satya Nadella of Microsoft is probably the best-known boss to fit the label; others include Shantanu Narayen of the software firm Adobe and Chuck Robbins of Cisco. As outsiders they have been able to embrace new strategies without being beholden to what founders had envisioned.

Another piece of accepted wisdom in Silicon Valley is that only one company in an area can win. “Network effects” which make a service more useful as more people join, helped Google conquer search and Facebook reign over social networking. PayPal also has network effects—around 60% of Americans shopping online have used it in the past year, reckons Ms Ellis, and around 80% of the top 500 online retailers offer customers the option of paying with PayPal.

But the firm is proof that in certain online sectors, the pie is big enough to feed many. As e-commerce continues to grow, many firms that help with digital payments will thrive, including Square in America and Ant Financial in China. “The real war is the war on cash,” argues Mr Schulman. About 40% of transactions in America are paid for in cash so there is room to grow.

PayPal has grown through deals; in 2018 it has spent \$2.9bn. The largest transaction has been its purchase of iZettle for \$2.2bn in May. It offers software solutions to merchants and helps PayPal expand in Europe (although the deal is facing scrutiny from Britain’s competition authority and has not been approved). A smaller but still significant acquisition was Braintree, a firm that helps firms accept payment within their mobile apps, for \$800m in 2013. With it came Venmo, an app that lets mobile-phone users transfer money to each other. Venmo is popular with youngsters, which has helped extend PayPal’s appeal for a new generation. Venmo is not yet profitable, having been deliberately slow in starting to introduce fees and other moneymaking features. Venmo represents an opportunity, but there are others

too. There are whispers that Facebook will integrate PayPal into WhatsApp, its messaging app.

There are still rivals to face down. The most unsettling is Amazon, which does not allow PayPal on its site and has a competing payments product, “Amazon Pay”. It is still significantly smaller than PayPal, handling around one-tenth of PayPal’s total payments, but is growing briskly. PayPal does have the advantage that retailers fear Amazon, so are unlikely to want to help it expand by making its payment service available on their websites. When Amazon bought the grocer Whole Foods in 2017, it “was the Pearl Harbour of the retail industry. It woke everyone up that things are fundamentally changing,” says Mr Schulman. The news probably helped PayPal win more partnerships with retailers. Should the e-commerce goliath invest more heavily in the area of payments, however, that could spell bad news for PayPal. Wars are long and gruelling affairs.

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One eye open, one eye shut

Time-tested ways of holding business to account are crumbling

Despite being more in the public gaze, firms are less closely scrutinised



Brett Ryder

Dec 13th 2018

THE TERM “public company” to denote a group with shares listed on a stockmarket suggests that society at large has an interest in how they are run. Fair enough: one does not need to own shares in Royal Dutch Shell or Facebook to care what their bosses are up to. Comparisons between the market value of multinationals and countries’ GDP are wide of the mark, but their recurrence reflects a legitimate anxiety about the clout of business. Whether as employers, investments, polluters or purveyors of bestselling products, firms need monitoring just as governments do.

But how are firms scrutinised, exactly? In the old days a company would issue quarterly results, publish an annual report, and engage in continual, close discussions with a select group of shareholders, financial analysts and bankers. Once a year a domineering chairman might face the public at the annual general meeting. Today the relationship has flipped: companies and

their bosses cannot escape a raging firestorm of public debate about their purpose and morality. Yet, at the same time, the quality of the scrutiny they receive in the financial sphere has declined.

Chief executives are now exposed to all that the digital, connected world can throw at them. Social media provide a torrent of feedback from customers, ranging from the quality of sausages to customers' stance on Chinese intellectual-property laws. Companies' supply chains, whether mines in the Congo or sewing factories in Bangladesh, are watched and documented by activists, who ask difficult questions about pollution and labour conditions that many firms once chose to ignore.

In an age of populism, politicians have become keener on grilling bosses in public—on December 11th Sundar Pichai, the head of Google, got the full treatment, with a three-hour roasting from Congress, including the question of why President Donald Trump's image appears when you type “idiot” into the search engine. At some firms “woke” workforces stand ready to walk out the moment that managers offend their sensibilities, in a faint echo of the trade unionists who once bossed the bosses for higher wages.

Yet even as these theatrical forms of scrutiny have soared, the other kind—methodical, detailed, financial and often dry—is declining. This is harder to spot than the grandstanding, but is no less important. People who depend on share prices rising or falling are among the best at holding firms to account. They ask the questions that chief executives find most awkward to answer. The work required to do that can be achingly dry: the best financial analysis is rigorous to the point of rigor mortis. But some information that seeps out serves a wider purpose. An investor might demand that a company's management detail how its underfunded pension pot will impact results in the third quarter, for example. “There's an underfunded pension pot?” a crowd of retirees might then ask.

This kind of analysis has been in decline for several reasons. In America an ever-tighter mesh of regulations about what the bosses of listed firms can say about their financial performance, means that many prefer to say as little as possible, communicating instead through written documents and pre-prepared scripts.

And the chief question-askers are not investors themselves but analysts at brokerages looking to sell companies' shares to putative investors (known as "sell-side" analysts). Most bosses keep specialised staff to talk to these hardened industry experts. Unfortunately, the number of analysts has tumbled. The dotcom bust revealed that they could be prone to conflicts of interest; the financial crisis exposed how little money they brought in. Changes in regulation in Europe, aimed at making the market for research more transparent, have upended the latter's business model. Spending on research at investment banks has more than halved since 2008, to \$3bn, according to Frost Consulting.

The biggest firms still get lots of attention, for now. But firms in the FTSE 250 index of mid-sized British companies, have seen coverage dwindle to seven analysts each, down by over a fifth in a decade, according to FactSet, a data provider. Some small companies have no analysts following them at all, or have started to pay for research firms to cover them, creating a glaring conflict of interest.

A lot of analysis now takes place in the private sphere. Many of the best analysts of yesteryear work for funds that invest in companies (thus becoming "buy-side" analysts). The insights they generate there are private. If they find a hole in a firm's accounts, instead of telling the world in order to generate trading commissions for their bank, a buy-sider often shuts up and discreetly sells their shares. A rising share of companies, meanwhile, are staying private, including "unicorns" (privately held tech firms worth over \$1bn), and industrial companies owned by private equity funds. The number of listed companies in the euro zone and America is down by 30% since 2001. Private firms have few obligations to report their finances and none to be grilled by outsiders about it.

Silent mode

One possibility is that technology might create sophisticated new ways of understanding big companies, whether public or private. Computers could short-circuit the company's management and monitor the business directly. Think of satellite images of iPhone factories in China, or real-time monitoring of digital customers' buying habits. But data-crunching power and raw information are expensive and thus only available to big investors.

As the volume of financial analysis falls and a rising share of what remains occurs in private, there is a cost. In order for industries and product markets to work well, sophisticated information needs to be publicly available, so that competitors know if their rivals' profits have slumped or investment is rising. While the modern firm is constantly interrogated about its conduct and ethics, it is increasingly able to keep its performance under wraps. That makes companies look responsive but in the long run could mean the economy works less well for everyone.

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Make or break

Jair Bolsonaro must tackle Brazil's soaring pensions spending

Whether he reins it in will shape his presidency—and Brazil's future



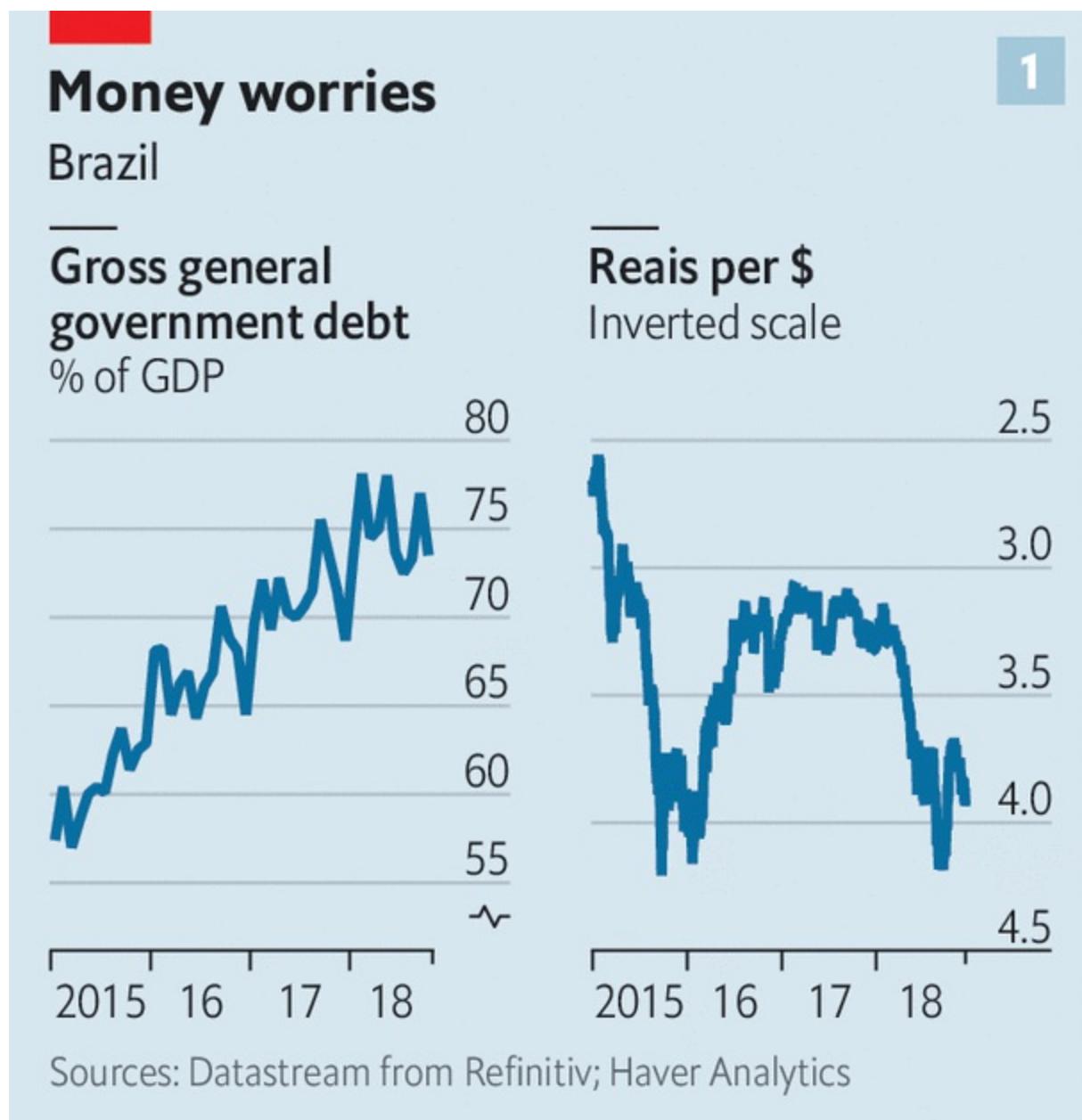
Bloomberg

Dec 13th 2018 | BRASÍLIA

“WE CAN’T SAVE Brazil by killing old people,” says Jair Bolsonaro, Brazil’s next president. He is referring to the country’s main public-policy problem: a bill for pensions that eats up more than half of the federal budget and is growing at a rate four percentage points above inflation. He is not the only person in the incoming administration to have expressed ambivalence and a lack of urgency about reining in the spending. “We have four years to do it,” says Onyx Lorenzoni, his chief of staff.

And yet many are betting Mr Bolsonaro will act speedily to solve a problem that has bedevilled Brazil for years. Their optimism stems from his pick for economy minister: Paulo Guedes, who studied at the University of Chicago and co-founded BTG Pactual, Brazil’s foremost home-grown investment bank. Investors are placing their faith in him to lead the fiscal adjustment of 4-5% of GDP required to stabilise the public debt, and the liberalising reforms

needed to rekindle growth after a recession in 2015-16 that wiped 7.3% off GDP.



The Economist

The outgoing president, Michel Temer, managed some fiscal reforms, notably a cap on federal spending and cuts to subsidised lending. But pensions defeated him, after he looked likely to get caught up in a corruption investigation that had already entangled many lawmakers. This year's election pitted Mr Bolsonaro, a law-and-order candidate only lately converted

to economic rectitude, against Fernando Haddad, a left-wing acolyte of Luiz Inácio Lula da Silva, a jailed former president. During the rancorous and unpredictable campaign, reforms were put on hold. Investors decided to “wait the whole thing out”, says Tony Volpon of UBS, a bank. Now they are celebrating, perhaps prematurely. The currency, pummeled in the past two years, staged a rebound (see chart 1).

Since Brazil has healthy foreign-exchange reserves and its lowest inflation rate for decades, progress depends not on global financial markets or institutions, but on politicians in Brasília. That is both encouraging and worrying. “To reform the system, you have to be inside it,” says Ana Carla Abrão of Oliver Wyman, a consultancy. But insiders have resisted reforming pensions for years.

Their generosity dates from the transition from dictatorship to democracy in the 1980s. The pressure to keep them generous is “unimaginable”, says Fernando Henrique Cardoso, a former president who tried reform in the 1990s. The system was once even more insanely lavish.

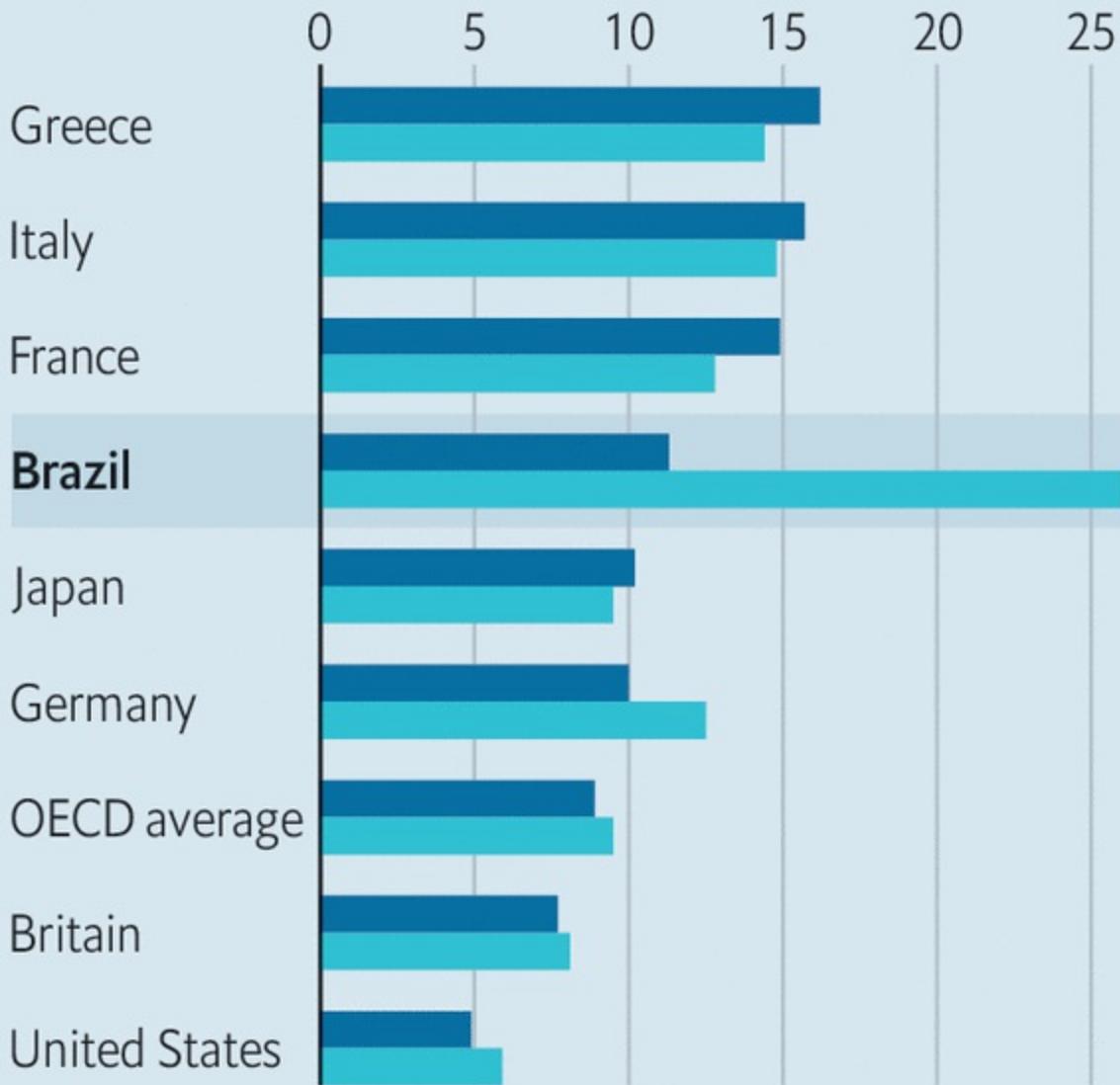
The government scheme for private-sector workers is heavily subsidised. The public-sector scheme is even more bountiful; civil servants not uncommonly retire in their 50s on full pay. Military pensions are particularly outsize—but they are unlikely to be touched. (Mr Bolsonaro, a retired captain, began drawing a pension at 33.) Such privileged groups are sure to resist reform. According to the treasury, 41% of pension benefits go to the richest fifth of Brazilians, and 3% to the poorest.

Samba into the sunset

2

Public pensions spending, % of GDP

■ 2015* ■ 2050 forecast



Sources: OECD; IMF

*Or latest available

The Economist

But an ageing population means the system is unsustainable. There were

eight workers for every pensioner in 2000. By 2060 there will be just two, says Paulo Tafner of the Institute for Applied Economic Research, a government-linked think-tank. The government spends 12% of GDP on pensions, compared with an average of 8% in the rich countries of the OECD (see chart 2).

Pensions have played a big part in pushing the public debt-to-GDP ratio from 52% at end of 2013 to 74%. Without reform, it could soon pass 90%. A ten-year freeze on federal spending in 2016 slowed the rise in debt. But as pensions continued to swell, they exacerbated the squeeze on public services and investment in infrastructure.

Many hoped that before taking office Mr Bolsonaro would be able to bounce the outgoing congress into passing a stalled pension reform introduced by Mr Temer. Though that proved hopeless, the new president may still revive it next year. It keeps the “pay-as-you-go” system, in which current workers support current pensioners, but phases in a minimum retirement age and minimum contribution period. It would save 400bn reais (\$100bn) over the coming decade. (For comparison, net public debt has risen by 260bn reais since the start of the year.)

Others advocate greater radicalism. During the campaign Mr Guedes proposed a “capitalisation” model, with retired people drawing pensions from savings pots built up while in work. Several schemes, all less daring, are under consideration. A notable one would feature pay-as-you-go for most retired people, but with tighter eligibility rules; a guaranteed minimum pension for the poorest; and a capitalisation system for high earners. According to Mr Tafner, one of its authors, it would save 1.3trn reais over ten years.

But recently Mr Bolsonaro has talked of “slicing” reform into stages, starting by introducing a minimum pensionable age. And congress may dilute any scheme further, as it did with Mr Temer’s. Markets will grow impatient if a proposal is not making its way through congress by July, says Arthur Carvalho of Morgan Stanley, a bank. But even the most comprehensive reforms under consideration will not solve all Brazil’s fiscal problems. They would take years to have much effect on spending, since current pensioners would continue to benefit from the old system.

Success would, however, increase confidence, lower long-term interest rates and raise hopes for other much-needed reforms. These include privatising inefficient state companies (a one-off deficit-slasher), further cutting subsidised lending (which distorts credit markets and monetary policy) and simplifying a regressive tax system that gives 4% of GDP in concessions to businesses. “It has no rules, only exceptions,” jokes Bernard Appy of the Centre for Fiscal Citizenship, a think-tank.

The big question is whether Mr Bolsonaro can bring congress into line. His Social Liberal Party has little more than a tenth of the seats, and he says he will not corral lawmakers in the usual Brazilian fashion, namely by buying off parties with pork-barrel spending and appointments to high-spending ministries. He plans instead to negotiate issue by issue with cross-party interest groups, such as evangelicals, security hardliners and farmers. That may not work. “The caucuses will back him when it comes to their own interests, but when it’s time to vote for pensions reform, each congressman thinks of himself,” says Simone Tebet, a senator from the centrist Brazilian Democratic Movement.

Abolition mission

Mr Bolsonaro was elected on a platform of abolishing privileges, so he must emphasise that message to bring pressure to bear on congress, says Arminio Fraga, a former central-bank director who worked with Mr Tafner on pension reform. But Mr Bolsonaro and Mr Guedes had early warning of how hard their task will be when they failed to dissuade the outgoing congress from increasing public-sector pay by 16%, far above inflation. Meanwhile, an auction for oil-exploration rights hit a snag after Mr Guedes offered to share the revenue with the states, only to back-pedal after realising this would bust the spending cap that was Mr Temer’s main achievement. Congress, sensing an opportunity, refused to approve the auction without getting a cut.

The new economic team is committed to reform and conditions are favourable, says Eduardo Guardia, the outgoing finance minister. But, he adds with some understatement, “There is execution risk.” Others are heartened that, after so long, pension reform leads the next president’s agenda. “Debate about the allocation of government spending has never happened before in Brazil,” says Mr Carvalho. “What is a priority? Do you

take from teachers, from judges, from farmers or from families?” The answer —“All of them”—is unpalatable. But it is the one Brazil needs.

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Annus horribilis

After a disastrous year, a whiff of optimism is in the air

Mauricio Macri hopes for a recovery in time to boost his chances of re-election



Dec 13th 2018 | BUENOS AIRES

ARGENTINA IS FAMED as much for its financial crashes as for its juicy steaks and nifty footballers. But even compared with its usual performance, 2018 was a particularly miserable year for the economy. The worst drought in 50 years wrecked the corn and soyabean harvests, knocking 2% off GDP. The peso lost half its value against the dollar, pushing inflation to 46%. That tipped the country into its second recession in three years and led to a crisis that forced it to seek one of the largest credit lines in the IMF's history. The approval rating of Mauricio Macri, the president, is at an all-time low. But as the year ends, there are reasons to hope that 2019 will be better.

The crisis of confidence has embarrassed Mr Macri, who was elected in 2015 on a promise to put Argentina's economy on a firmer footing. In May of this year, with US Treasury yields rising and the dollar strengthening, foreign

investors began to yank their money out. Argentina was not the only emerging market to suffer capital flight. Turkey, in particular, suffered too. But Argentina's wide fiscal and current-account deficits turned a rush for the exit into a stampede. Neither raising interest rates to 40% in May nor securing a \$50bn credit line with the IMF in June halted the peso's slide (see chart). In September, following another plunge in the peso, the IMF agreed to increase Argentina's credit line to \$57.1bn and accelerate its disbursal.

Macri's misery

Argentina

Policy interest rate, %



Peso per \$, inverted scale



Source: Datastream from Refinitiv

The Economist

In return Argentina's government agreed to balance the budget in 2019, a

year earlier than it had previously agreed with the IMF. In November it passed a budget that reduced spending on infrastructure, transfers to provincial governments and subsidies for energy and public transport. It also levied a temporary tax on exports, set to expire at the end of 2020. None of the measures is popular. “We hate them but we need them,” says Nicolás Dujovne, the finance minister. They are intended to eliminate the primary fiscal deficit (that is, before interest payments), which is set to reach 2.7% of GDP this year.

The IMF has also demanded changes at the central bank. At the fund’s behest Guido Sandleris, the bank’s new president, announced in September that he would abandon its discredited inflation targets and instead freeze the expansion of the monetary base. The bank also adopted a floating exchange-rate band, meaning it will limit its interventions in currency markets to when the peso’s value falls outside a certain range. These policies have succeeded in stabilising the exchange rate (a dollar currently buys 37.5 pesos) and curbing inflation expectations, allowing the bank’s benchmark interest rate to fall from a high of 74% in October to 59%.

That should be enough to permit economic growth, which Mr Dujovne expects to return in the first half of 2019. The recovery will be driven by strong soyabean and corn harvests, he predicts. An increase in grain exports will provide a stream of hard currency, narrowing the current-account deficit. Sectors that have benefited from the weaker peso, in particular tourism and energy, should contribute to growth, too. As inflation falls real wages should rise, boosting consumption.

All that would be a relief for Mr Macri, who faces a presidential election in October. His populist predecessor, Cristina Fernández de Kirchner, is thought to be considering another presidential run, despite facing six separate federal corruption charges relating to her time in office. The prospect of her return has spooked markets and raised the stakes. Moderate, more appealing, opponents may also decide to stand. Mr Macri must hope that the recovery arrives in time to boost him at the polls.

Plenty could still go wrong. Social unrest is expected in the coming months as unions haggle over pay rises. If the recovery is delayed, or weaker than expected, Mr Macri’s approval ratings could fall further. Another external

shock could prompt another bout of capital flight.

“If there’s another economic meltdown Macri will struggle against any candidate,” says Juan Cruz Díaz of Cefeidas Group, a consultancy in Buenos Aires. But Mr Macri’s hopes are not all that rest on how the economy performs in 2019, says Mr Dujovne. “It’s the year that defines Argentina’s long-term future.”

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A bigger picture

Price guarantees are common at art auctions

But their record value is distorting the art market



Dec 13th 2018

“LADIES AND gentlemen”—the auctioneer scans the room one last time—“the Hockney is sold!” The hammer comes down at \$90.3m (including fees). Last month a pool scene by David Hockney, a British painter (pictured), set a new auction record for a work by a living artist. What made it an even bigger splash was that it was sold “naked”: that is, without a minimum price or sale guarantee. It may be one of the last great auction nudes.

Many sellers of fine art are promised a minimum sale price, however the auction turns out. They are unnerved by cautionary flops, like Francis Bacon’s “Study of Red Pope”, which was estimated to fetch £60m-80m (\$80m-105m) in 2017, but failed to sell. Guarantees are most useful for post-war and contemporary works, where the value is most speculative. Last month two-thirds of sales at the “evening” auctions—the highest-profile ones—in New York at Christie’s, Sotheby’s and Phillips, the three biggest auction

houses, were guaranteed. The estimated value of those guarantees was at least \$537m, more than two-fifths higher than in the same month last year, estimates ArtTactic, an arts consultancy.

Auction houses used to offer guarantees themselves. But when the market turned in 2009, after the financial crisis, Christie's and Sotheby's had to pay out \$200m for unsold works. Since then they have moved some risk to third parties, who place an "irrevocable bid" at a predetermined price. If there is no higher bid, the guarantor wins the auction; if there is, the guarantor takes a share of the price above the agreed bid.

Guarantees mean buyers are lured by early interest in the piece. Sellers are reassured that there is no risk of a no-sale, which could depress a work's future value. Auction houses like them, because they help snare trophy works. But they can also distort auctions. Anonymous guarantors are in a privileged position compared with other bidders in the room, who know only that there is a guarantee but not who has made it, or how much it is. If enough leave what they see as a tilted playing field, the auction ends up being a "private sale in public", with a single bidder. Since it may never be known if the buyer was the guarantor, and hence if the stated price was the true one, price records become blurred.

The upside for guarantors can be eye-watering. Leonardo da Vinci's "Salvator Mundi", which sold for a record-breaking \$450m in 2017 and was guaranteed for over \$100m, left the guarantor with an estimated \$90m-150m, according to Bloomberg. And new financial products make such returns more accessible. Pi-eX, an art-investment adviser, makes it possible to buy fractions of guarantees through tradable futures contracts.

The chance to gain a large slice of a dizzy sale price is attracting inexperienced investors, says Anders Petterson of ArtTactic. But it is an unusually risky punt. Some will make enough to hang up their hats for good. Others will be hanging nothing but an unwanted—if masterly—painting.

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Exit on Mint Street

Urjit Patel, the head of the Reserve Bank of India, resigns

India's economic policy is in turmoil



REX/Shutterstock

Dec 13th 2018 | MUMBAI

LAST MONTH Viral Acharya, a deputy governor of the Reserve Bank of India (RBI), suggested in a speech that the Indian government was risking “economic fire” by meddling with the bank. If he was right, on December 10th the last chance of dousing the flames may have been missed. Urjit Patel, the RBI’s governor, abruptly resigned, citing “personal reasons”. He has been replaced by Shaktikanta Das, a career civil servant who is thought to be an ally of Narendra Modi, the prime minister. The rupee dropped by 1.8% against the dollar on the news.

Mr Patel’s resignation came ahead of a board meeting on December 14th (after *The Economist* went to press). These gatherings used to be unremarkable, but in recent months board members friendly to the central government, in particular Swaminathan Gurumurthy, a Hindu-nationalist journalist appointed in August, have turned them into battles over RBI policy.

Mr Patel fought back, not least by permitting Mr Acharya's speech, which brought the struggle into the open.

The main argument is the stuff of economics textbooks. The government, facing a general election next year, wants the RBI to loosen monetary policy. And it wants the bank to pay it a bigger dividend from seigniorage profits, to spend on pre-election giveaways. Both would stoke inflation and compel the RBI, which targets inflation of 4%, to raise rates in the future. But in the meantime a brief boom would be politically well-timed.

There are other points of contention. The RBI wants to clean up debt-addled public banks, which account for 70% of banking assets, even if that means getting tough with well-connected delinquent borrowers. The government, which wants to spur consumer spending and investment in infrastructure, would rather state banks lent more. Arguments swirl, too, about the regulation of private banks.

Mr Das's appointment may make it more likely that the government will get its way. He was Mr Modi's secretary for economic affairs in 2016, when the government cancelled 86% of all banknotes by value overnight, causing chaos from which small businesses have not yet recovered. In briefings shortly afterwards, he suggested measures such as inking Indians' fingers to ensure that they could not change too many old notes into new. (That idea went nowhere.) For a civil servant he is rather keen on Twitter, where he has griped about such matters as Amazon's Canadian subsidiary selling doormats with the Indian flag on them. He will be "completely pliant", reckons Vivek Dehejia of the IDFC Institute, a think-tank in Mumbai.

On coming to power in 2014, Mr Modi offered a mix of liberal market economics and cultural populism. But as prospects for his Bharatiya Janata Party have diminished (see [article](#)), the first of these has been sidelined. Mr Patel's predecessor at the RBI, Raghuram Rajan, served just one term after his relationship with the government deteriorated. He moved back to America to teach. Earlier this year Arvind Subramanian, the government's chief economic adviser, also resigned and took up an academic post in America. As orthodox economists have left, people like Mr Gurumurthy have gained prominence. He argues that the central government needs to take back the power to print money.

Mr Patel's resignation, and what it says about the government's attitude towards institutions, is something that "all Indians should be concerned about" said Mr Rajan, speaking on television after news of the departure broke. Indeed.

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Zero-sum grain

Trade war has given agricultural merchants a boost

But their longer-term prospects are dim



Dec 13th 2018

ON DECEMBER 10TH Bunge, an American agribusiness giant, announced plans to replace both its chairman and its CEO. The move may seem ungrateful: the company's profits surpassed analysts' expectations in the most recent quarter, marking a turn after a string of bad years. But industry insiders were unsurprised. Despite cost-cutting and divestments, Bunge's share price is 28% below its February peak, even after a 3% jump when the reshuffle became public. Its travails are a sign of changing times for soft-commodity traders.

For decades ADM, Bunge, Cargill and Louis Dreyfus—the ABCDs of agribusiness—were unavoidable middlemen. From corn and cocoa to soya and sugar, they could best gauge supply and demand, thanks to superior intelligence on stocks and harvests. Their storage facilities placed them well to ride out price swings. State buyers and multinationals relied on their global

footprint to source staples. Their networks of ports, ships and trucks meant they picked up profits all along the way.

But five years ago their grip started to loosen. In 2013 the quartet posted \$351bn in combined sales, equivalent to over a quarter of the world's annual food-import bill. By 2017 that had shrunk to \$260bn. At most companies profits also crashed, pummelling share prices. And though they together retain 235,000 staff, many traders have left.

Stable, low crop prices, induced by a persistent global glut, were squeezing margins. But the disintermediation owed more to structural forces. Phone apps could provide farmers with real-time data on prices in all markets. Farms became bigger, and invested in storage. "Today you don't need all these in-between halfway houses," says Detlef Schoen, a former head of Cargill's European grain business. The traders' decline seemed unstoppable.

Bean and gone

Soyabean price, \$ per tonne



Source: Commodity3

The Economist

Until this summer. In June, after President Donald Trump slapped tariffs on \$50bn-worth of Chinese goods, Beijing retaliated by targeting soyabeans, America's biggest farm export. That hammered American prices; Latin American substitutes soared. Brazilian soya, on par with American soya in May, opened up a wide lead before falling back as Brazil's export season drew to a close and hopes for a truce in the trade war briefly rose (see chart).

American farmers were hit hard. But trading became profitable again. All

four ABCDS have hinted at strong earnings for the period since June. In their high-volume, low-margin business, says Vincent Andrews of Morgan Stanley, a bank, agricultural traders shovel “pennies, nickels or dimes”. Until relatively recently, pennies were all they could pick up; now they are earning nickels. Volatility brings opportunities for arbitrage; depressed American prices mean bigger margins on processing soyabeans into animal feed.

Dimes may soon be on offer. “America must find new clients, China new suppliers. Traders have a new *raison d'être*,” says Jean-François Lambert, a consultant.

But the good times are unlikely to last. Trade shifts will outlast the war. And China will want to diversify away from America, says Heather Jones of Vertical Group, an investment firm. Disintermediation is likely to resume once the market settles. Digital market-places such as FarmLead, which covers 12% of North America's grain market, mean farmers can shop around for the best price. “There's no more loyalty in this business,” buyers tell Alain Goubau, the startup's operations chief.

And the established players face another problem: new competition for supply. Glencore Agriculture, a trader backed by Glencore, a metals and mining firm, and by two Canadian pension funds, has been quicker to move into the Black Sea region, which now exports more wheat than America and Canada combined. Olam, a 30-year-old firm owned by Singapore's state fund, has carved out a lucrative niche in Asia and Africa, in spices and nuts.

Eat or be eaten

Meanwhile China is advancing in Latin America. Since 2014 it has spent billions building up COFCO, a state-owned food processor, into an international trading platform. Though marred by integration problems, its acquisitions of parts of Noble Group and Nidera, two traders with South American presence, have made it a top-five exporter of Brazilian produce. It has invested in elevators, ports and processing plants, including a 60,000-tonne silo complex in Mato Grosso, Brazil's top soya-growing state. Valmor Schaffer, COFCO International's Brazil chief, says China buys 70% of the produce the company exports from Brazil, up from some 30% three years ago. Tariffs are a boon to Latin American farmers, he argues. China can test

the quality of Brazil's late-year shipments, and likes what it gets. COFCO is not interested in sharing the spoils. Mr Schaffer says it would not like joint ventures with other traders unless it holds a majority stake.

The ABCDS remain the only truly global firms. But regional competition is adding to their main problem: too many companies are doing the same thing, says Sönke Lorenz of BCG, a consultancy. Tariffs or not, there are only two ways they can restore stable profits. They can diversify into food-manufacturing: Cargill, the most successful, derives two-thirds of earnings from its animal feed and protein business. Or they can consolidate, though their distinct cultures and ownership structures have till now made this hard.

Could the shake-up at Bunge create an opening? Saddled with bad investments in sugar production, it started a "strategy review" in October. Yet there have been two failed takeover approaches in the past year, suggesting it remains too pricey for rivals to swallow whole.

Antitrust issues also loom large. "This company should already have been acquired five times. But no one is doing it," says a former employee. Rivals may be waiting for Bunge to become a better bargain before slicing it up.

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Paying for rain

In Africa, agricultural insurance often falls on stony ground

The continent's crop-farmers and pastoralists remain to be convinced



Dec 13th 2018 | ISILO COUNTY

JACKSON LEWANGU looks up at the clouds scudding above the dry plains of northern Kenya. And, somewhere higher still, a satellite looks down on him. Since 2012 Mr Lewangu, who keeps goats and cattle, has bought insurance designed by the International Livestock Research Institute, based in Nairobi. The satellite monitors vegetation; when it is unusually scarce, he gets a payout. He can then buy food for his animals or pay a rancher for access to grazing land, without which his cows would die.

Insurance could bring peace of mind to Africa's pastoralists. It could also help the continent's crop farmers, whose fields are almost entirely rain-fed. But Mr Lewangu's neighbours are unconvinced. The satellite gives false information, says one woman; there is no payout in good years, complains another. Such scepticism is typical. Although schemes have proliferated in the past decade, almost all are subsidised by governments or foreign donors.

Insurers and farmers are “not speaking the same language”, says Rahab Kariuki of ACRE Africa, a Kenyan firm that works with both.

Lack of demand has muted the hype around index insurance, an innovative way to cover smallholders. Data on rainfall or sample yields are crunched; a payout is triggered when an index falls below a threshold. That is cheaper than assessing farmers’ losses, or checking if nomads’ cows have died. And since farmers cannot control the rain, there is less “moral hazard”: changes in their behaviour cannot make a payout more likely.

But the models make assumptions, for example about when farmers plant or how rainfall affects yields. And no model can capture all risks. Buyers may lose their crops and still get nothing, ending up worse off than if they had been uninsured. Such flaws may be sufficiently serious to mean that the most risk-averse farmers will buy less insurance, argues a 2016 paper by Daniel Clarke, then of the World Bank. Demand is lower from pastoralists in Kenya whose losses have been underestimated by the index in the past.

Insurance is an unfamiliar concept in rural Africa. It is also an unsettling one, asking buyers to pay in advance for a return they hope not to need. That is a problem where trust is low, fraud common and the law remote. Another barrier to take-up is that premiums are typically paid before planting, when farmers are poorest. One trial offered insurance to sugar-cane growers in Kenya. Only 5% signed up when they had to pay the premium upfront. More than 70% did when payment was deducted from their sales at harvest, even though they had to sign up at planting time, before knowing whether they would need it.

Some firms are finding clients. Pula, a startup, bundles insurance with other products. In Zambia and Malawi it is in partnership with Bayer, which sells seed. Farmers register by phone, using a unique number attached to each bag of seed; some 130,000 are expected to do so this season. For now Bayer absorbs the cost. But trials by Pula in Nigeria, this time with fertiliser, suggest that farmers will pay more for insured bags. The extra cost seems small to those already forking out for inputs, says Thomas Njeru, one of Pula’s founders.

Meanwhile governments and donors must decide when to subsidise, and how

much. Some insurance is so badly designed that it is less useful than cash, says Michael Carter of the University of California, Davis. Well-designed insurance prods farmers to invest more in seed and fertiliser, because they are less worried about being wiped out by drought. Mr Carter and his colleagues are designing a certification system to sort the wheat from the chaff.

Good experiences may ultimately sway farmers. Women near Kitui in eastern Kenya used to survive droughts by walking 5km to the river with a donkey, bringing back water to sell at 1 shilling (\$0.01) a litre. In the past two years they have received payouts from an insurance scheme run by the World Food Programme, Pula and the government. This too is subsidised. But when asked if they would pay the full premium, almost all say yes.

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Buttonwood

The perils of trying to time the market

In practice, it is surprisingly hard



Dec 13th 2018

JESSE LIVERMORE earned his reputation as a talented speculator by pocketing a tidy sum during the Panic of 1907. Mindful that a scarcity of credit and a giddy stockmarket were a dangerous mix, he began to sell stocks short that autumn. When share prices crashed on October 24th, Livermore was up by \$1m (\$27m in today's money). He then changed course. He started to buy stocks, which were now a lot cheaper. The market rallied. By the end of the year Livermore had made \$3m.

Anyone who has ever invested in stocks has at one time fancied that they can time the market as exquisitely as Livermore did. Very often, they hope that a benchmark of fair value, such as the cyclically-adjusted price-earnings ratio, or CAPE, will be their guide. History shows that when stock prices rise a lot faster than profits—as they did in the 1920s, 1960s and 1990s—they tend subsequently to fall back (see chart). So the market-timer will sell when the

CAPE is high and buy them back when it is low.



The Economist

It seems simple. In practice, it is surprisingly hard to use valuation gauges to time the market. Investors who try often sell far too early. As a consequence, they miss out on some of the richest returns. Selling stocks when everyone is still buying may actually be the easy bit. It is harder to find the nerve to buy

stocks when others are selling them in a panic.

The purist view is that market timing is a mug's game. It says stocks are a random walk: their past indicates nothing about their future path. In the 1980s academics questioned this creed. Since stock prices tend to revert to a mean value, they must be somewhat predictable. They deviate from this fair value only because investors over-react to news. When profits are strong and stocks are rising, there will be keen buyers almost regardless of value. The reverse is true in recessions. This herding—or, if you prefer, this rational pricing of risk—creates the opportunity for market timing.

There is a drawback. What is “cheap” or “dear” is defined by reference to the full history of prices. But an investor active in any period could not have known this in advance. Nor is it obvious at the time whether the CAPE is close to a peak or trough. Without the benefit of hindsight, timing produces disappointing results.

A study in 2017 by Cliff Asness, Antti Ilmanen and Thomas Maloney of AQR Capital Management tested a timing strategy. Their gauge was a rolling 60-year average of the CAPE. When the CAPE was below its historical median—that is, below fair value—the strategy would borrow to buy stocks. When it was above fair value, it would lighten up on stocks in favour of cash. Over the whole period (1900-2015), returns to the market-timing strategy were scarcely better than to a buy-and-hold portfolio with a constant 100% stockholding. And over the latter half (1958-2015), returns were no better at all.

A big failing was that the strategy was under-invested in stocks for too much of the time. The average CAPE has trended upwards since the 1950s. Too often stocks were deemed dear based on historical valuations. Timing works no better in countries other than America. A study in 2013 by three academics, Elroy Dimson, Paul Marsh and Mike Staunton, found no consistent link between valuation and subsequent returns in 23 stockmarkets.

Value is too weak a signal to be much use. But it can be improved upon. The AQR researchers found that combining the value benchmark with a “momentum” signal of the underlying trend in stock prices yields better results. This is intuitive. The problem with value benchmarks is that prices

drift away from them for long periods. But a blend of value and momentum represents “value with a catalyst”, as the authors put it.

This strategy is too complex for ordinary investors to profit reliably from it. But there is a simpler form of market timing, which has some empirical support: rebalancing. It requires investors to decide first how they want to divide their investments. It could be, say, an equal split between American and non-American stocks. The precise weights matter less than that they are stuck to. That requires regular rebalancing to restore the original weights. It means shedding assets that have risen a lot in favour of those that have gone up by less.

The virtue of rebalancing is that it is simple. You are less likely to make a costly mistake than if you follow a more complex strategy. The drawback is that you must give up the delusion that you can time it like Livermore. To do what he did takes nerve and a rare feel for markets. You may think you have such talents. You almost certainly don’t.

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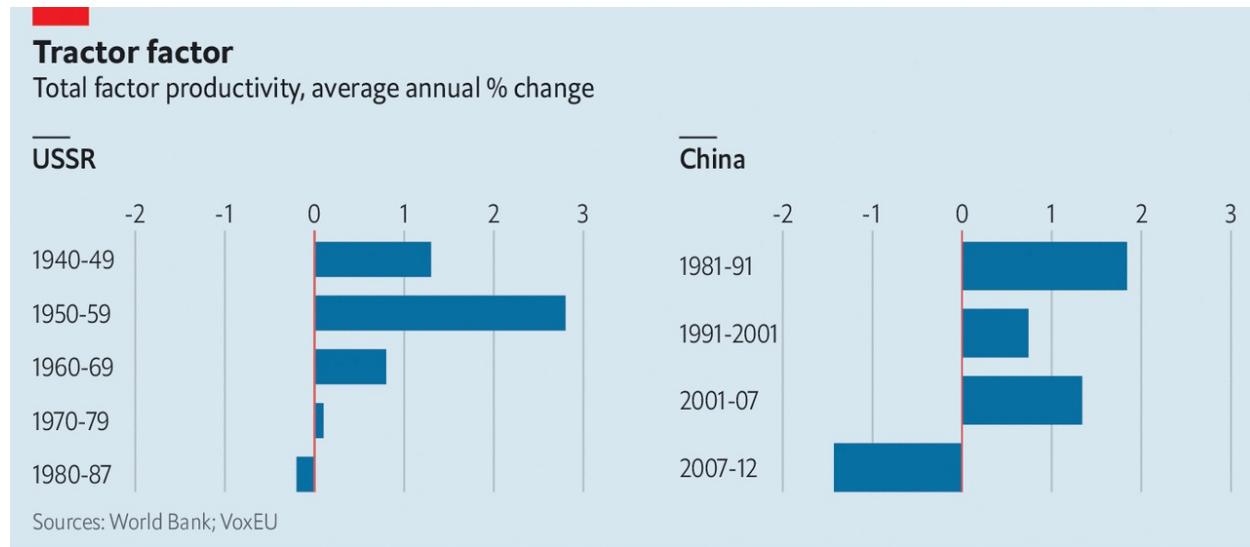
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Free exchange

The lives of the parties

China's economy is more Soviet than you think

Dec 15th 2018



The Economist

THE NOTION that China's economy, though nominally communist, resembles that of the Soviet Union seems on its face absurd. The fall of the Iron Curtain revealed a rusted shell of a country, incapable of manufacturing goods the West might want. China is the world's biggest exporter; its cities are jammed with gleaming skyscrapers. Soviet citizens went without consumer luxuries or bought them dearly on the black market. China's growing middle class can choose from scores of designer brands at the local mall.

The Union of Soviet Socialist Republics, formed five years after the Russian revolution of 1917, came apart at age 69. At 69, the People's Republic of China seems destined for world domination. Yet the Soviet economy seemed modern and dynamic once. China's GDP per person, at purchasing-power parity, remains below that in the Soviet Union on the eve of its collapse. And despite its capitalist trappings, the Communist Party is piloting China's economy in a direction similar to that of the Soviet Union in its twilight.

There can be advantages to economic backwardness, as Alexander

Gerschenkron, a Ukrainian-American economist, once argued. Late developers can generate high returns on new capital and can copy technologies from richer places, without a laborious process of trial and error. In the first half of the 20th century the population of the Soviet Union remained largely rural, and industrialisation was far less advanced than in western Europe. By moving its people to cities and placing them in factories filled with Western technologies, the Soviets made up economic ground without relying on markets and private capital.

The results were striking—for a time. Official Soviet data exaggerated the economy's performance, but work by CIA analysts and other economists points to robust growth in the 1950s, with real output per person rising by nearly 6% annually. In the 1960s it grew by a slower but still solid 3%. In the 1961 edition of his seminal economics textbook, Paul Samuelson, a Nobel-prizewinning American economist, predicted that the Soviet economy would be larger than America's by the 1990s. When Nikita Khrushchev told the West "We will bury you", the threat seemed credible.

But flaws became increasingly apparent in the 1970s. Despite high investment, growth in output and productivity slowed sharply. By the 1980s productivity was declining (see chart). In an analysis published in 1994, William Easterly and Stanley Fischer blamed Soviet ills on falling returns to capital. The benefits of capital accumulation (saving to fund factories, equipment and so on) fall over time unless new productive uses for capital can be found.

From the 1970s tumbling returns to investment dragged the Soviet economy into a deepening rut. Other economies faced similar woes in that decade. But firms in market economies had more freedom and incentive to experiment with new technologies. Resources could flow more easily from stagnant firms to promising ones. Every aspect of the Soviet economy was directed by central planners, who could not replicate these dynamics.

China's development followed the Soviet path in some respects: industrialisation meant rapid urbanisation and the adoption of production techniques long established in richer economies. But China, unlike the Soviet Union, engaged with global markets. World trade helped discipline Chinese firms. Foreign subsidiaries and joint ventures facilitated the transfer of

technologies and processes (to the chagrin of Western governments enraged by the theft of intellectual property). Middle-class Chinese can spend their incomes on the same foods and fashions as people in the West.

Yet these capitalist trappings mask the continued influence of the state. Private Chinese firms account for just 52% of industrial output, a share that has risen from almost nothing in the early 1980s, but is no longer climbing. In recent years their share of investment has begun to grow. Though there is nothing on the scale of Soviet central planning, the Communist Party exerts influence on other parts of the economy, as well—through preferential access to credit, for instance, and the dual obligation of party-linked executives to their firms and political masters.

The best is yet to come

The effects are malign. Growth in real output has fallen by more than half since 2007. More worrying, the contribution to growth from capital accumulation is higher now than it was in the 1980s or 1990s, and productivity makes less of a contribution. Indeed, productivity is actually declining, and at an increasing pace, according to recent work by Harry Wu and David Liang of Hitotsubashi University in Japan. Unpublished estimates by Mr Wu suggest that in 2016 total factor productivity, or the contribution to growth not accounted for by the addition of labour and capital, dropped back to levels last seen in the early 1990s. The problem is the same as that which plagued the Soviet Union: capital, directed by political interests, piling up in inefficient parts of the economy.

The work by Mr Wu and Mr Liang suggests that improving productivity in the information-technology sector has been China's saving grace. Productivity growth in IT-producing firms slowed only slightly in the years after the global financial crisis, they reckon, while in other parts of the economy falling productivity subtracted more than two percentage points from growth in GDP. But as the rest of the rich world has discovered, it becomes more difficult over time to wring efficiencies out of IT production.

China is not on the verge of collapse. In the 1980s the Soviets were burdened by sinking oil prices and soaring defence spending. China's market-oriented firms and more developed capital markets mean that the sorts of reforms it

needs would be less disruptive than the painful transformation of the post-Soviet economy.

But it has plainly run out of room to boost productivity by mimicking advanced economies. Home-grown innovation could help, but is hamstrung by policies that shovel capital towards China's least productive firms. China may seem to have grown more comfortable with markets. But the Communist Party's interests still trump those of the private sector. There is no easy way to relax that constraint—or, perhaps, to avert a slide into stagnation.

Correction (December 13th, 2018): *An earlier version of this piece said the share of industrial output that private Chinese firms account for is no longer falling. It is no longer climbing. This has been updated*

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A new engine could bring back supersonic air-travel. Quieter and less thirsty than Concorde.

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The affair of the gene-edited babies rumbles on. And a new institution of scientific ethics will open soon.

- **[Animal behaviour: Brekekekex koax koax](#)** [Fri, 14 Dec 04:44]

A tale of town frog and country frog. Frogs about town are more sophisticated and attractive to the ladies.

The next speedbirds

A new engine could bring back supersonic air-travel

Quieter and less thirsty than Concorde



Getty Images

Dec 13th 2018

EVERY MORNING, time once was, a giant roar from Heathrow Airport would announce the departure of flight BA001 to New York. The roar was caused by the injection into the aircraft's four afterburners of the fuel which provided the extra thrust that it needed to take off. Soon afterwards, the pilot lit the afterburners again—this time to accelerate his charge beyond the speed of sound for the three-and-a-half hour trip to JFK. The plane was Concorde.

No more. Supersonic passenger travel came to an end in 2003. The crash three years earlier of a French Concorde had not helped, but the main reasons were wider. One was the aircraft's Rolls-Royce/Snecma Olympus engines, afterburners and all, which gobbled up too much fuel for its flights to be paying propositions. The second was the boom-causing shock wave it generated when travelling supersonically. That meant the overland sections of its route had to be flown below Mach 1. For the Olympus, an engine

optimised for travel far beyond the sound barrier, this was commercial death.

That, however, was then. And this is now. Materials are lighter and stronger. Aerodynamics and the physics of sonic booms are better understood. There is also a more realistic appreciation of the market. As a result, several groups of aircraft engineers are dipping their toes back into the supersonic pool. Some see potential for planes with about half Concorde's 100-seat capacity. Others plan to start even smaller, with business jets that carry around a dozen passengers.

The chances of such aircraft getting airborne have recently increased substantially. General Electric (GE), one of the world's biggest makers of jet engines, has teamed up with one of the groups of engineers, at Aerion, a company based in Reno, Nevada, to design an engine called Affinity. This, the two firms hope, will be the first civil supersonic jet engine to enter service since the Olympus, designed originally for a British bomber, was adapted for Concorde half a century ago.

The plan for Affinity, once prototypes have been built and tested, is that Aerion's AS2, a 12-seat supersonic business jet, will be powered by three of them. The AS2 (maiden flight scheduled for 2023) will have a top speed of Mach 1.4. That is slower than Concorde, which could belt along at just over Mach 2. But GE reckons that, unlike the Olympus, Affinity will be efficient at subsonic as well as supersonic speeds, and will meet existing and forthcoming noise and environmental regulations at airports. Under present rules, however, it too would be required to fly subsonically over land, although in time that might change. The design could also be scaled up, which Aerion says would allow business jets to fly at Mach 1.8 or more, and permit the construction of bigger supersonic passenger aircraft, should demand emerge.

Force majeure

Like all jet engines, Affinity relies for its propulsion on Newton's third law of motion (to every action there is an equal and opposite reaction). The action comes from the mass of air drawn into the engine's front opening being thrust out of the back at far greater velocity. The reaction against this action propels the engine, and anything attached to it, in the opposite direction—ie, forward.

In a simple jet the ingested air is first squeezed by a compressor, and then mixed with fuel and ignited in the engine's core to create a fast-moving exhaust. Modern fan jets, however, use some of the exhaust energy to drive a shaft which turns a fan near the engine's intake. That fan pushes a proportion of the incoming air, known as the "bypass", around the engine's hot core and out of the back, thus providing additional thrust. Bypass thrust is more economical to create than core thrust, but it is slower moving. A supersonic aircraft can therefore afford only a small bypass ratio (1:1 in the case of many military jets). In a civil airliner the bypass ratio (which, if high, brings not only efficiency but also quietude) may be as great as 10:1.

Affinity is a compromise between the two approaches, combining technologies from military and civil engines. Though its designers have not revealed the actual ratio (and much else, too, is secret at the moment), they describe it as a "medium bypass" engine, and have said that it has a bigger fan than any other supersonic engine. Nor does it require a thirsty afterburner.

Achieving all this has been made possible by advances in thermal coatings, engine acoustics and materials such as lightweight carbon fibre. Novel production methods like 3D printing have helped as well—as has the involvement of other partner firms, including Lockheed Martin, a giant aerospace company, and Honeywell, a producer of avionics.

A particular design challenge, observes Brad Mottier, one of the GE executives leading the project, was that unlike conventional civil jet engines, which hang from an aircraft's wings, Affinity has to blend into a plane's airframe. The laws of aerodynamics require this if it is to perform efficiently. Blending also helps damp down the generation of a sonic boom. Sonic booms are caused by air piling up in front of various parts of the plane, particularly its nose, wings and engine inlets. This air turns into a shock wave that contains a huge amount of energy, which offends the ears when it reaches the ground. Blending engine and body, together with design tweaks such as a specially shaped long, thin nose, can muffle a sonic boom before it gets going.

To mute it after it has happened, and thus strengthen still further the case for letting the AS2 fly supersonically over land, the aircraft's control systems will constantly monitor nearby atmospheric conditions. By tracking these,

aerospace engineers believe they can take advantage of a phenomenon called Mach cut-off. This involves directing the sonic boom in such a way as to refract it through layers of thicker air at lower altitude. Refract it enough and it will, in effect, be reflected—never arriving at ground level. Feeding the autopilot information about where the relevant layers are would let the plane steer itself in a way which maximised Mach cut-off.



Experts are now testing these ideas. In November, an F/A-18 fighter performed a series of supersonic dives over Galveston, Texas, at the behest of NASA, America's aerospace agency. The agency was attempting to simulate the sort of muted boom that might be expected as a result of Mach cut-off. It installed sound-measuring equipment on the ground, and asked more than 400 residents to note down anything they heard. Some said they heard nothing, others that they noticed what sounded like a car door slamming.

In coming years, NASA hopes to fly an experimental supersonic jet aircraft around America in a further test of ways of moderating the intensity of

booms at ground level. If successful, this might lead to changes in the rules to let future supersonic jets, like those planned by Aerion, cut yet more of a dash across the land. If they can do so cheaply as well as quietly, these new speedbirds should face a rosier future than that afforded to Concorde.

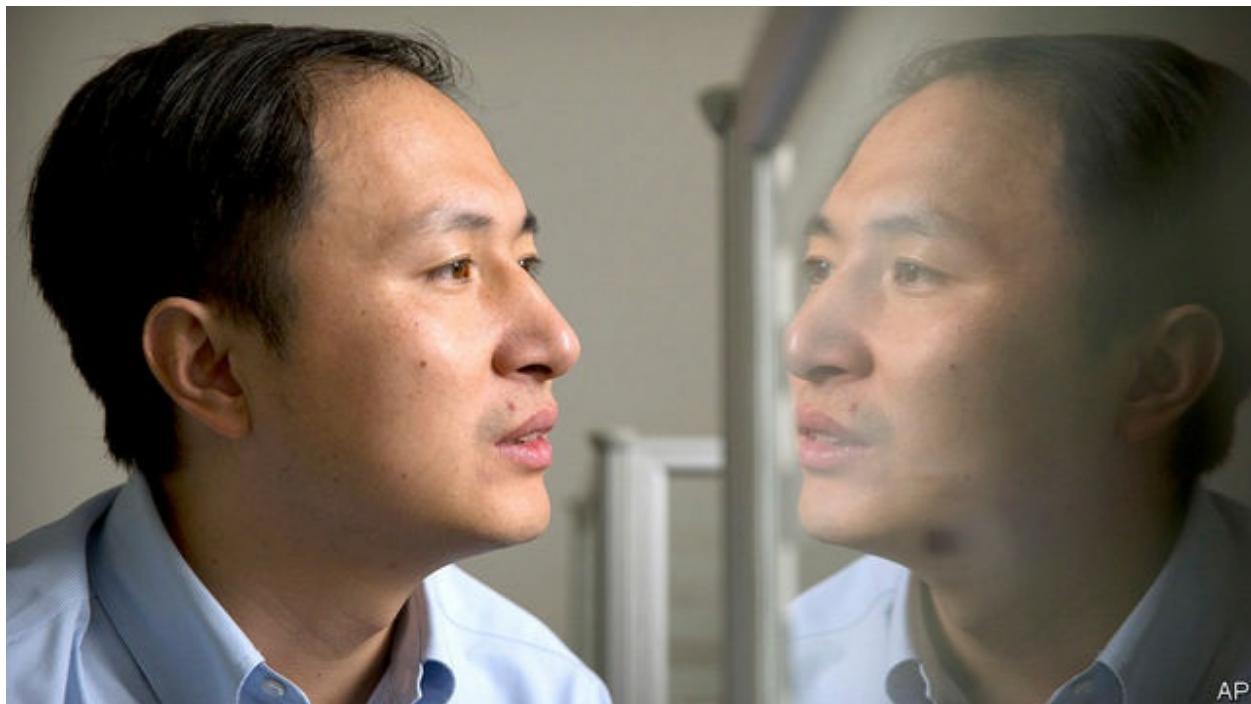
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Next time, ask first

The affair of the gene-edited babies rumbles on

And a new institution of scientific ethics will open soon



AP

Dec 13th 2018 | BEIJING

ON NOVEMBER 26TH He Jiankui, a DNA-sequencing expert at the Southern University of Science and Technology, in Shenzhen, claimed he had orchestrated the birth of the world's first gene-edited babies: twin girls who arrived in early October. That claim brought the fury of the world raining down upon his head and he has since disappeared from view—though he has not, apparently, been arrested as some news reports have suggested.

Exactly what Dr He achieved has also been called into question. He says he used a gene-editing technique called CRISPR-Cas9 to disable, in one of the twins, called Nana, both parental copies of a gene called CCR5. This gene encodes a protein used by HIV to enter cells. If Dr He's claim is true, he may have conferred on Nana immunity to infection by HIV, thus protecting her from AIDS, which HIV causes. Moreover, by editing the genes of a fertilised egg—from which all body tissues, including the ovaries, are derived—he has

done this in a way that can be passed down the generations, a process known as germ-line editing.

Nana's sister Lulu, Dr He says, has also had her genome modified, but with only partial success in that only one parental copy of CCR5 was disabled and so she remains unprotected. However, an independent assessment of Dr He's data by several gene-editing experts, including Kiran Musunuru of the University of Pennsylvania, suggests the experiment achieved only partial success in both twins.

On the face of things, Dr He may have broken the rules in China (and would certainly have broken the law in some countries, had he conducted his experiments elsewhere). An official investigation led by the university is under way into the details of the case, and will report in due course. But, regardless of the specifics, the whole affair prompts wider questions about the culture and ethics, in both China and the rest of the world, of the rapidly developing area of gene editing.

Such questions will be debated by the Global Observatory for Gene Editing, which will be launched next spring in Cambridge, Massachusetts. The project, masterminded by Sheila Jasanoff of Harvard University and Benjamin Hurlbut of Arizona State University, in Tempe, who are both social scientists rather than geneticists, will try to broaden discussion about the technology. The idea is to involve ethicists, legal experts and representatives of governments and civil society, as well as scientists, thus enabling people from all of these fields to see the others' points of view. By coincidence, Dr Hurlbut is particularly close to the He affair. He has met and corresponded with Dr He. Also, his father, William, is a bioethicist and physician at Stanford University, in California, where Dr He worked after he had completed his PhD. According to William Hurlbut, "Dr He sought me out because he had genuine concerns about the ethical implications of his work. He really wanted to understand."

To many researchers, it was unsurprising that the He affair happened in China. "Ethical governance has long been the Achilles' heel of China's scientific endeavour," says Lei Ruipeng, executive director of the Centre for Bioethics at Huazhong University of Science and Technology, in Wuhan. Regulatory loopholes, lack of accountability, lack of penalties for violating

rules and a lack of awareness of the rules among health-care staff and the public alike have earned the country a reputation for being biotechnology's Wild West.

The rampant application of unproven stem-cell therapies, for example, made China a magnet for medical tourism until the government banned such practices in 2012. In the same year a trial on children, without the consent of their parents, of the nutritional effects of genetically modified rice, sparked public outcry. More recently, somatic gene-editing therapies (those that modify the body cells of people already alive, rather than the cells of those yet to be born) have been mushrooming without always having had proper approval. Moreover, many Chinese scientists feel they are in a competition with the West that has nationalistic overtones, and have even more incentive to do high-visibility work as a consequence. In light of this the CRISPR-babies scandal was, says Dr Lei, a "time bomb waiting to explode." A pressing question in her mind is, "are there other time bombs lurking around?"

Not everyone, though, is inclined to think this is the whole story. In Dr Musunuru's view Dr He—and anybody who may have helped and encouraged him—are the products of a general scientific culture (not merely a Chinese one) that puts a premium on competition, sensational research and being the first. As he puts it, "If you do something that is very attention-raising, you are more likely to get funding. If you do something truly revolutionary, you might get a Nobel prize."

Benjamin Hurlbut views the He affair as "a prism for seeing some of the profoundly troubling issues of international science." William believes that despite Dr He's mistake their conversations at Stanford revealed a man who was aware of the ethical issues. What struck both Hurlbuts was how little foundation Dr He had for clear ethical thinking. "This was clearly not part of the training he received," in either China or America, says William Hurlbut. "I was trying to give him what he had never received—a sort of road map of the kind of issues and questions behind his work—but I couldn't possibly do what his training didn't do in a few conversations," he says. "He still felt the pull of doing what he both believed was good and would earn him an international reputation in science."

Benjamin Hurlbut observes that Dr He is just one of many scientists who

want to understand the ethical implications of their work but do not have the training or resources to think them through. The gene-editing observatory, with its more wide-reaching approach to expertise, will seek to fix that. How to handle germ-line editing—indeed, whether it should ever be permitted—is a problem given urgency by Dr He's activities. As those activities demonstrate, it is not one that scientists can be trusted to deal with by themselves.

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Animal behaviour

A tale of town frog and country frog

Frogs about town are more sophisticated and attractive to the ladies



Dec 13th 2018

IN THE FABLE of the town mouse and the country mouse it is the country mouse who comes out on top. When he visits the city he discovers the fancy living enjoyed by his urban cousin comes at a heavy price of mortal danger. The countryside, though duller, is safer. It is all very moral. But research on some real animals that have living arrangements similar to those of Aesop's pair of rodents suggests it is wrong.

Túngara frogs are tropical New World creatures that live both in the countryside and in towns. That made them attractive to Wouter Halfwerk of the Free University of Amsterdam, who wants to understand how urban life affects animal communications, and whether animals are evolving by natural selection to deal with the city, rather than just learning to do so.

Working in Panama, Dr Halfwerk and his colleagues began by recording the

calls male frogs make to attract females. As they describe in a paper in *Nature Ecology and Evolution*, they collected 11 pairs of such calls, each being recordings of the frogs in an urban area and in nearby forestland. Comparing the pairs showed that the urban frogs had more complex songs and sang more often than those in the forest. Also, if approached by a human observer, the forest frogs stopped singing more quickly than did the urban ones.

Having established all this, the researchers went on to watch the effects of singing in each of their 22 sites. For a male túngara frog singing has effects both beneficial and baneful. The beneficial effect is to attract females. The baneful ones are to attract both predators (mainly in the form of bats) and parasites (mainly in the form of blood-sucking midges). Dr Halfwerk and his colleagues used video surveillance to count the numbers of females and bats who came looking, and deployed special insect traps to sample the midges. In the cases of all three, forest frogs attracted more interest than city ones.

Conversely, however, when researchers offered females the choice (in an experimental set-up using two loudspeakers), they found that the city-frog calls were much more attractive to individual females than were the forest-frog calls. Putting all these facts together, they came up with a hypothesis. This was that city frogs were at less danger than forest frogs of suffering predation or parasitism (presumably towns are a worse habitat for bats and midges than forests are), and could therefore afford flashier songs—and also risk singing for longer when approached by a threat, such as a human being. At the same time, because fewer females turn up at the pond, they need their flashy songs in order to win female attention.

That raised a question, though. Was each male adjusting his behaviour to his circumstances, or have town frogs evolved to be different from their forest confrères? One further experiment solved this. The researchers collected frogs and moved them around—sometimes to sites of the same type (urban to urban, rural to rural) and sometimes to sites of a different type.

The upshot was that urban frogs proved able to adjust their calls to the dangers of forest life, but forest frogs were unable to up their courtship game in the bright lights of town. They had not, apparently, evolved the capacity to do so. In Frogland, then, country frogs really are bumpkins and urban ones

really are urbane. And the reason is that the countryside is more dangerous than the city. Aesop eat your heart out.

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Was the creation of the world's newest country a wise idea?. Born of bloodshed, South Sudan continues to suffer.

- **[Mile-high fiction: In-flight entertainment](#)** [Fri, 14 Dec 04:44]

Revelations at 35,000 feet. The stories of travel in David Szalay's new collection are subtly connected.

- **[Marketing sport: A league of their own](#)** [Fri, 14 Dec 04:44]

How English football got rich. Luck and shrewd management made the Premier League a global hit.

- **[The opioid crisis: Pain and gain](#)** [Fri, 14 Dec 04:44]

America's opioid tragedy. A journalist maps the networks of cash and complicity behind the crisis.

- **[Artistic reproductions: True copies](#)** [Fri, 14 Dec 04:44]

A workshop in Berlin offers masterpieces to the world. It is the last of the traditional plaster-cast centres to make hundreds of moulds available to all comers.

Jaw-jaw, war-war

Was the creation of the world's newest country a wise idea?

Born of bloodshed, South Sudan continues to suffer



Dec 15th 2018

First Raise a Flag. By Peter Martell. *Hurst*; 320 pages; £25.

A Rope from the Sky. By Zach Vertin. *Pegasus Books*; 528 pages; \$29.95. *Amberley Publishing*; £20.

South Sudan's Civil War: Violence, Insurgency and Failed Peacemaking By John Young. *Zed Books*; 256 pages; \$29.95 and £18.99.

IN THE MORNING they would pray together, in the evening they would drink. In east Africa's finest hotels enmities evaporated. Foreign observers watched with surprise as battlefield opponents embraced as old friends. They negotiated in luxury. In 2014 alone South Sudan's warring elites racked up a tab of well over \$20m, shuffling between the Sheraton and the Radisson in Addis Ababa. Over two years, 11 rounds of talks were held in three Ethiopian

cities. “A bunch of spoiled brats,” a young South Sudanese woman remarked to Zach Vertin, a former American diplomat. “*Everything* is always focused on them.”

War, and peace talks. That was the routine of South Sudanese powerbrokers for decades. Negotiations to end the south’s first war with the north were held in the palace of Haile Selassie, then Ethiopia’s emperor, in 1971. An agreement signed in Kenya in 2005 ended the fighting that had erupted again in 1983, and set the south on its road to independence, which it finally achieved in 2011. The next year the two sides returned to Addis Ababa to put a stop to a skirmish between Sudan and its new neighbour, the world’s youngest state.

Then, in late 2013, South Sudan plunged into an anarchic civil war; many failed agreements between the combatants preceded the most recent, which was struck in Khartoum in September. The bigwigs “settled into a comfortable routine”, writes Mr Vertin in one of several new books about the country. “[They] collected per diem allowances, and waxed adversarial, while their country burned.”

December 15th marks five years since tribal and personal rivalries ignited the latest conflict, which has resulted in hundreds of thousands of deaths and the flight of around a third of South Sudan’s population. The country is now in a period of relative but uneasy calm; ceasefire violations persist with numbing regularity. As a humanitarian disaster it rivals Syria. As a study in the shortcomings of liberal internationalism, it comes close to Iraq and Libya. Now three authors ponder the extent of Western responsibility in the making—and breaking—of South Sudan. Together they also point to a deeper question: what makes a nation?



The Economist

“Southern Sudan...has no history before AD 1821,” wrote a former British colonial officer dismissively in 1961. He was wrong, says Peter Martell, a British journalist who lived in Juba, the capital, for three years up to the independence referendum in 2011 (see map). The country is a patchwork of tribes, dominated by the Dinka and, below them, the Nuer. There are animosities and divisions. But the constituent groups share foundational myths and a common history of slavery and oppression—by Turks, then by Arabs, the north Sudanese and the British. “Southern Sudan was conquered with force and is ruled by force, the threat of force and the memory of force,” wrote E.E. Evans-Pritchard, a British anthropologist, in 1938.

To counter the trauma, South Sudanese told legends which recalled the ancient Kingdom of Kush, and traced a common ancestral lineage to it. They

hoped that they too would be kings one day.

Many imagined that resistance to foreign dominion would be enough to forge a national identity. “After so much struggle by the people of South Sudan, the United States of America welcomes the birth of a new nation,” President Barack Obama proclaimed when the new flag was hoisted on July 9th 2011. After the disasters of Afghanistan and Iraq, South Sudan was seen as a chance for liberal nation-builders to turn a new page. Blessed with vast oil reserves, the new state had a GDP per head that was higher than India’s.

Earnest Westerners rushed to lend a hand. Like British colonialists, they imagined the place as a *tabula rasa*. International experts arrived bearing technocratic proposals for equitable management of the oil wealth. They helped draft an elaborate blueprint for a modern liberal democracy. Mr Martell was appalled by the naivety. He recalls being cornered by a young American graduate at a party thrown by an aid agency in Juba. “Nip the shoots of arbitrary power in the bud, man,” said the neophyte (paraphrasing John Adams), as he outlined his work on the constitution.

All this was fantasy. America, with the support of its allies, handed the new state over to a kleptocratic elite with precious little support among ordinary South Sudanese. The Sudan People’s Liberation Movement (SPLM), the insurgent group-turned-ruling party, had long been feted by a motley crew of foreign do-gooders, mostly Americans, of whom the most famous was George Clooney. These outsiders blinded successive administrations in Washington to the rebels’ shortcomings.

John Young, an academic with close connections to some of the group’s leaders, is especially critical of them. He argues that unlike similar movements in neighbouring Uganda, Ethiopia and Eritrea, which took power a generation earlier, the SPLM never showed any interest, let alone competence, in administering its liberated territories. “They are a diaspora elite,” one high-ranking African diplomat scoffed to Mr Vertin. “No roots! No roots at all.”

The high price of statehood

Messrs Martell, Vertin and Young differ over the extent of the West’s

culpability for the mess. But they are united in their pessimism about the future. Mr Young, a leftist critic of American foreign policy, dwells at some length on the notion that simply allowing the sputtering civil war to rage might in the long term have yielded more effective state-building than peace talks mediated (and paid for) by the international community. He points out that conflicts in Eritrea, Ethiopia and Uganda ended on the battlefield, with almost no international involvement. In a similar hardbitten vein Mr Vertin wonders whether, like the American civil war, South Sudan's misery will “ultimately prove an awful but formative part of its becoming a viable state”.

It is a bleak thought. So is Mr Young's argument that independence itself was a mistake. Nothing like South Sudan—a country created from scratch with almost no history of self-rule—had ever been attempted before. South Sudanese national identity, so far as it existed, was mostly defined in opposition to enemies. Today, internal ethnic resentments are so bitter that it is hard to see how they can ever be overcome. In 2016, two years into the civil strife, Mr Vertin was shocked to hear an otherwise reasonable young Nuer man whisper: “Pssh, these Dinka...just animals.” In Uganda Mr Martell meets a 21-year-old woman who has been beaten to make her miscarry, “part of a wider pattern of [intra-south] ethnic cleansing designed to drive people away for generations to come.”

Yet gruelling as independence has proved, there might not have been a plausible alternative. Autonomy within a federation centred on Khartoum in the north was once the goal of the SPLM. But such a dream was probably illusory: north-south racial animus was too entrenched. In the north, the appearance of southerners was associated with slaves. The south had always been kept subjugated and separate. When Ryszard Kapuscinski, a Polish writer, visited in 1960 he needed a special visa to go there, in addition to his Sudanese one.

Mr Martell meets an elderly man whose seven children have been killed or scattered by the fighting. He asks whether, in the end, it was all worth it. The man replies without blinking: “Oh, it was worth it. Now we have a country.”

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In-flight entertainment

Revelations at 35,000 feet

The stories of travel in David Szalay's new collection are subtly connected



Dec 13th 2018

Turbulence. By David Szalay. *Jonathan Cape; 144 pages; £9.99. To be published in America by Scribner in July; \$24.*

IN “ALL THAT MAN IS”, published in 2016, David Szalay arranged snapshots of nine lonely men from around Europe, including a Danish journalist chasing a political kiss-and-tell scandal in Spain, and a Hungarian bodyguard infatuated with the prostitute he is being paid to protect at a Westminster hotel.

“Turbulence”, a new set of short stories that were originally written for radio, is similar in style but broader in scope. Marketed in Britain as a “sequence” and in America as a novel, it comprises 12 tales in which strangers’ lives glance off one another as they each take an international flight.

An Indian doctor tempts his patient to abandon her husband in Hong Kong; a student introduces her German mother to the Syrian refugee she has agreed to

marry in Budapest. Often a gap in one story is clarified by a detail in the next. The book opens with a woman returning from London to Madrid after a visit to her son, who has been diagnosed with cancer; during the flight she confides in a fellow passenger who, en route to Dakar, speaks of his own children. In the next story, the man lands in Senegal to find his driver oddly silent, but only in the one after that—told from the point of view of a pilot delayed by a road accident—does the reader learn why.

Brought up in England by a Hungarian father and a Canadian mother, Mr Szalay (pronounced Sol-loy) made his debut in 2008 with “London and the South-East”, which drew on the time he spent working in telesales. Next came “The Innocent”, a novel about the Soviet Union, and “Spring”, a book about a horse-racing scam influenced by the author’s experience of winning—and losing—£25,000 (\$31,400) by gambling online while living in Brussels.

“All That Man Is” broke with the occasionally ostentatious diction of these novels in favour of plainer, more direct storytelling. Especially striking, in Mr Szalay’s recent work, is how easily he inhabits diverse perspectives: as well as a reporter in Brazil and a Canadian writer, “Turbulence” features a nurse from Kerala and a gay migrant worker in Qatar.

He pulls off this imaginative feat because his focus is on age-old themes of mortality and desire. And he trusts his readers to pay attention. When a character falls silent after asking an online hook-up how old she is—33, she replies, “like it says on my profile”—his cameo in a previous story is a clue to what is on his mind: a colleague’s sister, who would be the same age had she not died as a child. A willingness to leave the dots unjoined is one of the virtues that make Mr Szalay’s fiction so rewarding.

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A league of their own

How English football got rich

Luck and shrewd management made the Premier League a global hit



Getty Images

Dec 13th 2018

The Club. By Joshua Robinson and Jonathan Clegg. *Houghton Mifflin Harcourt*; 368 pages; \$28. *John Murray*; £20.

DAVID DEIN, the former vice-chairman of Arsenal Football Club, was obsessed with toilets. In the 1980s the loos at English football grounds were vile and few, so supporters often resorted to using sinks or walls instead. The squalor embodied all that was wrong with the game. At American sports events, Mr Dein saw fans treated like paying customers rather than cattle. The atmosphere was congenial to families. The toilets were superior.

A belief that English football could become a far more appealing and hygienic product—and a more lucrative one—animated Mr Dein's plans for radical change. As Joshua Robinson and Jonathan Clegg of the *Wall Street Journal* relate in "The Club", Mr Dein and his associates thought they needed

to mimic the promotion of American sports. Arsenal and other leading clubs duly launched the Premier League, which broke away from the existing competitions in 1992. They studied the NFL exhaustively and pillaged its best ideas. “Monday Night Football” was lifted word-for-word. Even if some innovations flopped—cheerleaders were quietly scrapped—the new league heralded an age of transformation in English football.

The late 1980s had been marked by ugliness and neglect—tragically in the cases of a fire in Bradford in 1985 and the deadly crush at Hillsborough Stadium in Sheffield in 1989. The game had become a national embarrassment, but it was transformed into one of Britain’s most successful exports. Its broadcasting rights are now worth £2.8bn (\$3.5bn) a year, making it comfortably the richest football league in the world. The combined revenue of its clubs has increased by over 2,500%.

Through interviews and astute analysis, the authors make it clear that the Premier League got lucky. Its arrival coincided with 15 years of strong economic growth, plus a boom in pay TV. The English language made it more accessible to global audiences than Italy’s Serie A, previously considered the top contest. But it also benefited from shrewd management. Richard Scudamore, the league’s longtime boss, emails personal thank-yous to all 80 broadcasters after each season. In a classic example of unintended consequences, a clause in the founding document was instrumental too. All money from overseas broadcasting (negligible in the early years) was divided equally between teams. That ensured a greater degree of competition than elsewhere, enabling Leicester City to win a fairytale title in 2016.

Eschewing the day-to-day dramas of managerial sackings and player transfers, the authors unpick how the league became a “global sports business, and entertainment behemoth”. There are some intriguing nuggets in this forensic and impeccably sourced account. Roman Abramovich would rather have bought Arsenal than Chelsea—but was wrongly told the club was not for sale. For all its razzmatazz, the Premier League still has only one-tenth as many staff as the NBA or NFL, a statistic that reflects the enduring power of the clubs.

Today the Premier League is not so much England’s football league as the world’s: its foreign broadcasting rights are now worth almost as much as the

domestic ones. Such popularity surpasses anything Mr Dein could have dreamed of. The only danger, the authors warn, is that the wealthiest teams are endlessly pushing for even more cash and power; in 2018 they successfully ended equal distribution from overseas rights. The latest wrangling between the elite and those below them looks a lot like the manoeuvring that prefigured the Premier League's formation.

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Pain and gain

America's opioid tragedy

A journalist maps the networks of cash and complicity behind the crisis



AFP

Dec 13th 2018

American Overdose: The Opioid Tragedy in Three Acts. By Chris McGreal. *PublicAffairs; 304 pages; \$27. Faber & Faber; £12.99.*

TO CALL WILLIAMSON, West Virginia, a town is to exaggerate. It is a pinprick settlement of 2,800 people in Mingo County—yet over a decade two pharmacies there pumped out 21m pills of addictive opioids. Unscrupulous clinics staffed by negligent doctors issued prescriptions to throngs of patients attracted by the lax procedures. These “pill mills” were an open secret, so much so that the town acquired the nickname “Pilliamson”.

In “American Overdose” Chris McGreal of the *Guardian* looks unsparingly at the causes of the opioid crisis that kills tens of thousands of Americans a year. Drug firms such as Purdue Pharma, maker of OxyContin, claimed there was an epidemic of chronic pain—and that it could be treated by non-

addictive, long-term opioid use. Pliant researchers provided shoddy science; deferential regulators at the Food and Drug Administration (FDA) bought it. Drug distributors shipped massive quantities of pills to small-town pharmacies without question for years. Dodgy doctors were recruited to sign prescriptions en masse, making more cash than they knew what to do with.

The current hellscape is the result. Americans make up 5% of the global population but consume 30% of the world's prescription narcotics. More die of drug overdoses than in car accidents. The White House estimates that the addiction epidemic has cost \$1 trillion in lost output. Alan Krueger, an economist at Princeton, has found that increased opioid prescription could account for 20% of the decline in male participation in the labour force.

Mr McGreal reports mostly from West Virginia, the worst-hit state. In Huntington, on the border with Ohio, a tenth of babies are born suffering from opioid withdrawal. He probes the networks behind the "pill mills": the profiteering clinic-owners and complicit professionals who make the carnage possible. With only a few heroic exceptions, those who should have noticed —police and the Drug Enforcement Administration (DEA), as well as distributors and the FDA—were remiss.

The victims are strewn across the state. One is Willis Duncan, who couldn't quit opioids even after his son and wife died of overdoses. "Me being a dumb-ass hillbilly, I didn't understand what was going on," he tells Mr McGreal after finally achieving sobriety four years ago. "They all worked together. The doctors. The pharmacies. They didn't give a rat's fuck." Such uncomplicated fury stands in sharp contrast to the deflections and dissembling of the pharmaceutical companies.

The pessimism extends to today. Purdue Pharma made OxyContin harder to abuse, but by then people had moved on to heroin—which provided the same high for less money—and then fentanyl, an opioid 50 times more powerful. Even after the crisis was belatedly recognised, regulators and Congress have dawdled. The FDA approved Zohydro, a high-dose narcotic, after overruling a committee concerned about its potential for abuse. In 2016 Congress passed a bill hamstringing the DEA's ability to seize suspicious shipments of opioids from drug distributors. Barack Obama signed it into law.

President Donald Trump would like to be seen to be addressing the calamity. But the epidemic has progressed beyond prescription painkillers—which the government regulates—to illicit substances. Between now and 2025, the number of “deaths of despair” from drug overdoses, alcoholism and suicide is projected to increase by a third.

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True copies

A workshop in Berlin offers masterpieces to the world

It is the last of the traditional plaster-cast centres to make hundreds of moulds available to all comers



Michael E. Schmidt

Dec 13th 2018 | BERLIN

“WE’RE EXPERT at 3D-puzzles,” chuckles Stefan Kramer. He slots in the last of some hard, toffee-coloured pieces of plaster that trace the folds of a cloak, mindful that the innermost recesses will soon be the outer contours of a delicate copy of a masterpiece. When the cast is dry the pieces will be gently removed, one by one.

Mr Kramer is production manager at the Gipsformerei, the plaster-cast manufactory of Berlin State Museums. Since early 2017 his team has been making a copy of a swathe of the huge, high-relief frieze around the base of the Pergamon Altar—a pinnacle of Hellenistic art, dating from the second century BC—for the China Academy of Art (CAA), based in Hangzhou. The Gigantomachy Frieze, as it is known, is 4.5 metres high and unfolds over 120 metres. It depicts a battle between Olympian gods and earth-bound giants,

their bodies hurtling naked and clothed. “It’s more than a sculpture, it’s a legend,” says Gao Shiming of the CAA. The copy will be the first major classical artefact in its collection.

In an age of anxiety about intellectual property, it might seem odd that Berlin State Museums are happy to make a copy of perhaps their most prized and popular treasure. But the Gipsformerei sees itself as part of a tradition stretching back to Renaissance Italy, where artists learned from casts of ancient statues. The survival of this old mimetic craft points to enduring questions about art and originality, and offers fresh potential for cultural exchange.

Interest in plaster casts spread across Europe in the 17th century, and workshops to supply them followed. Berlin’s was founded by the King of Prussia in 1819. By the 20th century the deluge of copies was provoking consternation. In “The Work of Art in the Age of Mechanical Reproduction”, published in 1935, Walter Benjamin, himself a Berliner, noted how an artwork lost its “aura” by being reproduced. “Copies were held to be ever-more worthless,” says Miguel Helfrich, the Gipsformerei’s director. “Museums threw out whole plaster-cast collections, and downsized or closed their plaster workshops.”

These days, museums in the other traditional plaster-cast centres of Paris, London, Brussels and Copenhagen offer a limited selection of casts for sale or none at all. With more than 7,000 moulds, says Mr Helfrich, the Gipsformerei is “unique in offering casts of every mould to all comers”. He sells 100 to 200 a year, mainly to museums, though also to artists and architects. “If you want a large work of the highest quality, you have to come to us.”

For form, texture and durability, he reckons, plaster-cast is superior to modern techniques such as silicone moulds. And the age of the plaster moulds—some date back two centuries—confers an extra “archaeological value”. “Many of our copies document a condition which many originals no longer enjoy,” Mr Helfrich explains. Some 500-600 are of works lost or damaged during the second world war. Moulds of parts of the Gigantomachy Frieze, for example, were taken in 1890, shortly after the Pergamon Altar was brought to Berlin from what is now western Turkey. They thus record the

frieze's appearance before the Red Army took it in pieces to St Petersburg, where it was kept from 1945 to 1958. The chariot statue on the Brandenburg Gate is another product of the collection.

The idea that a historic mould can, in Mr Helfrich's words, "preserve an artwork's DNA", has led to a reassessment of the Gipsformerei by Berlin State Museums. Extra space will soon help to accommodate its dual role as maker of copies and guardian of art history. This first show in a new gallery—designed by the architect David Chipperfield and opening in the summer of 2019—will mark the workshop's bicentennial. Veronika Tocha, the curator of that exhibition, says plaster copies should be seen as works of art with their own distinct biographies. Artists such as Jeff Koons use copies of historical sculptures, she notes; Rachel Whiteread has worked in plaster.

Meanwhile the largest series of casts ever produced by the Gipsformerei will be shipped to Hangzhou in early 2019, with more to follow. As taking moulds directly from the original frieze is now forbidden, the staff are working on a new hybrid involving laser scanning and traditional mould-making. For his part, Mr Gao hopes he will be able to display a full copy of the Gigantomachy Frieze at the CAA in two or three years' time. He wants contemporary Chinese artists to be inspired by it. "Our frieze is more than a copy," he says. "It's an intellectual proposition."

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Economic and financial indicators

. **[Economic data, commodities and markets](#)** [Fri, 14 Dec 04:44]

Economic data, commodities and markets.

Economic data, commodities and markets

Dec 13th 2018

Economic data

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	Gross domestic product				Consumer prices			Unemployment rate	
	% change on year ago:		latest	quarter*	2018†	% change on year ago:		latest	2018†
United States	3.0	Q3	3.5	2.9	2.2	Nov	2.5	3.7	Nov
China	6.5	Q3	6.6	6.6	2.2	Nov	2.1	3.8	Q3§
Japan	nil	Q3	-2.5	1.1	1.4	Oct	0.9	2.4	Oct
Britain	1.5	Q3	2.5	1.3	2.4	Oct	2.4	4.1	Sep††
Canada	2.1	Q3	2.0	2.3	2.4	Oct	2.3	5.6	Nov
Euro area	1.6	Q3	0.6	2.1	2.0	Nov	1.7	8.1	Oct
Austria	2.2	Q3	-1.9	2.9	2.2	Oct	2.1	5.1	Oct
Belgium	1.6	Q3	1.2	1.5	2.8	Nov	2.2	6.2	Oct
France	1.4	Q3	1.6	1.7	1.9	Nov	2.1	8.9	Oct
Germany	1.2	Q3	-0.8	1.9	2.3	Nov	1.8	3.3	Oct‡
Greece	2.4	Q3	4.3	2.0	1.0	Nov	0.8	18.6	Sep
Italy	0.7	Q3	-0.5	1.1	1.7	Nov	1.4	10.6	Oct
Netherlands	2.4	Q3	0.8	2.8	2.0	Nov	1.7	4.6	Oct
Spain	2.5	Q3	2.4	2.7	1.7	Nov	1.8	14.8	Oct
Czech Republic	2.5	Q3	2.3	2.8	2.0	Nov	2.3	2.1	Oct‡
Denmark	2.1	Q3	2.7	1.3	0.8	Nov	1.1	3.9	Oct
Norway	1.1	Q3	2.3	1.7	3.5	Nov	2.7	4.0	Sep††
Poland	5.7	Q3	7.0	5.0	1.2	Nov	1.8	5.8	Nov§
Russia	1.5	Q3	na	1.6	3.8	Nov	2.9	4.7	Oct§
Sweden	1.7	Q3	-0.9	2.7	2.0	Nov	2.0	5.5	Oct§
Switzerland	2.4	Q3	-0.9	2.7	0.9	Nov	1.0	2.4	Nov
Turkey	1.6	Q3	na	3.8	21.6	Nov	15.3	11.1	Aug§
Australia	2.8	Q3	1.0	3.2	1.9	Q3	2.1	5.0	Oct
Hong Kong	2.9	Q3	0.3	3.4	2.7	Oct	2.4	2.8	Oct‡
India	7.1	Q3	3.3	7.4	2.3	Nov	4.6	6.6	Nov
Indonesia	5.2	Q3	na	5.2	3.2	Nov	3.4	5.3	Q3§
Malaysia	4.4	Q3	na	4.7	0.6	Oct	0.8	3.3	Sep§
Pakistan	5.4	2018**	na	5.4	6.5	Nov	5.4	5.9	2015
Philippines	6.1	Q3	5.7	6.2	6.0	Nov	5.5	5.1	Q4§
Singapore	2.2	Q3	3.0	3.5	0.7	Oct	0.6	2.1	Q3
South Korea	2.0	Q3	2.3	2.8	2.0	Nov	1.6	3.2	Nov§
Taiwan	2.3	Q3	1.5	2.6	0.3	Nov	1.6	3.7	Oct
Thailand	3.3	Q3	-0.1	4.1	0.9	Nov	1.2	1.0	Oct‡
Argentina	-4.2	Q2	-15.2	-2.3	45.5	Oct	33.6	9.6	Q2§
Brazil	1.3	Q3	3.1	1.5	4.0	Nov	3.8	11.7	Oct§
Chile	2.8	Q3	1.1	3.9	2.8	Nov	2.5	7.1	Oct§#
Colombia	2.6	Q3	0.9	2.6	3.3	Nov	3.2	9.1	Oct§
Mexico	2.5	Q3	3.4	2.1	4.7	Nov	4.8	3.2	Oct
Peru	2.3	Q3	-8.3	4.1	2.2	Nov	1.3	6.9	Oct§
Egypt	5.4	Q2	na	5.3	15.7	Nov	17.0	10.0	Q3§
Israel	3.1	Q3	2.3	3.4	1.2	Oct	0.9	4.1	Oct
Saudi Arabia	-0.9	2017	na	1.5	2.4	Oct	2.6	6.0	Q2
South Africa	1.1	Q3	2.2	0.7	5.2	Nov	4.8	27.5	Q3§

Source: Haver Analytics. *% change on previous quarter, annual rate. †The Economist poll or Economist Intelligence Unit estimate/forecast. §Not seasonally adjusted. #New series. **Year ending June. ††Latest 3 months. ##3-month moving average.

Economic data

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	Current-account balance % of GDP, 2018†	Interest rates		Currency units	
		10-yr govt bonds change on latest, %	year ago, bp	per \$ Dec 12th	% change on year ago
United States	-2.6	2.89	51.0	-	
China	0.5	3.02§§	-94.0	6.89	-3.9
Japan	3.8	0.06	2.0	113	0.4
Britain	-3.4	1.18	-15.0	0.79	-5.1
Canada	-2.6	2.13	26.0	1.33	-3.0
Euro area	3.4	0.29	-3.0	0.88	-3.4
Austria	2.2	0.57	11.0	0.88	-3.4
Belgium	-0.3	0.77	21.0	0.88	-3.4
France	-0.9	0.69	6.0	0.88	-3.4
Germany	7.9	0.29	-3.0	0.88	-3.4
Greece	-1.3	4.27	-12.0	0.88	-3.4
Italy	2.4	3.00	129	0.88	-3.4
Netherlands	10.1	0.39	nil	0.88	-3.4
Spain	1.1	1.45	6.0	0.88	-3.4
Czech Republic	0.8	2.02	60.0	22.7	-3.9
Denmark	7.2	0.27	-15.0	6.57	-3.4
Norway	8.5	1.85	32.0	8.56	-2.3
Poland	-0.5	2.95	-30.0	3.78	-4.8
Russia	5.1	8.74	109	66.3	-10.7
Sweden	3.8	0.48	-17.0	9.09	-7.0
Switzerland	9.9	-0.07	6.0	0.99	nil
Turkey	-5.7	17.98	594	5.34	-27.9
Australia	-2.6	2.45	-7.0	1.38	-4.3
Hong Kong	2.0	2.15	30.0	7.81	nil
India	-2.4	7.41	22.0	72.0	-10.5
Indonesia	-2.6	8.00	149	14,599	-7.1
Malaysia	2.3	4.10	12.0	4.19	-2.6
Pakistan	-5.9	12.70†††	477	139	-21.2
Philippines	-2.2	7.25	157	52.7	-4.2
Singapore	19.1	2.31	26.0	1.37	-1.5
South Korea	4.5	2.01	-45.0	1,128	-3.2
Taiwan	12.8	0.90	-6.0	30.9	-2.8
Thailand	7.8	2.34	1.0	32.8	-0.6
Argentina	-4.3	11.26	562	37.6	-54.2
Brazil	-1.0	7.75	-134	3.84	-13.3
Chile	-2.2	4.38	-31.0	678	-3.4
Colombia	-3.2	6.88	24.0	3,162	-4.3
Mexico	-1.8	9.07	172	20.0	-4.2
Peru	-2.1	5.84	90.0	3.36	-3.9
Egypt	-2.0	na	nil	17.9	-0.3
Israel	1.6	2.44	66.0	3.75	-5.3
Saudi Arabia	8.0	na	nil	3.75	nil
South Africa	-3.5	9.12	-15.0	14.1	-2.8

Source: Haver Analytics. §§5-year yield. ††Dollar-denominated bonds.

Markets

		% change on:		
	Index Dec 12th	one week	Dec 29th 2017	
United States S&P 500	2,651.1	-1.8	-0.8	
United States NAScomp	7,098.3	-0.8	2.8	
China Shanghai Comp	2,602.2	-1.8	-21.3	
China Shenzhen Comp	1,346.0	-2.5	-29.1	
Japan Nikkei 225	21,602.8	-1.4	-5.1	
Japan Topix	1,606.6	-2.1	-11.6	
Britain FTSE 100	6,880.2	-0.6	-10.5	
Canada S&P TSX	14,783.1	-2.6	-8.8	
Euro area EURO STOXX 50	3,108.0	-1.3	-11.3	
France CAC 40	4,909.5	-0.7	-7.6	
Germany DAX*	10,929.4	-2.4	-15.4	
Italy FTSE/MIB	18,945.8	-2.0	-13.3	
Netherlands AEX	509.7	-1.2	-6.4	
Spain IBEX 35	8,853.4	-1.8	-11.9	
Poland WIG	58,036.0	-2.8	-9.0	
Russia RTS, \$ terms	1,125.8	-2.4	-2.5	
Switzerland SMI	8,861.1	-0.9	-5.6	
Turkey BIST	90,051.1	-4.2	-21.9	
Australia All Ord.	5,727.3	-0.4	-7.1	
Hong Kong Hang Seng	26,186.7	-2.4	-12.5	
India BSE	35,779.1	-0.3	5.1	
Indonesia IDX	6,115.6	-0.3	-3.8	
Malaysia KLCI	1,663.3	-1.5	-7.4	
Pakistan KSE	38,307.4	-2.5	-5.3	
Singapore STI	3,100.0	-1.8	-8.9	
South Korea KOSPI	2,082.6	-0.9	-15.6	
Taiwan TWI	9,816.5	-1.0	-7.8	
Thailand SET	1,634.9	-2.2	-6.8	
Argentina MERV	31,081.4	-2.2	3.4	
Brazil Bovespa	86,977.4	-2.3	13.8	
Mexico IPC	40,897.9	-2.4	-17.1	
Egypt EGX 30	12,856.8	2.1	-14.4	
Israel TA-125	1,440.0	-2.7	5.5	
Saudi Arabia Tadawul	7,890.1	0.1	9.2	
South Africa JSE AS	51,598.1	-0.2	-13.3	
World, dev'd MSCI	1,975.9	-1.6	-6.1	
Emerging markets MSCI	978.9	-2.3	-15.5	

US corporate bonds, spread over Treasuries

		Dec 29th	
Basis points		latest	2017
Investment grade		179	137
High-yield		496	404

Sources: Datastream from Refinitiv; Standard & Poor's Global Fixed Income Research.

*Total return index.

Commodities

The Economist commodity-price index				% change on	
2005=100	Dec 4th	Dec 11th*		month	year
Dollar Index					
All Items	139.0	137.4	1.1	-4.1	
Food	144.5	143.5	1.2	-1.3	
Industrials					
All	133.2	131.0	1.1	-7.1	
Non-food agriculturals	121.6	121.0	2.3	-8.3	
Metals	138.2	135.3	0.6	-6.6	
Sterling Index					
All items	198.6	199.5	4.9	2.0	
Euro Index					
All items	152.2	150.8	0.7	-0.6	
Gold					
\$ per oz	1,238.4	1,244.2	3.3	0.5	
West Texas Intermediate					
\$ per barrel	53.3	51.7	-7.3	-9.6	

Sources: CME Group; Cotlook; Darmenn & Curl; Datastream from Refinitiv; FT; ICCO; ICO; ISO; Live Rice Index; LME; NZ Wool Services; Thompson Lloyd & Ewart; Urner Barry; WSJ. *Provisional.

The Economist

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Graphic detail

. **Economic forecasting: The worst except for all the others**

[Fri, 14 Dec 04:44]

GDP predictions are reliable only in the short term. They perform far better when forecasting growth years than downturns.

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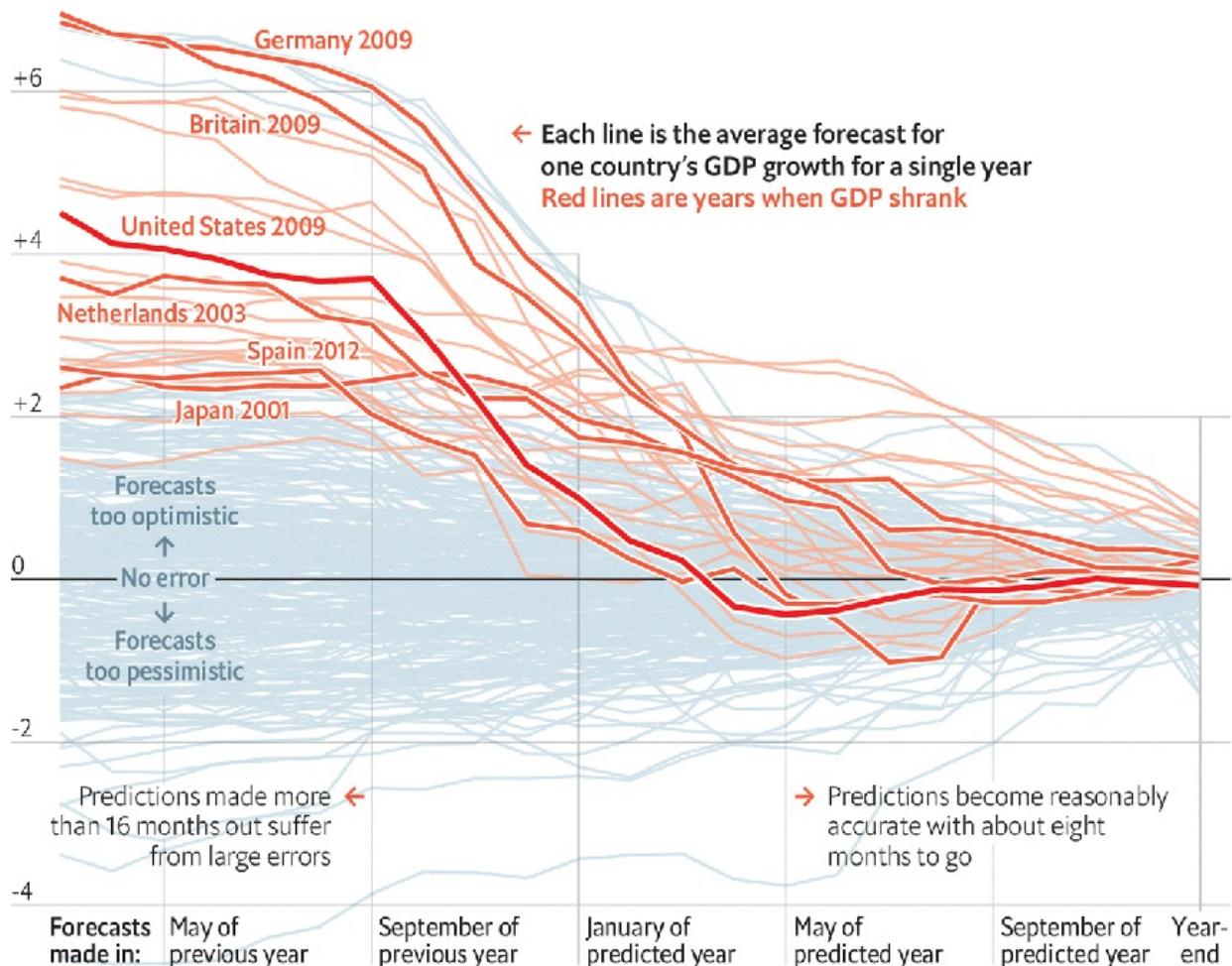
The worst except for all the others

GDP predictions are reliable only in the short term

They perform far better when forecasting growth years than downturns

While economic forecasters struggle to predict downturns...

GDP growth forecasts for calendar years, difference from actual growth, percentage points
 Average of *The Economist* poll of forecasters, 15 rich-world countries, 2000-17



...their projections are better than simplistic alternatives

Absolute prediction error, percentage points
 Average across all forecast time periods

Prediction using:

Average of poll of forecasters

Growth years

0.6

Repetition of prior year's GDP growth

1.3

Contraction years

1.8

Random number from -5% to +6%

3.1

2.7

Sources: IMF; *The Economist* poll of forecasters

Dec 15th 2018

SOME INVESTORS worry that America will face a recession in the next few years, after one of the longest expansions on record. Stock indices have fallen by 10% since early October. Yields on short-term government bonds exceed those of some longer-dated ones, often a harbinger of a downturn. Despite this, economic forecasters project GDP growth of about 2% in 2020.

How much confidence should one have in these predictions? For the past 20 years *The Economist* has kept a database of projections by banks and consultancies for annual GDP growth. It now contains 100,000 forecasts across 15 rich countries. In general, they fared well over brief time periods, but got worse the further analysts peered into the future—a trend unsurprising in direction but humbling in magnitude. If a recession lurks beyond 2019, economists are unlikely to foresee it this far in advance.

Economies are fiendishly complex, but forecasters usually predict short-term trajectories with reasonable accuracy. Projections made in early September for the year ending four months later missed the actual figure by an average of just 0.4 percentage points. Errors rose to 0.8 points when predicting one year out. But over longer horizons forecasts performed far worse. With 22 months of lead time, they misfired by 1.3 points on average—no better than repeating the previous year's growth rate.

The biggest errors occurred ahead of GDP contractions. The average projection 22 months before the end of a downturn year missed by 3.7 points, four times more than in other years. In part, this is because growth figures are “skewed”: economies usually expand slowly and steadily, but sometimes contract sharply. As a result, forecasters seeking to predict the most likely outcome expect growth. However, they adjust too slowly even once bad news arrives, says Prakash Loungani of the IMF. That suggests they are prone to “anchoring”—over-weighting previous expectations—or to “herding” (keeping their predictions near the consensus).

If forecasters displayed such biases consistently, an aggregator could beat the crowd by granting more weight to those with good records. But top performers rarely repeat their feats. When it comes to GDP, the best guide is the adage that prediction is difficult—especially about the future.

Sources: IMF; *The Economist* poll of forecasters

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Obituary

. [**Lyudmila Alexeyeva: The birthday party**](#) [Fri, 14 Dec 04:44]

Obituary: Lyudmila Alexeyeva died on December 9th. The doyenne of Russian human-rights campaigners was 91.

When Putin came calling

Obituary: Lyudmila Alexeyeva died on December 9th

The doyenne of Russian human-rights campaigners was 91



Dec 13th 2018

SINCE THE phone had been clamouring all day with people offering congratulations on her 90th birthday, Lyudmila Alexeyeva was hardly surprised to receive an official message at her Moscow flat. She was much more surprised to see walking in, smooth-faced and smiling, Vladimir Putin, with a large bunch of flowers. “I’m grateful to you for all you have done over these many, many years for such a huge number of people in this country,” he said. And sat down on one of her blue armchairs, close and friendly.

He had almost come to pay court to her, the grandmother of the human-rights movement in Russia, as she spryly called herself; a veteran of *samizdat*, protests, arrests and harassment over 50 years. From the mid-1960s she had held up placards reading “Respect the Soviet Constitution!” Yes, respect the law: what was written, what could be appealed to, against injustice. Back at the start, as she told the president now, she had asked herself how many years

of prison, or exile, she would get for it. And once she had co-founded the Moscow Helsinki Group (MHG) in 1976, to monitor Russia's compliance with the Helsinki accords, she had indeed been forced into exile for 16 years—until she returned, still fighting. This man who sat facing her, almost knee to knee, looked respectful enough. But she had not stopped agitating since, in 2000, he had come to power. She was not the stopping type!

The offices of MHG, for example, now contained a room where, every evening, unregistered groups came to hold meetings. From 2009 she helped organise the Strategy-31 movement, which demonstrated regularly for freedom of assembly. (She turned up once dressed as the Snow Maiden in a long blue coat with stars, and a muff, and got arrested.) In 2012 she was asked to join the president's advisory council on human rights. It made him look good, of course. And she, as an ardent lover of Russia—which he could not have doubted as he sat there, among all her blue-on-white Gzhel china and Vyatka dolls—was happy to agree. In 2015, though, she left the council over the new law that called any NGOs, including her revived MHG, “foreign agents”. Ancient as she was, she had sat outside the Duma for hours, placard in hand.

The fact was that Vladimir Putin had disappointed her. Russia was often unlucky in its leaders: unlucky because there were no checks and balances, and the people had no power. She had once wanted to be an archaeologist, carefully probing her country's past, a conventional girl with regulation braids. But she was propelled into activism by disgust that Stalin treated the masses who had won the war, poor folk like her father, killed at the front, as if they were dirt on his boots. Khrushchev brought a brief thaw, but in Brezhnev's time the people were cowed into silence again. She would often meet other dissidents at Pushkin's statue in the square named after him, the poet she so loved to recite. Much writing, though, was banned as “slander”, and the *Chronicle of Current Events*, banged out on onion-skin paper on her secret typewriter, was the only true source of news. Precisely because she had known real tyranny, she knew that this president—nervily perched at the edge of his chair, while she reclined—was no tyrant. She had persuaded him not to close the Chechen refugee camps, and not to expand the definition of treason, by tactful engagement. “So, Vladimir Vladimirovich, you don't agree? Let's talk some more.”

But he kept backsliding on democracy and human rights, as if he thought they didn't matter. That showed even in the presents he had brought her. One was an engraving of her birthplace, Yevpatoria in Crimea, when she had criticised his annexation in 2014 as "shaming" to Russia. The other was a painted plate of the main building at Moscow State University which, as a student, she had been forced to help build in Stalin's time. He had brought champagne too, though in fact they drank hers, as it was better. To sip good stuff with an ex-spool echoed the way she had disarmed KGB men in the old days, at her frequent interrogations. She would buy small snacks, delicacies then—a ham sandwich, an éclair, an orange—and eat them very slowly, to unnerve her questioners.

Now, as she chinked glasses, she used the moment to press another case. She had spoken up for Alexei Navalny, the opposition leader, and denounced the "awful political killing" of Boris Nemtsov, with the same fervour as when, in the 1960s, she had campaigned for the writers Yuli Daniel and Andrei Sinyavsky: briefing foreign reporters on their show trial, slipping money to them in prison. After all, the law was still being flouted. In this "modern" Russia too, no politically motivated trial ended in acquittal. So she brought up Igor Izmestiyev, a lawmaker, sentenced to years in jail for funding a criminal gang. She believed him innocent, and sought a pardon for him. "I am asking you, the president, to be a charitable Christian," she said. "I will consider it," he replied.

She knew, she added, that he kept his word. If he was using her with his flowers and champagne, she would use him. Besides, she was an optimist. Things were ten times easier than they had been. Under her, human rights had gained legitimacy in state institutions; even the police knew about them. She trusted in the young to keep momentum going and to spread the word wider, to the masses. They could do worse than adopt that simplest slogan, "Respect the Constitution!" and hang it round their necks, as she had. It was a life-preserver, of a sort. It could save the Russian people, in the end. And as she told Vladimir Vladimirovich as they sat together, "to save just one person is already such great joy."

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