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SEPTEMBER 15TH-21ST 2018

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## Politics



In **Sweden's** general election, the anti-immigrant Sweden Democrats did less well than many had feared, ending up in third place with 17.5% of the vote. But forming a new government could now be difficult, as the centre-right and centre-left alliances are both well short of a majority. Another election may have to be called.

The European Parliament voted to condemn **Hungary** for abusing democratic norms. This starts a process that could theoretically see Hungary stripped of its voting rights, but actual sanctions are certain to be blocked by Poland and perhaps others.

Theresa May, **Britain's** prime minister, faced speculation about a leadership challenge. Some 80 Tory MPs opposed to her Chequers proposal on Brexit were reported to have met to discuss options that include a no-confidence vote. Jean-Claude Juncker, the president of the European Commission, added to Mrs May's woes. In a speech he said that her proposal was "the starting point" for a trade deal, but his overall tone was downbeat and other key parts of the plan were dismissed.

Vladimir Putin said that Britain's allegation that two members of **Russia's** military intelligence poisoned a former spy in Salisbury earlier this year is wrong. The Russian president claimed that the two men were civilians and would explain "everything themselves". They later popped up to say they were just tourists visiting Salisbury's cathedral.

**The hospitalised candidate**

Doctors said that Jair Bolsonaro, the far-right candidate in **Brazil's** presidential election, will be kept in care for weeks after he was stabbed in the stomach at a campaign event. Mr Bolsonaro is leading the polls for the first round of next month's election among those who are allowed to run. Luiz Inácio Lula da Silva, a former president, has been jailed for corruption and is banned from standing. He ended his legal challenge to that ban this week and pulled out of the race.



A movement of poor and indigenous people blocked sections of the Pan-American highway in **Guatemala** to protest against the decision by the country's president, Jimmy Morales, to end the mandate of the UN-sponsored International Commission Against Impunity in Guatemala, known as CICIG. Mr Morales has also barred the head of the commission, Iván Velásquez, from returning to Guatemala. CICIG has attracted the president's ire for investigating his family.

**China moves into the backyard**

America recalled its top diplomats from the Dominican Republic, El Salvador and Panama for consultations. It objected after the countries decided to cut ties with **Taiwan** and recognise China instead. Only 17 nations still recognise Taiwan. Four of those are in Central America and could also be tempted to end links with Taiwan, raising concern in Washington that China is gaining influence.

**Malaysia** cancelled three pipeline projects backed by China, the most conspicuous push yet by the new govern-

ment led by Mahathir Mohamad against the flood of Chinese money swashing around infrastructure projects. In a visit to Beijing recently, Dr Mahathir warned about a new "colonialism" and complained of unfair contracts drawn up to service China's Belt and Road Initiative.

A suicide-bombing in eastern **Afghanistan** killed at least 68 people. The bomber had targeted a group of protesters. Hours earlier a series of bombs hit schools in the city of Jalalabad. One child was killed.

**Japan's** ruling Liberal Democratic Party began a leadership contest which will culminate in a vote on September 20th. Shigeru Ishiba, a former defence minister, who has criticised Shinzo Abe, the prime minister, for failing to raise living standards, is standing, but Mr Abe is predicted to win.

**The king of green**

California's governor, Jerry Brown, issued a surprise executive order to make California **carbon neutral** by 2045, though it is debatable whether that goal can be achieved. In contrast, the federal government proposed easing the requirements on energy companies to carry out repairs and inspections of methane leaks, which could raise emissions of the greenhouse gas.

In his first speech as Donald Trump's national-security adviser, John Bolton threatened to impose sanctions on the **International Criminal Court** if it brings any action against America or its allies, notably Israel. Based in The Hague, the ICC was founded in 2002 and has had a rocky relationship with America ever since.

Around 1.7m people were ordered to evacuate the south-eastern coast of the United States as **Hurricane Florence** bore down on the region. The storm could be the strongest to hit the Carolinas in decades. In South Carolina freeways were converted to one-way routes away from the danger on the

coast. On the other side of the world, Hong Kong batted down the hatches ahead of **Super Typhoon Mangkhut**, forecast to be one of the strongest storms to hit the territory.

**A country in chaos**

Five days after reopening the only functioning airport in **Libya's** capital, Tripoli, the authorities closed it again because of rocket fire. Clashes between rival militias continued in the south of the city and Islamic State fighters stormed the state oil company's offices.

Protesters swept through much of Basra, **Iraq's** second city, torching government buildings, party offices and the Iranian consulate in a week-long rampage. Government forces shot back but failed to contain rioting sparked by contaminated water in the oil-rich but neglected city.

The Saudi-led coalition resumed its battle for Hodeidah, **Yemen's** main port, after peace talks collapsed before they began. The delegation representing Houthi rebels failed to show up.

**Zimbabwe's** president, Emmerson Mnangagwa, shuffled his cabinet, naming technocrats to key posts, signalling his desire to revive a stagnating economy. Among the appointments is Mthuli Ncube, an economist, who was named as finance minister.



**Ethiopia** and **Eritrea** reopened their border crossings for the first time since the start of a war in 1998. There has been a rapid improvement in relations with Eritrea after Ethiopia's prime minister, Abiy Ahmed, agreed to withdraw from disputed territory. ▶▶



## Business



**Mark Carney**, the governor of the Bank of England, agreed to extend his term until January 2020. Philip Hammond, Britain's chancellor of the exchequer, requested the seven-month extension to Mr Carney's planned leaving date to "support a smooth exit" for Britain from the European Union, saying the summer of 2019 "could be quite a turbulent period".

**Jack Ma** announced that he would step down as chairman of Alibaba in September 2019. Mr Ma founded the Chinese e-commerce company 19 years ago and has been involved in running it ever since. The English-language teacher-turned-billionaire wants to focus on his work in education and philanthropy. His successor will be Daniel Zhang, who is currently Alibaba's chief executive.

### Sino-Russian co-operation

As he's still in charge, Mr Ma signed a deal through which **Alibaba** will take a 10% stake in **Mail. Ru**, a Russian internet giant and the owner of **Vkontakte**, the country's most popular social network.

**Les Moonves** resigned with immediate effect as the chief executive and chairman of CBS, following a spate of sexual-harassment allegations dating from the 1980s to the 2000s. The broadcaster has employed lawyers to investigate the claims, which Mr Moonves denies; if they find there is cause to dismiss him, he will forgo some or all of his severance package. Mr Moonves, one of the media industry's most powerful

executives, had been embroiled in a battle with the Redstone family, the controlling shareholders in CBS, to dilute its voting power. With his departure, CBS shook up the board, bringing in new directors allied with the Redstones.

### The fashion for vaping

Scott Gottlieb, the head of America's Food and Drug Administration, said that the use of **e-cigarettes** among teenagers had "reached an epidemic proportion". Retailers and manufacturers were warned to "substantially reverse these trends" or face fines and the possibility of having the products removed from the shelves.

**Debenhams** reassured investors about its financial performance after its share price swooned in response to reports that it is considering a restructuring. The British chain of department stores has issued three profit warnings this year. Its close rival, House of Fraser, was saved from liquidation last month.

The pace of growth in the average hourly earnings of **American workers** quickened in August, rising by 2.9% from the same month last year.

The unemployment rate held steady at 3.9%. It has been hovering just below or above 4% all year so far; the last time that happened was in 2000. All of which gives the Federal Reserve plenty to digest when it considers lifting interest rates later this month.

More details were made public about **Unilever's** plan to scrap its dual British-Dutch stock-market listing and move its headquarters from Britain to the Netherlands. The consumer-goods group, which makes many well-known household brands and is the world's biggest manufacturer of ice-cream, has denied that its decision is related to Brexit. That has not stopped it from being criticised in Britain. Unilever will drop out of the FTSE 100 index if it relocates, which will force some investment funds to sell their shares in the group.

### Driven to distraction

**Tesla's** investors absorbed news of the departure of both its chief accountant after less than a month in the position and its human-resources director, who is not returning to her job following a leave of absence. There was also more concern about the erratic behaviour of Elon Musk, the

electric carmaker's chief executive, when he took a puff of marijuana during a live interview. Tesla's stock has fallen by almost 20% in the past month.

The problems at Tesla weighed on **NIO**, a Chinese maker of electric cars that touts itself as a potential competitor to Mr Musk's firm, when it launched its IPO in New York. With investors looking closely at the prospects for the industry, NIO priced the offering of its American depository shares at \$6.26 a share, the bottom of its target price range. They rose 5% on the first day of trading.

The European Parliament voted in favour of a proposal that could force Google, Facebook and other big internet firms to stop users uploading **copyrighted content** and to share revenue from that content with musicians and writers. Critics say the costs of monitoring such a system, which would make the likes of YouTube liable for copyright infringement, would be huge. The proposal is a long way from becoming law; the EU's member states still have to be consulted.

For other economic data and news see Indicators section



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## Crime-fighting for the 21st century

The Next Mobile Economy—when almost everyone and everything is connected—is here. As mobile technology shifts to the next level, companies, governments and organizations must ensure they remain relevant by fully harnessing the power of this technology. Here is how one police force is innovating to improve future public safety.

The movie “Minority Report” offered a peek at future-predicting technology that promised to all but eliminate crime: gesture-based computer interfaces, 3-D holograms, facial recognition software and driverless cars galvanised imaginations about the police force of the future.

While many of the technologies showcased in the movie are a reality in 2018, much of law enforcement has been slow to adopt tech-based innovations. The primary

communication tool for many is note-taking—pen-on-paper observations.

Enter CJ Kyle, inspector for Metro Vancouver Transit Police, who pushed her industry to embrace change. Her officers now carry Samsung devices running SceneDoc—an app that lets officers take notes, share them in real time, capture photos, videos, audio, sketches, check in for safety, issue eCitations and more. It also allows commanders to keep an eye on the field, in real time, from their desks. This automation lessened paperwork, enhanced collaboration and improved safety.

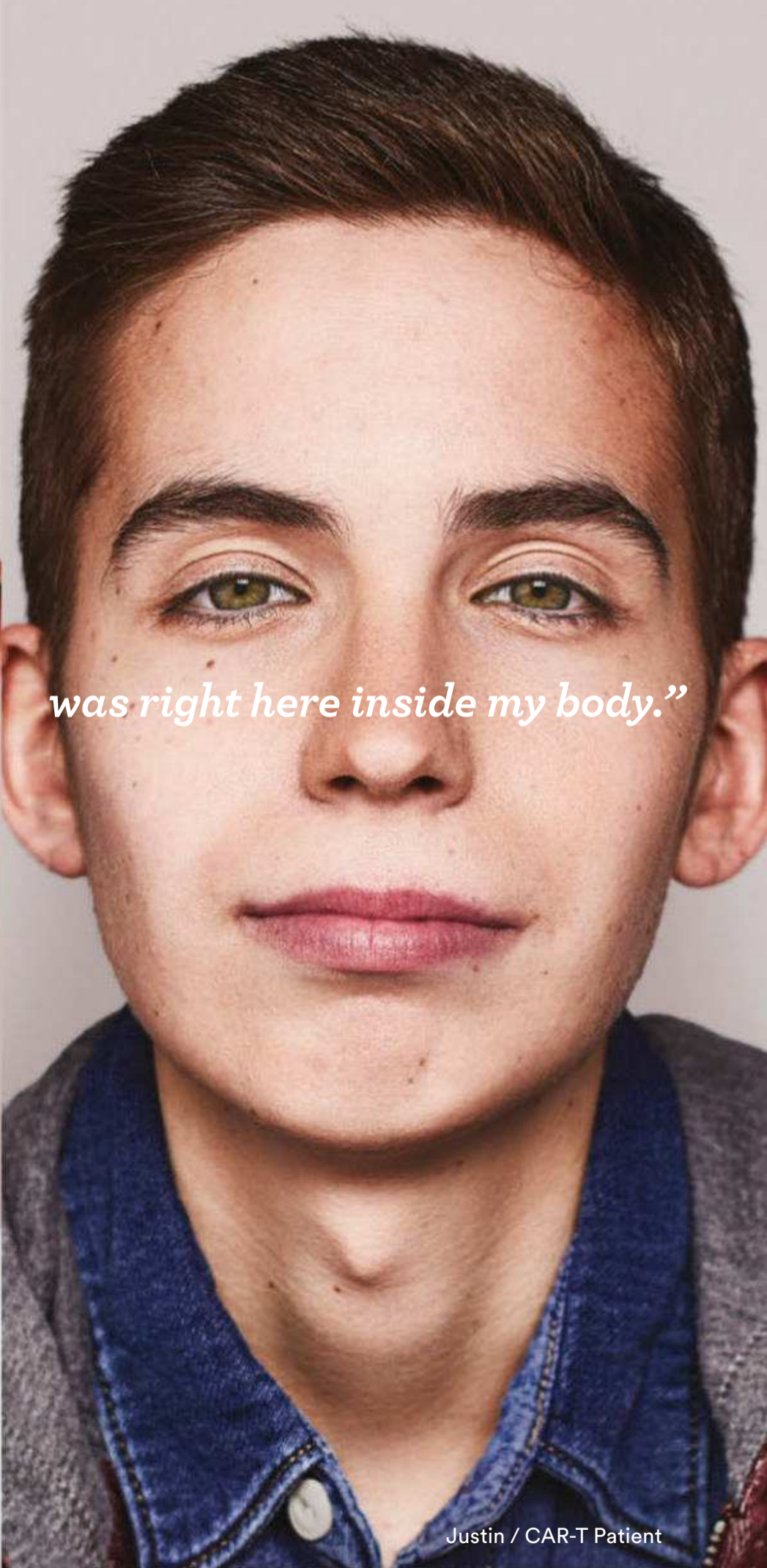
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# A manifesto

Success has turned liberals into a complacent elite. It is time to rekindle the spirit of radicalism



**L**IBERALISM made the modern world, but the modern world is turning against it. Europe and America are in the throes of a popular rebellion against liberal elites, who are seen as self-serving and unable, or unwilling, to solve the problems of ordinary people. Elsewhere a 25-year shift towards freedom and open markets has gone into reverse, even as China, soon to be the world's largest economy, shows that dictatorships can thrive.

For *The Economist* this is profoundly worrying. We were created 175 years ago to campaign for liberalism—not the leftist “progressivism” of American university campuses or the rightish “ultraliberalism” conjured up by the French commentariat, but a universal commitment to individual dignity, open markets, limited government and a faith in human progress brought about by debate and reform.

Our founders would be astonished at how life today compares with the poverty and the misery of the 1840s. Global life expectancy in the past 175 years has risen from a little under 30 years to over 70. The share of people living below the threshold of extreme poverty has fallen from about 80% to 8% and the absolute number has halved, even as the total living above it has increased from about 100m to over 6.5bn. And literacy rates are up more than fivefold, to over 80%. Civil rights and the rule of law are incomparably more robust than they were only a few decades ago. In many countries individuals are now free to choose how to live—and with whom.

This is not all the work of liberals, obviously. But as fascism, communism and autarky failed over the course of the 19th and 20th centuries, liberal societies have prospered. In one flavour or another, liberal democracy came to dominate the West and from there it started to spread around the world.

## Laurels, but no rest

Yet political philosophies cannot live by their past glories: they must also promise a better future. And here liberal democracy faces a looming challenge. Western voters have started to doubt that the system works for them or that it is fair. In polling last year just 36% of Germans, 24% of Canadians and 9% of the French thought that the next generation would be better off than their parents. Only a third of Americans under 35 say that it is vital they live in a democracy; the share who would welcome military government grew from 7% in 1995 to 18% last year. Globally, according to Freedom House, an NGO, civil liberties and political rights have declined for the past 12 years—in 2017, 71 countries lost ground while only 35 made gains.

Against this current, *The Economist* still believes in the power of the liberal idea. Over the past six months, we have celebrated our 175th anniversary with online articles, debates, podcasts and films that explore how to respond to liberalism's critics. In this issue we publish an essay that is a manifesto for a liberal revival—a liberalism for the people.

Our essay sets out how the state can work harder for the citizen by recasting taxation, welfare, education and immigration.

The economy must be cut free from the growing power of corporate monopolies and the planning restrictions that shut people out of the most prosperous cities. And we urge the West to shore up the liberal world order through enhanced military power and reinvigorated alliances.

All these policies are designed to deal with liberalism's central problem. In its moment of triumph after the collapse of the Soviet Union, it lost sight of its own essential values. It is with them that the liberal revival must begin.

Liberalism emerged in the late 18th century as a response to the turmoil stirred up by independence in America, revolution in France and the transformation of industry and commerce. Revolutionaries insist that, to build a better world, you first have to smash the one in front of you. By contrast, conservatives are suspicious of all revolutionary pretensions to universal truth. They seek to preserve what is best in society by managing change, usually under a ruling class or an authoritarian leader who “knows best”.

## An engine of change

True liberals contend that societies can change gradually for the better and from the bottom up. They differ from revolutionaries because they reject the idea that individuals should be coerced into accepting someone else's beliefs. They differ from conservatives because they assert that aristocracy and hierarchy, indeed all concentrations of power, tend to become sources of oppression.

Liberalism thus began as a restless, agitating world view. Yet over the past few decades liberals have become too comfortable with power. As a result, they have lost their hunger for reform. The ruling liberal elite tell themselves that they preside over a healthy meritocracy and that they have earned their privileges. The reality is not so clear-cut.

At its best, the competitive spirit of meritocracy has created extraordinary prosperity and a wealth of new ideas. In the name of efficiency and economic freedom, governments have opened up markets to competition. Race, gender and sexuality have never been less of a barrier to advancement. Globalisation has lifted hundreds of millions of people in emerging markets out of poverty.

Yet ruling liberals have often sheltered themselves from the gales of creative destruction. Cushy professions such as law are protected by fatuous regulations. University professors enjoy tenure even as they preach the virtues of the open society. Financiers were spared the worst of the financial crisis when their employers were bailed out with taxpayers' money. Globalisation was meant to create enough gains to help the losers, but too few of them have seen the pay-off.

In all sorts of ways, the liberal meritocracy is closed and self-sustaining. A recent study found that, in 1999-2013, America's most prestigious universities admitted more students from the top 1% of households by income than from the bottom 50%. In 1980-2015 university fees in America rose 17 times as fast as median incomes. The 50 biggest urban areas contain 7% of the world's people and produce 40% of its output. But planning restrictions shut many out, especially the young. ▶

- ▶ Governing liberals have become so wrapped up in preserving the status quo that they have forgotten what radicalism looks like. Remember how, in her campaign to become America's president, Hillary Clinton concealed her lack of big ideas behind a blizzard of small ones. The candidates to become leader of the Labour Party in Britain in 2015 lost to Jeremy Corbyn not because he is a dazzling political talent so much as because they were indistinguishably bland. Liberal technocrats contrive endless clever policy fixes, but they remain conspicuously aloof from the people they are supposed to be helping. This creates two classes: the doers and the done-to, the thinkers and the thought-for, the policymakers and the policytakers.

### The foundations of liberty

Liberals have forgotten that their founding idea is civic respect for all. Our centenary editorial, written in 1943 as the war against fascism raged, set this out in two complementary principles. The first is freedom: that it is “not only just and wise but also profitable...to let people do what they want.” The second is the common interest: that “human society...can be an association for the welfare of all.”

Today's liberal meritocracy sits uncomfortably with that inclusive definition of freedom. The ruling class live in a bubble. They go to the same colleges, marry each other, live in the same streets and work in the same offices. Remote from power, most people are expected to be content with growing material prosperity instead. Yet, amid stagnating productivity and the fiscal austerity that followed the financial crisis of 2008, even this promise has often been broken.

That is one reason loyalty to mainstream parties is corroding. Britain's Conservatives, perhaps the most successful party in history, now raise more money from the wills of dead people than they do from the gifts of the living. In the first election in unified Germany, in 1990, the traditional parties won over 80% of the vote; the latest poll gives them just 45%, compared with a total of 41.5% for the far right, the far left and the Greens.

Instead people are retreating into group identities defined by race, religion or sexuality. As a result, that second principle, the common interest, has fragmented. Identity politics is a valid response to discrimination but, as identities multiply, the politics of each group collides with the politics of all the rest. Instead of generating useful compromises, debate becomes an exercise in tribal outrage. Leaders on the right, in particular, exploit the insecurity engendered by immigration as a way of whipping up support. And they use smug left-wing arguments about political correctness to feed their voters' sense of being looked down on. The result is polarisation. Sometimes that leads to paralysis, sometimes to the tyranny of the majority. At worst it emboldens far-right authoritarians.

Liberals are losing the argument in geopolitics, too. Liberalism spread in the 19th and 20th centuries against the backdrop first of British naval hegemony and, later, the economic and military rise of the United States. Today, by contrast, the retreat of liberal democracy is taking place as Russia plays the saboteur and China asserts its growing global power. Yet rather than defend the system of alliances and liberal institutions it created after the second world war, America has been neglecting it—and even, under President Donald Trump, attacking it.

This impulse to pull back is based on a misconception. As the historian Robert Kagan points out, America did not switch

from interwar isolationism to post-war engagement in order to contain the Soviet Union, as is often assumed. Instead, having seen how the chaos of the 1920s and 1930s bred fascism and Bolshevism, its post-war statesmen concluded that a leaderless world was a threat. In the words of Dean Acheson, a secretary of state, America could no longer sit “in the parlour with a loaded shotgun, waiting”.

It follows that the break up of the Soviet Union in 1991 did not suddenly make America safe. If liberal ideas do not underpin the world, geopolitics risks becoming the balance-of-power, sphere-of-influence struggle that European statesmen grappled with in the 19th century. That culminated in the muddy battlefields of Flanders. Even if today's peace holds, liberalism will suffer as growing fears of foreign foes drive people into the arms of strongmen and populists.

It is the moment for a liberal reinvention. Liberals need to spend less time dismissing their critics as fools and bigots and more fixing what is wrong. The true spirit of liberalism is not self-preserving, but radical and disruptive. *The Economist* was founded to campaign for the repeal of the Corn Laws, which charged duties on imports of grain into Victorian Britain. Today that sounds comically small-bore. But in the 1840s, 60% of the income of factory workers went on food, a third of that on bread. We were created to take the part of the poor against the corn-cultivating gentry. Today, in that same vision, liberals need to side with a struggling precariat against the patricians.

They must rediscover their belief in individual dignity and self-reliance—by curbing their own privileges. They must stop

*Liberals should approach today's challenges with vigour. If they prevail, it will be because their ideas are unmatched for their ability to spread freedom and prosperity*

sneering at nationalism, but claim it for themselves and fill it with their own brand of inclusive civic pride. Rather than lodging power in centralised ministries and unaccountable technocracies, they should devolve it to regions and municipalities. Instead of treating geopolitics as a zero-sum struggle between the great powers, America must draw on the self-reinforcing triad of its military might, its values and its allies.

The best liberals have always been pragmatic and adaptable. Before the first world war Theodore Roosevelt took on the robber barons who ran America's great monopolies. Although many early liberals feared mob rule, they embraced democracy. After the Depression in the 1930s they acknowledged that government has a limited role in managing the economy. Partly in order to see off fascism and communism after the second world war, liberals designed the welfare state.

Liberals should approach today's challenges with equal vigour. If they prevail, it will be because their ideas are unmatched for their ability to spread freedom and prosperity. Liberals should embrace criticism and welcome debate as a source of the new thinking that will rekindle their movement. They should be bold and impatient for reform. Young people, especially, have a world to claim.

When *The Economist* was founded 175 years ago our first editor, James Wilson, promised “a severe contest between intelligence, which presses forward, and an unworthy, timid ignorance obstructing our progress.” We renew our pledge to that contest. And we ask liberals everywhere to join us. ■

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## Britain and the European Union

## Selling Chequers

The Chequers plan is in big trouble at home. More flexibility from the EU would improve its chances



**T**HERESA MAY could be forgiven for seeing next week's trip to Salzburg to meet her fellow EU leaders as a welcome break from continual harassment at home. Her plan for Brexit, announced at Chequers, her country retreat, in July, is under

attack from all sides (see Britain section). Hardline Brexiteers hate the idea of keeping in close alignment with EU regulations so as to preserve frictionless trade in goods. Remainers dislike the plan's omission of services, which are Britain's most competitive sector. This week there was even wild talk among some Tory MPs of ousting Mrs May as party leader. In today's febrile political climate, the chances of getting a Chequers-like plan through Parliament seem alarmingly small.

Alas the EU may not offer the prime minister much succour. Reports that it is softening its objections to Chequers are premature. It regards the proposal to use a customs arrangement to avoid a hard border in Ireland as complex and unworkable. It believes that allowing Britain to stay in the single market for goods but not services would undermine the market's integrity. Its mantra is that Britain can have a Canada-style free-trade deal or full membership of the single market with full obligations like Norway—but nothing in between. Its hope is that, with time running out, its bullheadedness will push Mrs May into making more concessions, even to the extent of accepting free movement of people.

Such intransigence is a mistake. Chequers certainly has flaws that will need fixing in further negotiations. It could yet evolve into something closer to Norway plus a customs union. But even as it stands, Mrs May's plan is a big shift by the government towards accepting the EU's principal demand—that a post-Brexit Britain should abide by most single-market rules,

including, in effect, the jurisdiction of the European Court of Justice. It offers a way to avert a border between Northern Ireland and the Irish republic that a Canada-type agreement on its own does not. And the promise to maintain a level playing-field for competition answers one of Brussels's biggest fears, of a race to the bottom in standards.

Though including services would be beneficial, membership of the single market for goods alone is hardly heresy. Most free-trade deals cover goods, not services. Moreover, Switzerland and the Channel Islands are in effect members of the EU's single market for goods alone. Brussels may hate these precedents, but it cannot deny their existence.

As for free movement of people, there is no economic logic arguing that this is needed for a single market. In practice several countries restrict it. The Swiss offer jobs to their nationals first. The Belgians throw out migrants who cannot find work. Liechtenstein has quotas for how many EU nationals it admits. There should be scope for compromise, the more so since the numbers coming to Britain from the EU have fallen sharply.

### The only game in town

Chequers has enemies everywhere, yet it is the only serious proposal on the table. Even at home, Brexiteers who are campaigning to sink the scheme have failed to come up with a coherent alternative plan or any credible way to avoid a hard border in Ireland.

The EU's leaders may reckon that, since the Chequers plan's unpopularity in Mrs May's party makes it unlikely to pass muster, they have little to lose by rubbishing it. But doing so too aggressively could make it harder for any Brexit deal at all to be agreed on. The risk of then getting a new hardline Tory prime minister set on a no-deal Brexit is surely worse than Chequers, especially as Mrs May's plan can evolve further. Given this, Europe's leaders should be ready to bend a little more now. ■

## The Supreme Court

## Weak is strong

America's highest court needs term limits



**T**HE judiciary, wrote Alexander Hamilton in *Federalist Paper 78*, “may truly be said to have neither FORCE NOR WILL, but merely judgment...[It] is beyond comparison the weakest of the three departments of power.” For much of American

history, politicians saw the Supreme Court as a backwater. John Rutledge, one of the first justices appointed by George Washington, resigned to become chief justice of South Carolina. Not until 1935 did the court have a building of its own. Today it occupies a central and increasingly untenable position

in American life (see Briefing).

The centrality stems largely from gridlock. As Congress has grown incapable of passing laws involving even straightforward political trade-offs, power has flowed to the executive and judicial branches. Political questions best settled by the ballot box—about abortion, for instance, or gay marriage—have become legal ones settled by nine unelected judges.

The untenability stems from the court's growing partisanship. It was not always thus. Republican presidents appointed three of the 20th century's greatest liberal jurists—Earl Warren, William Brennan and Harry Blackmun—as well as Anthony Kennedy, the recently retired “swing vote”. But today the court's four conservative justices were all appointed by Repub- ▶▶

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▶ lican presidents, the four liberals by Democratic ones. The nomination process has grown ever more poisonous.

Like a bar fight, it is hard to be sure who started it, but each punch leads to retaliation. Republicans point to Democratic tactics during the hearing for Robert Bork, a Reagan nominee. Democrats are the victims of the most recent blow—which was also the most shameless. In 2016 Republicans refused even to hold a hearing for Merrick Garland, whom Barack Obama had nominated, denying the president a power that is granted to him under the constitution, and allowing Donald Trump to fill the seat instead.

Mr Trump's second Supreme Court justice, Brett Kavanaugh, will be confirmed only because Republicans hold a two-seat majority in the Senate. Should they lose that majority in the Senate this autumn, and should another Supreme Court seat before long open up, Democrats will probably prevent Mr Trump from filling it. The norms that Republicans created for Mr Garland will be used to justify their behaviour. And on it will go.

This partisan ratchet is bad for the judiciary and bad for the country. It risks hobbling the court, in two ways. First, if the only time a president can fill a seat is when his party controls the Senate, then the court will spend long periods at less than full strength. Second, the court's legitimacy depends on its reputation as a credible neutral arbiter.

The judgments of a court seen as just another nakedly political body, no different from Congress or the presidency, can easily be dismissed—or fought. Franklin Roosevelt mulled packing the court in the 1930s when it frustrated his New Deal ambitions. It is not hard to imagine a Democratic president and Congress doing the same in four years' time, if five Repub-

lican-appointed justices repeatedly strike down the ambitious social programmes these politicians promised.

Breaking this cycle requires reform. Some have proposed radical solutions, such as making all of the roughly 180 federal appellate judges associate justices, and having nine of them drawn at random to hear and choose cases at the Supreme Court for a limited period—a term, at most. Defenders argue that this would make the court more deferential to precedent, and any one judge less able to spend years cutting a partisan path across the nation's highest court. But it could also just push the political brawling down a level, so that every appellate nomination becomes a bloodsport. In any case, it is probably too drastic a change to be feasible.

A more workable change would be to appoint justices for single 18-year terms—staggered, so that each president gets two appointments per term—rather than for life. Each presidential term would thus leave an equal mark on the court, and no single justice would remain on the bench for 30 or 40 years. New blood would make the court more vital and dynamic. A poll taken in July showed widespread bipartisan support for term limits. So long as former justices were prevented from standing for office, becoming lobbyists or lawyers after stepping down from the court, this would be an improvement.

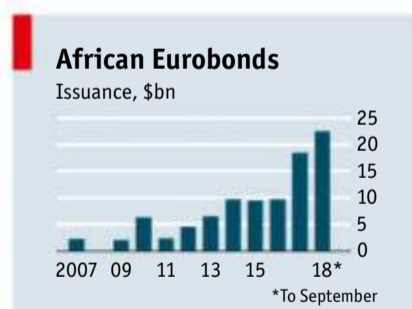
Some fear that term limits would simply entrench the court's political centrality by making it an issue in every election. But that bridge has already been crossed. "You have to vote for me," Mr Trump told a rally in 2016. "You know why? Supreme Court judges. Have no choice."

What better way for Americans to start finding a path back towards civil politics than reminding themselves that bipartisan institutional reform remains possible? ■

## Emerging markets

# Lessons from Lusaka

## Zambia's looming debt crisis is a warning for the rest of Africa



and tied to big construction projects. Public debt has climbed above 50% of GDP in half the countries in sub-Saharan Africa. The risk of a crisis is growing. Consider Zambia. In 2012 this southern African country could borrow more cheaply than Spain. Now bond yields have jumped above 16%, suggesting that investors fear that it will default (see Middle East and Africa section). This fall from grace offers several lessons.


### Time to tighten the copperbelt

The first relates to the "moral hazard" of debt write-offs. Zambia, along with 29 other African countries, had many of its debts wiped clean since 2005 under the IMF's "heavily indebted poor countries" (HIPC) scheme. Sceptics such as William Easterly, an economist, warned at the time that debt relief would simply encourage more reckless borrowing by crooked


governments unless it was accompanied by reforms to speed up economic growth and improve governance.


To be fair, the scheme did a lot of good by freeing up money for schools and clinics. But Mr Easterly's warning was prescient. Zambia took barely a decade to run up fresh debt worth 59% of GDP. The government blames a fall in copper prices from 2011. But the real reason is that Zambia is run by an inept and venal elite who used easy credit to line their own pockets. Much of the money Zambia borrowed was squandered or stolen. Bigwigs skimmed from worthy-sounding contracts. When the country bought bright new fire-engines their price somehow ballooned by 70%, to more than \$1m each. Its new roads mysteriously cost twice as much per kilometre as its neighbours'. Its new airport terminal was designed to accommodate an improbable ten-fold jump in traffic. A slide into authoritarianism made corruption harder to check. Zambia's main independent paper, which used to squeal about graft, was shut down.


The second lesson is that an increasing number of creditors are willing to encourage irresponsible borrowing. By 2016, when it was clear that Zambia was hurtling towards a crisis, the IMF urged it to put a brake on new borrowing. A spike in interest rates in the bond market provided some discipline. Yet ▶▶



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▶ governments, particularly China's, were happy to fill the gap. China now holds perhaps a quarter to a third of Zambia's external debt. (No one knows how much—itsself a cause for concern.) The regime has also asked for loans from Turkey, which has ambitions in Africa. That leads to the third lesson. The rules for how to handle Africa's debt crises are changing. In the past much of the money was owed to the World Bank, IMF and Paris Club, an informal group of Western government creditors. This gave the fund the power to demand prudent economic reforms as a condition for help. Now China's influence has risen—and it puts much less emphasis on good governance. The IMF's clout has diminished. When the fund's representative irked Zambia's president, Edgar Lungu, the regime

demanded his removal. Amazingly, the fund complied.

Because so many competing interests are involved, Zambia's latest debt mess will be much harder to unscramble. Western creditors and the IMF want the government to stop wasting money on overpriced infrastructure. But the Chinese banks that finance infrastructure projects are also large creditors whose short-term loans to Zambia need to be restructured. If projects are cancelled, they may refuse to roll over existing loans. Or they may demand to be given, say, Zambia's state power utility as compensation. A crisis will be inevitable unless all creditors, China included, give the IMF the backing it needs to chivvy Zambia into getting its finances in order and its economy back on track. Alas, that seems all too unlikely. ■

## Alibaba

# Ma where he came from?

**No entrepreneur has defined China's transformation like Jack Ma. His success will be hard to repeat**



**T**HE most recognisable face of Chinese capitalism belongs to Jack Ma, the founder of Alibaba, an e-commerce juggernaut matched in size only by Amazon. Mr Ma, who launched Alibaba from a small apartment in Hangzhou in 1999, is an emblem of China's extraordinary economic transformation. This week's announcement that he will step down as the firm's chairman a year from now, to concentrate on philanthropy, was greeted with comparative calm by investors. He stopped being chief executive in 2013; Alibaba's share price has more than doubled since its initial public offering, the world's largest-ever, in 2014 (see Business section). But one question presents itself: could China produce another story to match his? The answer is almost certainly not.

There are some very good reasons for that. China's own rise is an unrepeatable one. When Mr Ma, then an English-language teacher, launched Alibaba, the country was still gearing up to join the World Trade Organisation. Its GDP per head, in terms of purchasing-power parity, stood at under \$3,000; it is now more than six times higher. The internet was still young, too. Less than 1% of Chinese had access to the web back then, compared with some 36% of Americans. As incomes grew and connections proliferated, Mr Ma took full advantage.

Thousands of small businesses have since flourished on Alibaba's platforms. About 1m merchants trade in its virtual emporiums. Its services have helped push China's economy towards consumption-led growth. Last year it boasted sales of \$25bn on Singles' Day, China's equivalent of Black Friday (when Americans spent a measly \$5bn). It has transformed logistics and finance, as well as retailing. Last year Alibaba delivered an average of 55m packages a day; its financial offshoot, Ant Financial, accounts for more than half of China's vast mobile-payments market. Its reach is so great that many startups decide to work with Alibaba rather than strike out alone.

But more has changed than the structure of China's economy and the clout of digital giants like Alibaba. Politics has changed, too. Alibaba thrived partly thanks to Mr Ma's skilful dealings with China's ruling Communist Party, with which he

cultivated both closeness and stand-offishness ("Love them, don't marry them," he once said of the government). Under the leadership of President Xi Jinping, however, China's political system has grown hostile to private businesses that become too big or too disruptive. Officials have constrained bosses' freedom to make splashy deals. Bytedance, a brash technology firm set up in 2012, has been reined in, and forced to withdraw one of its apps. Its founder issued a grovelling public apology after being chastised by the government. Ant, meanwhile, has seen its aspirations to compete with state-owned banks held back by regulators (see Finance section).

China is putting its corporate champions at the service of its ambitions to compete globally in high-tech industries. Alibaba's task is to use artificial intelligence to improve cities. Through state-backed venture-capital funds, the government is pouring money into industries that were once the preserve of the private sector. Rumours occasionally surface that it plans to take stakes and board seats in big tech firms. All this has fed growing international suspicion of China, especially in America. Mr Ma was one of the first out of the blocks to congratulate President Donald Trump on his election victory; this year America prevented Ant's purchase of MoneyGram, a money-transfer firm, on national-security grounds. The reality was always more complicated, but Mr Ma embodies an idea of China as market-driven and open. That idea has faded.

## Jack be nimble

None of this is to say that enterprise is fizzling in China. Indeed one of Mr Ma's legacies is a shift to a culture that values startups more than ever. His charisma and folksy advice have earned him cult-like status among the country's entrepreneurs. Venture capitalists are lavishing money on hundreds of newcomers, in industries from biotech to electric vehicles. Small private firms will continue to flourish.

But it is harder to be as disruptive today as Mr Ma was 20 years ago. That is partly because his own creation is so dominant. Increasingly, however, the greatest obstacle to disruption is China's rulers. The party is intent on having a say much earlier in the development of industries that it considers important. As a result, China is unlikely to see new business leaders with the boldness and brio to match Mr Ma. ■



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Building Research & Information  
London

Can I ask businesses to cease their insidious habit of producing Arctic temperatures in midsummer? I have come to hate entering cinemas and shopping malls on a sweltering August afternoon because the inside temperatures are kept at goose-pimpling lows. In many restaurants, ladies are now offered use of a shawl lest they shiver uncontrollably through the meal.

EDMUND TIRYAKIN  
Hillsborough, North Carolina

On a bus tour down the west coast of America to Mexico we were frozen to the marrow by roaring air-con and asked for it to be turned off. We were told that it could not be turned off, or even down, but were offered thick blankets. I have never understood this.

HILARY POTTS  
London

**Scotland’s poor performance**

The lack of successful policy innovation and the unimpressive performance of public services in Scotland since Nicola Sturgeon became first minister (“The not so brave”, August 18th) is all the more remarkable given the level of funding available to her administration. The latest data show that in the year 2017-18 Scotland’s public finances benefited from £11bn (\$14bn) thanks to the redistribution of UK revenues via the Barnett Formula. This equates to nearly £1,600 per person above the UK average. With additional resources over several years, the new tax and welfare powers in the Scotland Act 2016, and the robust fiscal safety net from being part of the UK, it is doubly disappointing that the Scottish National Party have not developed more successful approaches to addressing our nation’s challenges.

ALASTAIR CAMERON  
Director  
Scotland in Union  
Glasgow

One area which you did not mention was the performance of Scotland’s NHS under the SNP. Unachievable guarantees for access to treatment have been enshrined in law, so patients are forced to travel for many hours to receive treatment for which they have waited for ever-increasing times. Regional trauma-care centres have been successfully introduced in England but continue to be held up in Scotland for political reasons.

Recruitment in the Scottish NHS is a problem, for numerous reasons. The devolved administration has failed to make it sufficiently attractive as a place to work. The rises in

income tax and punitive levels of stamp duty on a family home are among the deterrents. The constant agitation for independence means that the number of skilled Scots leaving is not matched by great enough numbers moving in the opposite direction.

ROBERT CLAYTON  
Consultant orthopaedic surgeon  
Edinburgh

**Rebalancing act**

Buttonwood overstated the benefits of rebalancing investment portfolios (July 28th). The success of this strategy rests entirely on the assumption that share prices are mean reverting. Most empirical studies conclude that the random-walk hypothesis fits the data better. In that case, it is straightforward that any derivative, including rebalancing, has exactly the same return-risk ratio as the underlying share price. We cannot entirely dismiss the notion that mean reversion may occasionally occur, but relying on it is just another kind of speculation.

ESPEN SIRNES  
Associate professor in finance  
University of Tromsø  
Tromsø, Norway

Rebalancing is not nearly that simple. The example of 1926 to 1940 had greater stockmarket volatility than the vast majority of other similar periods. Your cherry-picked period would look different over longer and rolling rebalancing periods. I am for rebalancing, but there are tax consequences for buying and selling in periods that are less than a year.

MICHAEL FALK  
Partner  
Focus Consulting Group  
Riverwoods, Illinois

**The naked truth**

“All the young prudes” (September 1st) observed how Europeans are shying away from public nudity. There is also, however, a growing body-positive movement in Europe. Casual nudity is encouraged at events such as World Naked Bike Rides,

naked dining, clothing-optional theatre and the opening of large, popular thermal spas, such as Therme Erding in Munich. Hundreds of mainly young bathers of both sexes and all shapes and sizes are comfortable in their skin without objectification or insecurity. Few of these events existed or were tolerated 20 years ago.

The irony, as many studies have shown, is that women are far more likely to be sexualised when wearing a bathing suit that tantalisingly hides something. Among all the relaxed bodies of a northern European beach or spa, the indistinguishable nudity rapidly becomes frankly rather unremarkable.

KATE GRIFFITHS  
Brussels



I am reminded of “An immodest proposal” put forward by Nicholas Humphrey in the early 1980s. The neuropsychologist’s essay suggested that “our leaders must be given no choice but to go naked into the conference chamber”. “No naked human being”, he wrote, “conscious of his own essential ordinariness, the chairseat pressing against his buttocks, his toes wriggling beneath the conference table, his penis hanging limply a few feet from Mr Andropov’s, could possibly play the game of international politics and barter like a god with the lives of millions of his fellow men.”

GALEN STRAWSON  
Austin, Texas ■

Letters are welcome and should be addressed to the Editor at The Economist, The Adelphi Building, 1-11 John Adam Street, London WC2N 6HT  
E-mail: letters@economist.com  
More letters are available at: [Economist.com/letters](http://Economist.com/letters)



## And Brett makes five

WASHINGTON, DC

**America's highest court has been becoming increasingly political for decades. It needs respect and reform**

**E**ARL WARREN was the 20th century's most consequential American jurist. During his nearly 16-year tenure as chief justice, the Supreme Court ruled, in *Brown v Board of Education*, that segregation was unlawful; in *Gideon v Wainwright*, that states must provide attorneys to indigent criminal defendants; in *Miranda v Arizona*, that police must inform suspects that they have the right to an attorney and to remain silent; and, in *Reynolds v Sims*, that legislative districts within a state must comprise roughly equal populations. All of those positions today seem uncontroversial; all were furiously contested at the time.

What today seems remarkable, though, is how a liberal justice such as Warren got on to the court in the first place. A Republican president, Dwight Eisenhower, installed him when the Senate was out of session, and though there was some politics in-between (some Southerners worried Warren was too liberal, some liberals that he was too conservative) he was eventually confirmed with a unanimous voice vote in the Republican Senate. What is more, Warren was a Republican himself.

The confirmation hearing for Brett Kavanaugh which began on September 4th went, instead, true to modern form: a pitched partisan brawl played out on live television, with deafening echoes in the more political parts of social media. How did the process of filling one of the court's nine seats become so contentious?

In the particular case of Mr Kavanaugh, whom President Donald Trump nominated after Anthony Kennedy retired from the bench in June, it is in large part because his appointment will give the court its first solidly conservative majority in generations. In a court with four mostly liberal justices and four pretty solid conservatives, Mr Kennedy had sided sometimes with one bloc, sometimes with the other: he was the court's swing vote. Mr Kavanaugh will be far more reliably conservative.

The excitement and controversy over Mr Kavanaugh also had to do with Mr Trump himself. He has been implicated in a conspiracy to break federal law and is under investigation for his campaign's ties to Russia. The court may have to decide whether Mr Trump can be forced to testify in that investigation, or whether he can be indicted, or whether he can pardon himself. Mr Kavanaugh's views on the powers of the presidency may determine how the

court rules on such questions.

Beyond the particulars of Mr Kavanaugh's appointment, though, the political drama that now surrounds the Supreme Court is explained by the fact that over the past four decades it has decided some of the most inflammatory and divisive issues in America: Can gay people get married? Can universities consider race in admissions? Should abortion be legal? It also makes decisions with far-reaching political implications: What limits can be set on gerrymandering? Does contributing money to political candidates count as speech? Most weightily, in *Bush v Gore*: Who gets to be president?

Such a range of questions comes before the court partly because it fills an unusual role. It interprets the constitution as well as statutory and administrative law. Many other countries divide those duties, with a constitutional court handling one type of case and a supreme legal court handling questions of law. America, like India and Japan, invests both in a single body.

*Liberty can have nothing to fear from the judiciary alone, but would have every thing to fear from its union with either of the other departments*  
– Alexander Hamilton, *Federalist Paper 78*

But a bigger reason is that, over recent decades, Congress has become both more partisan and more prone to gridlock. Questions that might otherwise be settled legislatively are instead the object of arcane legal and constitutional wrangling. As the court's role has grown more political, so has the choice of its judges, which the constitution vests in the president. The days when Republican presidents nominated liberals like John Paul Stevens, David Souter, Harry Blackmun and William Brennan, or Democrats appointed conservatives like Byron White, are long gone. Since the 1980s, presidents have picked justices they think will consistently stay on their side of the partisan divide, and they have been largely successful (see chart).

Because justices serve for life, the battle over Mr Kavanaugh, who is 53, is a battle over the country's direction for decades to come. And it is one the Republicans will all but certainly win. Because filibusters can no longer be used for confirmations, it only takes 51 Senate votes to approve a nomi-

nee. There are 51 Republicans in the Senate. And even senators who are retiring, and sometimes critical of Mr Trump, can be relied on to vote for his pick on this matter.

But if the Republicans' victory in this battle is politics as usual, their overall victory in the war for a Supreme Court majority sits on far more dubious ground. After Antonin Scalia died in February 2016, Barack Obama nominated a moderately liberal judge, Merrick Garland, to take his place. But Mitch McConnell, the Republican senate majority leader, refused to hold confirmation hearings for him, a move without modern precedent. Mr Garland's nomination lapsed when Mr Obama's presidency ended in January 2017; Mr Trump nominated Neil Gorsuch, a conservative jurist, to the seat instead, and Mr McConnell's Senate promptly confirmed him. This stolen seat will, if Mr Kavanaugh is confirmed, form part of the new conservative majority.

Mr McConnell knew what he was about. As the chart shows, although Mr Garland is not particularly liberal, if he had replaced Scalia, who was staunchly and brilliantly conservative, the court would have moved more sharply to the left than it has for decades. Mr Trump also knew what he was about. Having a Supreme Court seat held empty for him gave him an opportunity to appeal to conservative voters by making it clear that he would fill it with

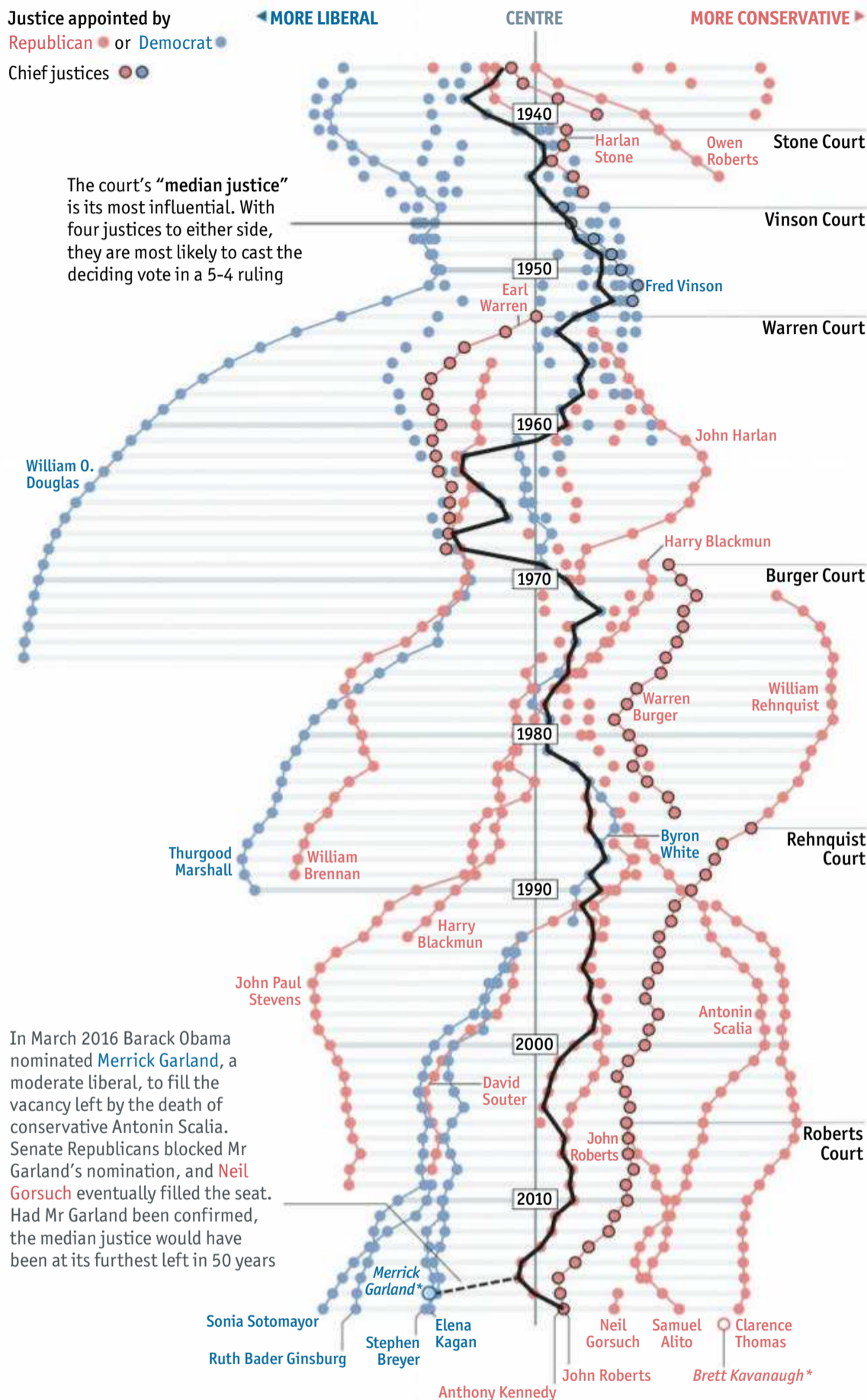
someone of whom they would approve. Even if you dislike me, he told a rally in July 2016, "you have to vote for me anyway. You know why? Supreme Court judges. Have no choice." The gambit worked.

The guarantee of a conservative justice mattered to white evangelicals—who might otherwise have had problems with a foul-mouthed, thrice-married libertine—because of *Roe v Wade*, the 1973 ruling that recognised a constitutional right to abortion. Conservative Christians were scandalised at such a decision being taken by the Supreme Court; it was this issue above all others that brought such voters to the Republican party, and this issue above all others that politicised the court.

In 1992 *Planned Parenthood v Casey* provided an opportunity for the court to overturn *Roe*. The court did not take it, but its ruling in the case did allow states to pass new restrictions and regulations on abortion provided that they did not impose an "undue burden" on women seeking abortions. The result is a game of Grandmoth- ▶▶

### Bend it like Brennan

Ideology of United States Supreme Court justices  
By Martin-Quinn score, a statistic that tracks how justices' views have changed over time



The court's "median justice" is its most influential. With four justices to either side, they are most likely to cast the deciding vote in a 5-4 ruling

In March 2016 Barack Obama nominated Merrick Garland, a moderate liberal, to fill the vacancy left by the death of conservative Antonin Scalia. Senate Republicans blocked Mr Garland's nomination, and Neil Gorsuch eventually filled the seat. Had Mr Garland been confirmed, the median justice would have been at its furthest left in 50 years

Sources: Andrew Martin; Kevin Quinn; Lee Epstein

\*Predicted Martin-Quinn score, based on Judicial Common Space score of lower-court votes

er's Footsteps; states impose rules on abortion clinics—such as requiring their doctors to have admitting rights at local hospitals, or demanding that their corridors be widened—that do as much as possible to make them close down without imposing what the court would see as an undue burden on their clients.

It is by upholding such restrictions, rather than overturning *Roe*, that a conservative court is likely to reduce abortion rights.

The court is typically reluctant to stray too far from public opinion, and most Americans do not want *Roe* overturned. Mr Kavanaugh, for his part, has called *Roe* "settled law", which lends credence to the idea that whittling away is the likely approach. (That said, he has also noted that the court "can always overrule its precedent"—as it did in a liberal direction in *Lawrence v Texas*, invalidating laws banning sodomy.)

But the piecemeal approach to abortion

rights could still see tens of millions of women in states with conservative legislatures denied the ability to exercise in practice the right *Roe* recognised in principle. Mr Kennedy acted as a stay in such matters. Mr Kavanaugh probably will not. One of his former clerks wrote in July that "on the vital issues of protecting religious liberty and enforcing restrictions on abortion, no court-of-appeals judge...has a stronger, more consistent record" than he does.

In the only major abortion case he heard during his 12 years on the US Court of Appeals for the DC Circuit, Mr Kavanaugh dissented from a ruling that allowed an undocumented teenager in custody to obtain an abortion, arguing that forcing the girl to wait a couple of weeks was not an undue burden. This ruling worries liberals, though it was also criticised at the time by conservatives who thought it did not go far enough.

Mr Kavanaugh's expansive view of religious liberty also has gay-rights activists worried. Mr Kennedy's landmark ruling recognising the right to same-sex marriage is unlikely to be overturned; there is no public appetite for the mass annulment of same-sex marriages. But in this, too, the court's new conservative bloc might seek to limit that right in practice by means of incremental exemptions—for instance, permitting clerks with religious objections to deny gay couples marriage licences.

On various racially charged issues things may be sharper. Scalia and the court's three still-sitting conservatives all ruled against affirmative-action policies. Mr Kennedy, though, unenthusiastically joined the court's liberal wing in upholding universities' rights to consider race in admissions. Mr Kavanaugh and Mr Gorsuch (untested, as yet, on this matter in the court) seem more likely to side with the other three conservatives. Mr Kavanaugh worked on the George W. Bush administration's opposition to the University of Michigan Law School's affirmative-action policy. He also wrote an op-ed while in private practice approvingly citing Scalia's belief that "in the eyes of government, we are just one race here. It is American." The court has, for the most part, also recently permitted states to enact voter-ID laws that opponents say are intended to depress minority turnout. Mr Kavanaugh is unlikely to change that.

Another worry about the new court is that it may be too deferential to executive power. Mr Kavanaugh, who spent years working for the independent counsel's team that investigated Bill Clinton in the mid 1990s, later decided such investigations impinged unreasonably on a president's time and attention. During a panel discussion in 1998 he indicated that the law protects a sitting president from indictment. In a 2009 law-review article, he proposed that Congress pass a law protecting

▶ presidents from criminal investigations and civil suits while they were in office.

Mr Kavanaugh does not believe presidents are above the law: the article suggested temporary investigatory deferrals, not permanent immunity. But during his confirmation hearing Mr Kavanaugh refused to answer any specific questions on such matters, including whether presidents can pardon themselves.

On more general matters of judicial philosophy he was, for what it was worth, more forthcoming. When he interprets the constitution, Mr Kavanaugh told the judiciary committee, he considers himself bound by the document's "original public meaning, of course informed by history and tradition and precedent." This view, that the constitution has one meaning, the one it was originally taken as having by its readers, and that singular meaning is best found by close study of the text, is known as originalism. Scalia was for a long time its most prominent exponent on the court (its most ardent advocate now is Clarence Thomas). Partly because Scalia regularly and persuasively expounded on its merits it has gained much currency. This is particularly true on the right—Mr Thomas is the court's most conservative justice—but holds to some extent across the ideological spectrum. Justices pay far more heed to specific wordings today than they did in the Warren Court's heyday. As Elena Kagan once put it, "We're all textualists now."

### Associate justice, no peace

However some, such as Eric Segall of Georgia State University, the author of a forthcoming book on originalism, worry that originalist language is often used by justices to uphold positions quite at odds with the philosophy's seemingly hands-off tenets. "Justices use the rhetoric of originalism to mask political judgment," Mr Segall says. Past proponents of originalism argued that courts should strike down laws only in the case of clear textual error. Today, argues Mr Segall, proponents of originalism want to "shrink the federal government and deregulate the economy, but there is no reasonable originalist argument for that kind of strong judicial interference with our political system."

Reasonableness of argument notwithstanding, such an agenda may well come to dominate the court in the years and decades to come. It would not be the first time. In the early 20th century the court repeatedly struck down minimum-wage laws and limits on hours worked, which it believed illegally infringed on "liberty of contract" guaranteed by the 14th amendment's due-process clause. Under this theory, the court invalidated several of Franklin Roosevelt's New Deal laws.

It reversed course at roughly the same time that Roosevelt threatened to dilute the justices' power by expanding the

bench (since 1869, the court has had nine justices, but this is convention: the constitution says nothing about its size). "It is difficult to see," Owen Roberts, a justice who changed course, later wrote, "how the court could have resisted the popular urge for uniform standards throughout the country—for what in effect was a unified economy." As if chastened, the court returned to a more restrained role for decades. It cut loose again, in the opposite direction, only with the advent of the activist Warren court.

Some hope Chief Justice Roberts will tack leftward, as his namesake did (and, indeed, as justices tend to, over time, whatever their original ideological stance, though the trend is hardly universal). With Mr Kennedy gone, it will now be Mr Roberts who has four justices to his left and four to his right. Though he is without doubt a man of the right, he also evinces caution and a sense of constitutional propriety. He voted twice with the court's liberal bloc to uphold Mr Obama's Affordable Care Act, in part, perhaps, because he felt that the court should not throw out a major piece of legislation for which the president had a clear mandate.

But Mr Roberts may not be the median judge for long. Two of the court's liberals are in their eighties; if one dies, or is forced by ill health to retire, before the next election, and Mr Trump were to fill the void, the median position might well move rightward to Mr Gorsuch, hardening the court's ideological tenor.

That prospect may well make the bad situation brought about by the stonewalling of Mr Garland worse. Brian Fallon, chief spokesman for Hillary Clinton's presidential campaign in 2016, recently started Demand Justice, a court-focused pressure group. He wants his party to be as ruthless and court-focused as the Republicans have been. Democrats, he says, need to "get over the idea that the courts are anything other than a place where a power struggle is taking place." If another seat does come up soon, and if the Democrats retake the Senate in this year's elections, they will proba-

bly stonewall Mr Trump's nominee, just as Mr McConnell did Mr Obama's.

In the face of growing political rancour, calls for reform are getting louder. Perhaps the most widely canvassed idea is that justices should serve a single 18-year term rather than for life, with two new justices chosen each presidential term. Daniel Epps and Ganesh Sitaraman, of Washington and Vanderbilt universities, have proposed more sweeping reforms. The nine permanent justices could be replaced with nine-judge panels drawn at random from the entire federal appellate bench, comprising around 180 judges, to sit for two-week periods. Alternatively, the court could be expanded to 15, with five justices chosen by Republicans, five by Democrats and the last five by the justices themselves, who would have to nominate them from the appellate bench unanimously.

Either reform could reduce the role of partisanship in judicial selection. But they could also simply push partisanship downward and turn every federal appellate nomination into the sort of brawl seen over the past weeks. And enacting them would require both parties to cede power over the courts, which they will never want to do at the same time.

But doing nothing carries its own risks. With ample justification, Democrats want revenge for the theft of Mr Garland's seat, and how it paved the way for Mr Trump's ascent to the White House. Faced with a conservative court that could frustrate their ambitions for decades, some have begun whispering about court packing—adding justices to the court should they retake Congress and the White House. No doubt that will outrage Republicans, and lead them to do the same the next time power swings back. Both sides will prize ideological purity over competence and independence of mind.

Down this path lies the dark day when another part of the government takes the decisive, perhaps irretrievable, step of ignoring a Supreme Court ruling. And at that point the constitution's checks and balances come tumbling down. ■





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Public policy

# Make America Germany Again

WASHINGTON, DC

## The Democratic Party's left flank has ideas for fixing the country

TUCKER CARLSON, a Fox News host, and Bernie Sanders, a democratic-socialist senator, seldom agree. Yet on the matter of billionaires supposedly sponging off taxpayer largesse, they are completely simpatico. On September 5th Mr Sanders introduced a bill which would force large firms to pay taxes exactly equal to the amount of safety-net benefits consumed by their employees, including food stamps, housing vouchers and Medicaid. The target of Mr Sanders's legislation, titled the "Stop Bad Employers by Zeroing Out Subsidies" or "Stop BEZOS" Act, was clear. Attacking Jeff Bezos, the founder and boss of Amazon, is a uniquely bipartisan pastime. The left of the Democratic Party views him as a latter-day Ebenezer Scrooge. Trump-cheerleaders like Mr Carlson despise him for owning the meddlesome *Washington Post*. Mainstream economists took a dismal view of the pitch.

Congressional Democrats, especially those eyeing a presidential run in 2020, are awash with bold policy ideas. In addition to Mr Sanders's pitch, Kamala Harris, a Democratic senator from California, has offered a proposal to give generous tax credits to citizens who spend more than 30% of their incomes on rent. Elizabeth Warren, a progressive senator from Massa-

chusetts, would like to up-end corporate boards by requiring that employees pick 40% of the members.

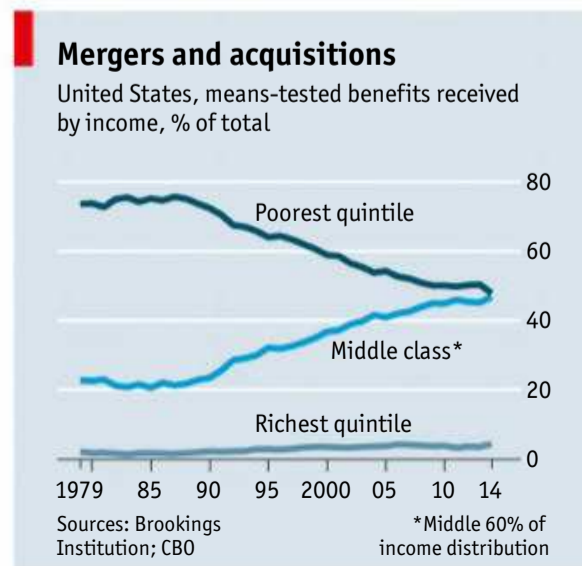
Start with Mr Sanders's proposal. The cost of safety-net programmes like food benefits, Medicaid coverage and rental subsidies could easily amount to thousands of dollars per employee. A pitch to charge firms that amount would be a de facto head tax, strongly discouraging employment. "It's essentially a tax on hiring low-skill workers, but worse," says Samuel Hammond of the Niskanen Centre, a think-tank. "Since eligibility largely varies

with children and dependants, it's actually a tax on firms for hiring low-skill parents." Companies would have perverse incentives to filter out the applicants they thought likeliest to be on benefits. Because they would be barred by law from asking about welfare status directly, they would probably resort to pernicious stereotypes (such as not hiring a middle-aged black woman without a wedding ring). It would also encourage companies to minimise low-skilled labour as much as possible, hastening automation.

### Bad, worse, wurst

Ro Khanna, a Democrat from Silicon Valley, introduced an identical bill in the House of Representatives. While he concedes that automation is a real worry, he dismisses the discrimination critique offered by liberal economists. Though discrimination is notoriously difficult to prove in court, high penalties would still encourage firms to behave, Mr Khanna insists. Besides, he says, the point of the bill is to encourage companies to forgo the headache by paying their employees a higher minimum wage. "If you raise to a liveable wage, like \$15 an hour, then you're exempt. But if you're not going to provide a decent wage, and you're making trillions of dollars, then you're going to be on the hook for all the public benefits that you're consuming," Mr Khanna says.

The idea that benefits schemes for low-income workers are corporate welfare is mainstream on the far left. Yet it is also quite strange, since it implies that for those at the bottom of the earnings distribution, wages would rise if the safety-net were slashed. "Some people could draw a mes-



► sage from the bill that programmes like SNAP [food stamps] or Medicaid are bad...because they're fundamentally corporate subsidies," says Robert Greenstein of the Centre on Budget and Public Priorities, a left-leaning think-tank. The earned-income tax credit, which operates explicitly as a wage subsidy for working-class families through the tax system, has been helpful in alleviating poverty. Indeed, many—including Mr Sanders—would like to see it expanded.

Similar problems haunt Ms Harris's daring plan to offer tax credits for those facing high rents. She would like the federal government to reimburse households for rent that is over 30% of household income. Housing affordability is certainly a growing issue, especially in America's booming cities. But that is because of constrained supply. Fuelling demand with billions in government cash while housing supply is stuck means that prices will only rise. The winners would be landlords, who would pocket most of the vast expenditure.

Ms Harris's proposal would encourage people to rent flats well beyond their means. Those making less than \$25,000 would get 100% of their excess rent subsidised by the government. In San Francisco, the costliest city in America, this means that such a person would pay at most \$625 a month, even for a flat costing \$4,681 a month. Uncle Sam would kick in the rest. Because the policy abruptly shifts reimbursement rates around cut-off points, those making \$75,000 in San Francisco could lose as much as \$8,500 of tax credits by making an additional dollar. In cities with high rents, those making up to \$125,000 a year, hardly a needy bunch, would qualify for subsidies.

### Wunderbar

Of all the proposals, Ms Warren's Accountable Capitalism Act is the least destructive. Some of its provisions—like requiring firms with more than \$1bn in revenue to obtain a federal charter and barring executives from selling shares for five years—are relatively modest. Others, like requiring corporations to create a "general public benefit", seem vague and unenforceable. The most eye-catching proposal, which is for employees to elect 50% of the representatives on corporate boards of directors, seems radical but has been commonplace in Germany since 1976. Although such a system might not work as well in America, where employees are less likely to remain loyal for years, it is hardly the stuff of revolution.

None of the proposals will become law anytime soon. But they do foreshadow the themes of the next Democratic presidential primary, at a time when the party seems to be in its wilderness-wandering stage. Populist policies, such as sticking it to Mr Bezos, subsidising rent and giving more power to workers, are in the ascendant. ■

### New York politics

## Sleaze and the city

NEW YORK

**An exceptionally underhanded smear lands the governor in hot water**

**D**IRTY politics knows no party affiliation. Less than a week before New York's Democratic governors' primary, which will be held on September 13th, the state party circulated a leaflet implying that Cynthia Nixon, the progressive challenger, posed a threat to Jewish New Yorkers. The accusations—that Ms Nixon was "silent on the rise of anti-Semitism", supported the campaign to boycott Israel and opposed taxpayer funding for yeshivas—appear to be entirely fact-free. Though Ms Nixon is not personally Jewish, she is raising two Jewish children from a past marriage and regularly attends synagogue (her rabbi, married to a prominent teacher-union boss, called the allegation a "baseless lie"). An actor-turned-politician, Ms Nixon also says she got news of her most prominent role, as Miranda Hobbes on "Sex and the City", while preparing a Passover seder. However poorly executed, the attempted smearing of Ms Nixon illustrates two disparate truths about New York politics: some strange Albanian miasma follows around Andrew Cuomo, the sitting Democratic governor who is vying against Ms Nixon for his third term; and Jewish voters are quite important.

The listed sponsor of the offensive campaign literature was the State Democratic Committee, an organisation which Mr Cuomo funds. He insists he knew nothing of



Nixonian

the leaflet before it went out. Given Mr Cuomo's outsized influence over the state party apparatus, this explanation has been questioned. There seems to be a lot else that Mr Cuomo is sadly unaware of. The architect of his upstate development programme, called "the Buffalo Billion", was convicted in July of running a bid-rigging scheme in which several hundred million dollars were awarded to favoured firms. Joe Percoco, the governor's enforcer and right-hand man, was also convicted this year for accepting bribes.

The flap over Ms Nixon pales in comparison to those lapses. But it gives further ammunition to those who detect something amiss with Mr Cuomo, who has otherwise proved a competent administrator. Longtime observers of New York politics compared the Nixon episode to another moment in politics, when Mr Cuomo's father was running for mayor of New York City in 1977 and supporters employed the slogan "Vote for Cuomo, not the homo". Mr Cuomo senior's opponent, Ed Koch, suffered decades of speculation over his sexuality. The elder Cuomo lost the mayoralship, but later became governor.

The incentives to accuse an opponent of anti-Semitism are clear. Ultra-orthodox Jews are a powerful voting constituency, especially within New York City, who are known to vote as a bloc. A central issue for the group is non-interference with yeshivas, private Jewish schools which critics say focus on Talmudic instruction and deprive students of basic mastery of essential secular subjects like English and mathematics. The schools also receive hundreds of millions in public funds.

Though yeshivas have received special exemptions by state lawmakers from stricter regulation, state law also requires that private schools provide an education that is "substantially equivalent" to public schools. A lawsuit filed by former yeshiva students in July argues that this is not the case, and that the city is turning a blind eye to the problem because of political considerations. An investigation into 30 schools has been plodding along in New York City since 2015. Half of the 30 schools under investigation refused entry to the city's education officials. Bill de Blasio, the mayor, who has benefited from ultra-Orthodox support in previous campaigns, seems reluctant to push too hard.

There is scant polling on the New York primary. What little exists suggests an exceedingly comfortable margin for Mr Cuomo. Some have held him up as a strong contender to challenge President Donald Trump in the next presidential election despite his protestations. At the very least he is likely to accomplish the feat of running one of America's most important states for more than a decade. Mucking up that legacy with small-time scandals and smears seems short-sighted. ■



### Cyber-attacks

## Suing spies

### America is putting foreign hackers in the dock. Not everyone is pleased

ON SEPTEMBER 6th, President Donald Trump tweeted his gratitude to Kim Jong Un for the North Korean leader's "unwavering faith" (in Donald Trump). "We will get it done together!" A few hours later the Justice Department published a 174-page criminal complaint against Park Jin Hyok, a prolific hacker working for North Korea's military intelligence bureau. It exemplified the tangled threads of a North Korea policy seesawing uneasily between diplomacy and pressure. But America's increasingly litigious response to cyber-attacks throws up another concern: will its own legion of government hackers face retribution in kind?

The rap sheet against Mr Park is remarkable. The "scope and damage" of North Korea's operations, notes an FBI agent, "is virtually unparalleled". Three attacks stand out. The first wiped almost half of Sony's data in 2014. It aimed to terrorise the film studio into halting the release of "The Interview", a film that had enraged North Korea for its depiction of an assassination plot against Kim Jong Un. The second was the theft of \$81m from the central bank of Bangladesh in 2016, the largest ever digital bank heist from a single institution. The third, known as WannaCry 2.0, was a ransomware attack against hundreds of thou-

sands of computers. The charges document how North Korean hackers go about their work, much of it on Chinese soil. The human story occasionally breaks through. Political commissars peer over the hackers' shoulders; programmers interrupt their cyber-pillaging to search for information on North Korean food rationing.

The indictment of Mr Park fits with a broader trend in America's approach to cyber-attacks. It began in 2014 with the Obama administration's indictment of five Chinese army officers for industrial espionage. Last year, the Trump administration followed suit by charging two officers of Russia's FSB, a successor to the KGB, for cyber-attacks on Yahoo. In March it charged nine Iranians of stealing scientific secrets on behalf of Iran's Revolutionary Guard. Most dramatically, it indicted a dozen Russian spies in July for their interference in the presidential election in 2016.

The forensic evidence published in these charges refutes the myth that attribution is impossible in cyberspace. Mr Trump memorably claimed that the election attack might have been carried out by a 400lb amateur from his bed. But it is plain that America and its partners can peer deep into the workings of their adversaries, sometimes literally so: Dutch spies were able to activate security cameras inside the office of the Russian intruders.

Yet not everyone is pleased with the decision to turn to the courts. Some of those who have worked as hackers for the government warn that they will bear the brunt of retaliation; after all, American spies break into computers across the world. Indeed, North Korea's WannaCry attack reused potent code originally developed by America's National Security Agency (NSA). Jake Williams, who worked in the NSA's hacking arm, has expressed concern that prosecuting foreign hackers could put him and others at risk of arrest overseas. This would not be unprecedented. Italian courts convicted 22 CIA officers in absentia in 2009 of kidnapping an Egyptian cleric in Milan. Hacking groups with links to Russia have threatened to reveal the names of former NSA employees.

These concerns are valid, but overblown. One reason is that going public can yield results when private warnings have failed. The indictment of its officers in 2014 shocked China into agreeing to a pact to rein in commercial espionage. Another factor is that America's adversaries lack both the technical proficiency to catch it in the act and the moral high ground to embarrass it on the world stage. America may be an aggressive actor in cyberspace, but it has not vandalised movie studios or robbed banks. In choosing what to prosecute, American officials seek to draw a line between old-fashioned spying, which is seen as fair game, and piratical deeds, like election sabotage and spying for profit. In-

dictments, used alongside sanctions and quiet diplomacy, are a worthwhile tool in this effort to establish norms. The aim should be cyber arms control that promotes restraint among the big powers.

Unfortunately, even insiders disagree on where to draw the line. Michael Hayden, a former CIA and NSA chief, has argued that Russia's hacking of the Democratic National Committee was "honourable state espionage". "I would not want to be in an American court of law", he said, "and be forced to deny that I never did anything like that as director of the NSA." ■

### Muslim politicians

## From Bushies to Bernie

CHICAGO

### The political transformation of American Muslims

IN HIS first presidential campaign, George W. Bush received 42% of the Muslim-American vote, compared with 31% for Al Gore. The 9/11 attacks, and the wars that followed, changed that affiliation. Eight years later, Muslim-Americans overwhelmingly backed Barack Obama. This was a big change for a religious minority that tended to have conservative views: traditionalist Muslims and LGBT advocates are strange bedfellows. Donald Trump's election, though, has brought a clutch of progressive Muslims into politics. Some are now heading to Congress.

America's has 3.5m Muslims, around 1% of the population. Some say the number is closer to 5m and rising; the Census Bureau has not asked questions about religion since the 1950s, so it is hard to know for sure. Only about 100 Muslims filed papers this year to run for office. These few attract a disproportionate amount of attention, largely because of America's views of their faith. Polling by the Pew Research Centre in April 2017 found that 44% of eligible voters think there is a "natural conflict" between Islam and democracy.

Rashida Tlaib, a Palestinian-American lawyer, narrowly emerged from a crowded field in the Democratic primary in Michigan's 13th congressional district, which covers Detroit. As she is running unopposed in the mid-term elections for the seat John Conyers occupied for more than half a century (until he resigned, following allegations of sexual harassment), she is all but guaranteed to become the first Muslim woman to sit in Congress.

She will probably be joined there by Ilhan Omar, a Somali immigrant who won a primary in Minnesota to fill the congressional seat of Keith Ellison, one of two ▶

► Muslim men in Congress (the other is Indiana's André Carson). Fayrouz Saad ran in the primary for Michigan's 11th district; Deedra Abboud ran in the Arizona Senate primary; and Tahirah Amatul-Wadud ran in the primary in Massachusetts's 1st district. Ms Saad, Ms Abboud and Ms Amatul-Wadud lost, but many predict a bright future for 34-year-old Ms Saad, the telegenic daughter of Lebanese immigrants.

All five women are progressive. "The progressive wing of the Democratic Party is the only gateway to political office for Muslims," says Abdulkader Sinno of Indiana University. All five argue for abolishing the Immigration and Customs Enforcement agency, which is charged with rounding-up undocumented migrants. They also want universal health care, free college and a minimum wage of \$15.

Whereas older Muslims generally hold

conservative views on same-sex marriage and abortion, young Muslims tend to be much more secular. Many of the women running for office eschew head scarves: Ms Omar in Minnesota and Ms Abboud in Arizona are the exceptions. According to Pew, 23% of Americans brought up as Muslims no longer identify with the faith.

Ms Tlaib is keen to take the focus away from her religion. She also does not want to be drawn into a discussion on a two-state solution for Israel, or on the absence of liberal democracy in Muslim-majority countries. Her district is the second-poorest in the country, she says, so her focus will be on the concerns of her constituents, in particular their civil rights and the ravages of economic inequity. The question she gets most often, she says, is whether she will sell out once she is a member of the House in Washington. ■

tion forms from veterinarians, as well as confirmation that their animals have been trained to behave properly in a public setting, which they do not always do.

Between 2016 and 2017, Delta Air Lines reported an 84% increase in animal incidents, most of which involved urination, defecation or aggressive or threatening behaviour by a support animal. A survey released on September 12th by the Association of Flight Attendants echoes these findings. Sixty-one percent of the attendants surveyed say they have worked on a flight where an emotional-support animal caused disruption in the cabin.

Passengers seated next to emotional-support animals have been put on oxygen because of allergic reactions to the creatures, flight attendants have been bitten when attempting to put drinks on tray tables and veterinarians have been summoned because the animals meant to be managing the anxiety attacks of their handlers have had anxiety attacks themselves. In an attempt to save the honour of her dog, which had relieved itself mid-flight, one passenger instead claimed that she herself had had an accident in the aisle.

"We want to ensure the safety and comfort of all of our passengers," says Sara Nelson, president of the Association of Flight Attendants. "But the widespread abuse of the system ruins it for people with a legitimate need. Now anyone bringing an animal on board is being looked at with greater scrutiny." Even so, the popularity of travelling with support animals is growing. Last year the number of support animals on United Airlines flights increased from 43,000 to 76,000. For many of those who are very attached to their pets, the perk of being able to fly with their animal (as opposed to sending it in cargo), and to pay nothing for it (a benefit extended to service and support animals under federal regulations), is worth fibbing for.

Celebrities from Miley Cyrus and Kim Kardashian to Oprah Winfrey and Bradley Cooper have praised their emotional-support animals. Jane Fonda, an actress, is rarely seen without her dog, nor is Ivana Trump, the former wife of President Donald Trump, who made headlines when she tried to pass off her six-pound Yorkie as a service animal, so that it could dine with her in an upscale Manhattan restaurant.

Under the Americans with Disabilities Act, emotional-support animals are not granted the same public-access rights as service animals, which is why they are seldom seen at the opera or on the laps of lurching billionaires. The Disabilities Act does entitle them to live in otherwise pet-free accommodation, a frequent source of tension with landlords, and to stay in hotels without their handlers having to pay extra deposits. But their public access is otherwise restricted. For now, at least, the sky really is the limit. ■

## Flying pets

# It's emotional

NEW YORK

## The dodge that allows an increasing number of pets to fly with their owners

ACCORDING to the Air Carrier Access Act, pigs might indeed fly. Technically so might dogs, cats, miniature horses, kangaroos, possums, parrots, hamsters, ducks, turkeys, ferrets, lizards, snakes, turtles and a variety of other animals seldom seen at 35,000 feet. Although individual airlines have policies that bar many of these creatures from boarding, the Air Carrier Access Act, established in 1986, prohibits commercial airlines from discriminating against passengers with disabilities. Differentiating between those with genuine disabilities, who are allowed to travel with service animals, and those seeking a free flight for pets, is the responsibility of airlines.

Emotional-support animals are defined as companion animals which, on the determination of a medical professional, provide benefit for an individual with a psychological disorder. These benefits include helping to calm people with post-traumatic stress or providing a sense of security for those suffering from anxiety. Unlike service animals, which provide an actual service such as guiding the blind, being ears for the deaf or alerting and protecting an epileptic on the verge of a seizure, the need for emotional support is harder to judge and therefore easier to fudge.

To fly with an emotional-support animal, a passenger needs a letter from a mental-health professional describing the emotional benefit the animal provides. These can be obtained cheaply and speedily online through a variety of websites that pro-

mise to send them overnight, along with certificates, collars, harnesses, vests and other paraphernalia proclaiming "emotional support animal". After an incident earlier this year in which a woman flying from Newark Liberty Airport to Los Angeles attempted to board a United Airlines flight with her emotional-support peacock (they were denied passage), certain airlines, including United, now also require passengers to provide health and vaccina-



Keep calm carry-on

# The Next Revolution

Tokyo Electron Limited (TEL) has delivered more manufacturing equipment for semiconductor devices and flat panel displays than any other company. It helped launch the revolution in personal computing and the subsequent revolution in mobile computing. Now, it is in the vanguard of the technologies that are shifting the world to cloud computing, making the Internet of Things a daily reality, and unleashing the potential of Big Data.

**The results** that TEL posts annually for sales and earnings continue to astound even the most jaundiced investors and analysts. Yes, Apple amazes with its “How’s that again?” earnings reports and its trillion-dollar valuation, and the likes of Amazon, Google, and Facebook remain hot on its heels. Yet TEL and its stunning growth momentum command attention even among such illustrious counterparts.

TEL averaged annual growth of 71.9% in operating income on 16.6% average annual growth in net sales over the five fiscal years to March 31, 2018. And it is on track to meet management’s robust projections for the present fiscal year (see table, below). The company is poised, meanwhile, for still bigger things ahead.

“We sketch high-end and low-end scenarios to address a broad range of market variables,” explains TEL’s President & CEO Toshiki Kawai. “But the overall growth trend is unmistakable: Demand for semiconductors will burgeon as artificial intelligence and the Internet of Things spawn new applications and as advanced technologies take hold in industry and lifestyles in the world’s emerging economies.”

**The strengths** behind TEL’s prodigious growth begin with experience. As noted,



Clean room manufacturing at a TEL plant

the company is the global leader in cumulative unit deliveries of production equipment for semiconductor devices and flat panel displays. It had delivered 66,000 units as of May 2018. Epitomizing TEL’s industry standing are its market shares of 87% in coater/developers for semiconductor wafers and 71% in plasma etch systems for flat panel displays (“Market Share: Semiconductor Wafer Fab Equipment, World wide, 2017,” Gartner, Inc.; TEL survey).



**Toshiki Kawai**  
President & CEO, Tokyo Electron Limited

Another compelling strength for TEL is comprehensive scope. The company’s products for semiconductor production include, in addition to coater/developers, etch systems, deposition systems, and cleaning systems for wafer processing; probers for wafer testing; and wafer bonder/debonders for packaging. For flat panel display production, the company’s products include coater/developers, as well as plasma etch systems.

“Our scope engenders diverse synergies across processes,” emphasizes Kawai. “And

we are moving to maximize those synergies by streamlining the production flow. Process integration becomes all the more important as circuitry resolutions shrink to previously inconceivable dimensions. We’re developing semiconductor fabrication processes at the seven-nanometer technology node, and we expect to bring those advances to market by 2020. The technology node will migrate in just a matter of time from seven nanometers to five nanometers and then to three.”

**The culture** that animates TEL is an engaging amalgam of tradition and innovation. That is readily evident as Kawai describes his company’s stance. The president sprinkles his description with references to the Japanese *monozukuri* spirit of conscientious craftsmanship. He returns repeatedly, though, to the company’s unflagging focus on the technological horizon.

“We strive to fulfill our customers’ highest expectations for product performance and reliability and for service,” says Kawai. “Equally important, we position ourselves to be ready with next-generation products.”

A word that figures prominently in Kawai’s discourse and that contrasts with the lingo typical of high-tech CEOs in business-to-business sectors is “happiness.” Kawai notes unashamedly the role of semiconductors and flat panel displays in contributing to happiness worldwide and expresses pride in being part of that contribution.

“We are here to deliver products that help make people happier. My job as president is to keep us pointed toward that goal: happier end users, happier manufacturers, happier shareholders, happier employees.”

Judging from the numbers, TEL would seem to be on the right track.

## TEL’s Market Forecast and Business Performance

Fiscal years to March 31, \$ billion (market forecast) and ¥ billion (business performance)

	FY 2018 results	FY 2019 projections	FY 2021 plan
Global market for wafer fabrication equipment	\$51	\$58	\$55–\$62
Net sales	¥1,130.7	¥1,400.0	¥1,500–¥1,700
Semiconductor production equipment	¥1,055.2	¥1,288.0	¥1,400–¥1,600
Flat panel display production equipment	¥75.0	¥112.0	¥100–¥100
Operating income	¥281.1	¥366.0	¥398–¥476
Net income attributable to owners of parent	¥204.3	¥270.0	¥292–¥348

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# Lexington | Gary Johnson for liberty

Liberty is under attack, mainly from the party that claims to defend it



**B**ACK on the campaign trail, Gary Johnson cuts a slightly disconsolate figure. Appearing in a sports bar in the town of Gallup, New Mexico, the former Republican governor, serial presidential hopeful and now Libertarian Party candidate for the Senate, spoke unenergetically about what he would do there. He would fight the deficit, be bipartisan, facilitate whistle-blowing on government waste, he said, with lengthening pauses between each item. After ten minutes, a puzzled look crossed his face and Mr Johnson fell silent. An aide suggested that the small crowd should mingle with him instead.

Lexington later put it to Mr Johnson that he seemed to dislike campaigning. He nodded. “The bad part is you find yourself with people that have really bad breath,” he said. “What comes out of their mouth is just as bad. You cannot make heads or tails out of what the person talking to you is even saying.” Mr Johnson is many things: a wealthy builder, ultra-marathon runner, fiscal hawk and pothead. He is not much of a retail politician.

He could still be competitive in a race the Democrats were assumed to have sewn up. A recent poll puts him in second place to the Democratic incumbent, Martin Heinrich, with 30% of voters undecided. Mr Johnson is remembered in New Mexico as a frugal and fairly effective governor. After his presidential run in 2016, also as a Libertarian, he is known nationally for his goofball manner, indifference to world affairs and dope habit. Yet he may be the most prominent advocate of libertarian principles left standing. That illustrates how badly the ideology has recently fared.

Only a tiny minority of Americans are ideological in any way, and the number of committed libertarians is a rounding error. Most of those who voted for Mr Johnson in 2016 were protesting against the alternatives. Yet a clutch of liberty-minded Republican mega-donors have made their views prominent on the right. Led by the industrialists Charles and David Koch, they have sponsored free-market think-tanks and policies, on immigration reform as well as tax cuts, which liberty-inclined conservatives such as Ted Cruz and Marco Rubio have sometimes taken up. Most Republican voters are more drawn to the party’s social conservatism. Yet in the Koch-supported Tea Party revolt of 2010, ostensibly against government spending, some saw an army of liberty-minded voters awaken at last. How wrong they were.

Tea Partiers love Mr Trump, who seems to have zero regard for liberty. Their revolt, it turns out, was not just against spending. It was also against immigrants and poor people and the vast hand-outs they imagined these scapegoats received. The populist libertarian strain—represented in the 1990s by Ron Paul, another serial presidential candidate—has long been infused with racial anxiety. It also contains a lot of anti-government paranoia, which explains why Mr Paul’s followers—including his son, Senator Rand Paul—are suckers for Mr Trump’s deep-state conspiracy theories.

Thomas Massie, a libertarian-ish congressman, has admitted to revising his view of his supporters. “After some soul-searching, I realised when they voted for Rand and Ron and me in these primaries, they weren’t voting for libertarian ideas—they were voting for the craziest son of a bitch in the race.” While Mr Trump has blown up the deficit, raised barriers to trade and immigration, threatened civil liberties and states’ rights, and put former lobbyists in charge of deregulation, Mr Paul, a self-described libertarian conservative, has been one of his staunchest allies.

The mega-donors have not done much better. Contrary to excited media reports, Charles Koch, who now runs the brothers’ network, has not rethought its backing for a Republican Party that appears no longer even to support free trade. Its members, who have profited hugely from Mr Trump’s tax cuts and deregulation, are expected to spend \$400m on Republican campaigns over the mid-terms. Democrats have long claimed that Republicans’ harping on liberty was a pretext for lower taxes for the rich and fewer food stamps for the poor and curbs on pollution. That used to be an exaggeration. But the Trump party and its wealthy abettors appear to be proving their most partisan critics right.

All ideologies are vulnerable to opportunists, but the purity demanded by libertarian conservatives has made theirs especially susceptible. Unthinking anti-government rhetoric has precluded serious new thought about the relationship between government and individuals in an anthropogenic climate, changing economy and more atomised and diverse society. Moderate conservatives often have more nuanced ideas. They typically want a more efficient, but not radically smaller, government. They might even expand it sometimes, to combat obesity or global warming. They are also increasingly repelled by strident social conservatism: they may oppose abortion, but they are relaxed about gay marriage. They are arguably the most sincerely liberty-minded group of Americans. Yet the Republicans, who claim to stand for liberty, are driving them away. The party will not win national elections unless it can win them back.

## Equality and fraternity also matter

If Mr Johnson’s campaign takes off, it could also illustrate how that might be done. Because, in a state that leans Democratic, he must borrow Republican voters, then add moderate Democrats, a group that also worries about liberty out West. Mr Johnson’s pragmatism should help him. He tends to argue for libertarian policies on the basis of economic sense, not ideology. He says he wants to legalise his favourite drug because it would create thousands of jobs, not because it would make Americans freer.

His injudicious comments on halitosis aside, he also avoids attacking others, including his rivals, whom he scarcely mentions. That is amiable as well as ideologically sound, and liable to be effective. Some libertarians dare to hope that, in response to Mr Trump, Americans will start demanding more liberty from their leaders. But many of them would settle for more civility. ■




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**Guatemala's fight against impunity**

## The fears of a clown

GUATEMALA CITY

**The government races to get rid of an anti-corruption commission**

**I**N HIS old television sitcom, Jimmy Morales used to dress up as a prisoner. In one sketch, he told his cellmate that the country's high-ranking public officials were all atheists. "None of them can imagine a better life than this one," he said, rubbing his fingers together as cash registers and laughter rang in the background.

Such quips about Guatemala's endemic graft helped propel Mr Morales to the presidency in 2015. A businessman and comedian, he ran on the slogan "neither corrupt nor a thief". But three years later, the joke seems to be on the voters. Rather than cleaning up government, he is on the brink of undermining Guatemala's long struggle to establish the rule of law.

In January 2017 the International Commission Against Impunity in Guatemala (CICIG)—a UN body that aids local prosecutors with corruption cases—accused the president's son and brother of filing fake invoices for the use of public funds. Later that year CICIG presented evidence that Mr Morales's party accepted more than \$1m in illegal donations for the 2015 election. The president denies all wrongdoing. But he would already have been charged had congress agreed to strip him of his immunity from prosecution, which it has twice declined to do.

On August 31st Mr Morales struck back, announcing that he will not renew CICIG's mandate. The commission will have

one year to wrap up its work. In addition, while Iván Velásquez, CICIG's Colombian head, was on a trip abroad, the president barred him from returning to Guatemala. Around 40 CICIG staffers are waiting for visa renewals. And just in case the government's message was unclear, it punctuated its decision by sending armoured cars to prowl around CICIG's headquarters.

**An actual "deep state"**

CICIG is a unique institution set up to deal with a grave problem. Even by Latin American standards, the Guatemalan justice system is weak. The country suffered the region's bloodiest civil war, which killed some 200,000 people in 1960-96. In a campaign against insurgent groups, its army slaughtered indigenous civilians, for which it has been accused of genocide.

Once the conflict ended, politicians and generals afraid of being held to account launched shadow campaigns of harassment and violence against human-rights activists. They also derailed criminal investigations through bribes and threats aimed at judges, prosecutors and witnesses.

The resulting climate of impunity led to what Amnesty International, in a report published in 2002, called a "corporate mafia state". It consisted of an "unholy alliance" between criminal gangs, the business elite, politicians and the security services. Murders of environmental and

land-reform advocates became commonplace, and were rarely, if ever, solved.

Recognising that those seeking to root out corruption were outgunned by those participating in it, in 2007 the Guatemalan government invited the UN to set up CICIG. Since then its investigators have identified more than 60 criminal organisations belonging to the so-called "parallel state", and have assisted in bringing cases against 680 people. No fish has been too big. In 2015 CICIG's revelation of a corruption network in the tax-collection agency led to the removal and imprisonment of the then president, Otto Pérez Molina.

CICIG's mandate also calls for it to bolster Guatemala's own prosecutors. The commission has beefed up protection for witnesses, expanded the use of wiretaps, trained local sleuths in tracing cross-border transactions and helped different agencies collaborate to get more cases to court. Its successes have made it a role model. In 2016 neighbouring Honduras set up its own international anti-impunity body.

Unsurprisingly, CICIG has a long list of enemies. The commission should have been easy to abolish. It must disband if its mandate is not renewed every two years. As CICIG's investigators circled Mr Pérez Molina in January 2015, he said the body would soon "come to an end". Yet he wound up extending its mandate that April—four months before he was ousted.

CICIG has fended off such threats thanks to two sources of strength: foreign backing and domestic public opinion. Guatemala's cash-strapped treasury depends on bountiful aid from America's government, and remittances from abroad make up 11% of GDP. Under Barack Obama the United States staunchly supported CICIG. In 2015 Joe Biden, his vice-president, warned that a planned aid package would ►

▶ probably require renewing CICIG's mandate. Mr Pérez Molina listened.

A change of tune in Washington may explain why Mr Morales has dared to tread where his predecessor did not. In May Marco Rubio, an American senator, blocked a \$6m grant to CICIG to protest against Guatemala's imprisonment, for using false passports, of a Russian family who say they were persecuted by Vladimir Putin's government. They were later freed, but the episode made clear that America's support for CICIG was now wobbly.

Mr Morales has reinforced this trend by courting Donald Trump. In 2017 a group of Guatemalan political parties signed an \$80,000-a-month lobbying contract with Barnes & Thornburg, a law firm whose boss has often worked for prominent Republicans. One week after neighbouring El Salvador drew America's ire by recognising China instead of Taiwan, Guatemala reaffirmed its support for Taiwan. Mr Morales was also the second world leader after Mr Trump to recognise Jerusalem as Israel's capital, and moved his country's embassy there. His efforts seem to have paid off. The United States conspicuously neglected to condemn his decision to let CICIG's mandate lapse.

### Parallel universe

With one of the pillars supporting CICIG knocked down, the government is now seeking to topple the other: public opinion. Turning CICIG's words against it, Sandra Jovel, the foreign minister, calls the commission a "parallel structure" of its own. She says that the UN has established a "super-national entity that dictates to governments how to exercise their duties".

For anyone familiar with CICIG's charter, such arguments are flimsy. The commission operates at the pleasure of the government. Only local authorities can prosecute cases; CICIG merely assists them. The body has proposed or endorsed 34 legal reforms, but it is up to congress whether to accept them. And the commission's international nature is central to its mission. Only investigators with experience around the world can hope to take on globe-spanning criminal networks.

CICIG was never intended to remain in Guatemala indefinitely. The true measure of its legacy will be whether Guatemala's own justice system has developed enough to prosecute corruption successfully itself. In theory, local authorities might simply be ready for the challenge at last.

However, Mr Morales's other policies suggest he hopes to kneecap the judiciary, not empower it. Since March several senior police officers have been removed from their posts without obvious cause, as have 25 local police chiefs and 100 officers. Many of their successors have ties to the army, where the "parallel state" began.

The legislature seems to be on board.

Lawmakers have their own reasons to oppose CICIG: 20% of them are under investigation. A bill now under review would enable congress to strip the constitutional court's five justices of their immunity from prosecution. That could pave the way for charges to be filed against its three pro-CICIG judges, who blocked Mr Morales from having Mr Velásquez expelled in 2017. Such fears may be premature. But CICIG is nervous: one member fears the justices "could be arrested within weeks".

The best hope for CICIG's survival lies in the presidential election next June. In one recent poll, 70% of respondents said they wanted the commission to stay. On September 11th indigenous protesters demonstrated in front of Congress, calling for CICIG to remain. In another recent survey measuring confidence in institutions, CICIG came fourth, behind the fire service and the Catholic and evangelical churches. Mr Morales landed near the bottom.

Moreover, the opposition may have a strong recruit. Thelma Aldana, a former attorney-general, led some of CICIG's best-known prosecutions, and has publicly flirted with a run for president. Polls show that she would have a good chance of winning.

Mr Morales can always change his mind. However, he still might manage to cripple CICIG without kicking it out. One plausible scenario is a deal that would keep it in place, but with "reforms" to make it less fearsome. In any such negotiation, however, Mr Morales's bottom line is likely to be CICIG's case against him personally. Ultimately, it is Guatemala's elected politicians who will determine whether Mr Morales faces trial. Only if they turn against him will the courts decide whether he joins Mr Pérez Molina behind bars. ■

### Guerrillas in Colombia

## Whack-a-mole

BOGOTÁ

### The new president calls off talks with a lesser-known leftist insurgent group

**I**N 2016 Juan Manuel Santos won the Nobel peace prize for his peace deal with the FARC guerrillas. The group handed over its arms and entered democratic politics, and Colombia's former president was credited with ending 50 years of armed conflict.

Such triumphalism was both justified and premature. Although the FARC were Colombia's largest guerrilla force, they were not the only one. And now that the FARC have demobilised, the National Liberation Army (ELN), a still-formidable leftist insurgency, has stepped into the breach. The year after the treaty with the FARC was finalised, the ELN more than doubled its at-

### One step forward, one step back

Colombia, attacks by armed groups\*



Source: Ideas for Peace Foundation \*Based on press coverage. Not including attacks by other illegal armed groups or unknown actors †To Sep 12th

tacks on security forces. The group is on track for its most violent year since records began in 1986.

As the Colombian government's main adversary has changed, so too has its leadership. On August 7th Iván Duque was sworn in as Mr Santos's successor. The new president campaigned on criticising the agreement with the FARC as too lenient. Now he must confront the same dilemma that Mr Santos faced, weighing society's demands for justice and punishment against the costs of continued war.

In his inauguration speech, Mr Duque said he would take 30 days to evaluate peace talks with the ELN. He has backed off a demand that the group's members gather in designated zones before negotiations begin, but still insists that they release all hostages as a pre-condition for further discussions. The group has already freed some of its captives—including a group of six on September 12th—but is still believed to hold ten people. On September 8th Mr Duque said he would not resume talks.

With just 2,000 fighters, the ELN pales in comparison with the FARC, who were once 18,000 strong. With the FARC out of the way, Mr Duque can focus his counter-insurgency resources on a far weaker target. Yet the ELN might still prove harder to defeat militarily. Unlike the FARC, ELN members dress and live as civilians in towns and cities. None of its urban cells have contact with the others, preventing them from informing on distant comrades.

The only people with full knowledge of the ELN's operations are the five members of its central command, which has been difficult to penetrate. Colombian authorities are not believed to know the whereabouts of Jaime Galvis (known as "Ariel"), who masterminds the ELN's attacks in major cities, such as a bomb that killed five policemen in the coastal city of Barranquilla earlier this year. And the ELN's strong encryption system has prevented the army from extracting information from seized computers, as it did with the FARC.

As unappealing as Mr Duque's military options are, a negotiated peace might be even harder to achieve than a forced sur- ▶▶

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render. Nobody knows if or when the ELN will free its remaining hostages, some of whom were kidnapped long ago and could be dead. Even if they are released, Mr Duque has more red lines: he says he will only discuss disarmament, demobilisation and reintegration, and refuses to consider political demands.

That is unacceptable to the ELN. Its leaders are far more ideological than the FARC's were, and have never engaged seriously in peace talks. It has already de-emphasised armed struggle in favour of planting covert operatives in political parties, local governments, progressive social movements and

universities. It is now thought to have at least as many unarmed members as fighters, and says it will not give up their identities in any peace process.

Like the FARC before it, the ELN also benefits from an external sponsor in the left-wing dictatorship led by Nicolás Maduro in neighbouring Venezuela. Its commanders are thought to have planned attacks in their home country for decades from the safety of training camps just across the border, and have established new drug-trafficking routes to export cocaine through Venezuela. Recent reports of American officials discussing coup plans

with Venezuelan army officers have increased the ELN's importance for Mr Maduro, says Kyle Johnson of the International Crisis Group, an NGO. The Venezuelan dictator reportedly believes he may need the guerrilla group to fight for his survival.

No one knows how much influence Mr Maduro exerts over the ELN. But if the group is in fact becoming his cat's paw in Colombia, it is unlikely to strike a peace deal while he remains in power. Most Colombians who voted for Mr Duque wanted a harder line against domestic guerrilla groups. They may not have been expecting a proxy war as part of the bargain. ■

## Bello | Who will rid us of this irksome regime?

### The desire that dare not speak its name outside Venezuela

SEPTEMBER 11th is best known for al-Qaeda's attack on the World Trade Centre and the Pentagon in 2001. But in Latin America the date is remembered for another act of villainy. On that day in 1973 General Augusto Pinochet staged a military coup against the chaotic Socialist government of Salvador Allende in Chile.

This ushered in a 17-year dictatorship that murdered 3,000 people and tortured many more. The coup was hatched in Chile. But it was backed by Richard Nixon, who had earlier ordered the CIA to "make the economy scream". It was one of the more notorious of many interventions by the United States in Latin America, starting with a war against Mexico in 1846, including other coups during the Cold War and culminating in the invasion of Panama in 1989 to topple Manuel Noriega, a former American intelligence asset turned ally of drug traffickers.

Intervention was far from continuous. Presidents such as Franklin Roosevelt and John Kennedy sought partnerships south of the Rio Grande (as did Barack Obama and George W. Bush), and support for democratic government has underpinned the United States' policy towards Latin America since the end of the cold war. But in the region this legacy forged enduring and widespread resentment. It has made non-intervention in the affairs of other states Latin governments' default diplomatic position, attenuated only timidly by the adoption of the defence of human rights and democracy in the Inter-American Democratic Charter of 2001.

This history explains why the region expressed alarm when Donald Trump mused a year ago about military action to overthrow the dictatorial government of Nicolás Maduro in Venezuela. The main Latin American governments refused to recognise a fraudulent election in May in

which Mr Maduro re-elected himself. But they argue that *yanqui* threats merely strengthen him. They trust in diplomatic pressure and opposition within the country to restore democracy.

The problem is that Venezuela is no longer just a danger to itself. It is a pressing regional issue. Since 2016 over 2.3m Venezuelans have fled, mainly to neighbouring countries, "due largely to lack of food... medicines and health care, insecurity and political persecution", as Michelle Bachelet, a former Chilean president and now the UN High Commissioner for Human Rights, put it this week. On the whole, South American countries have received the migrants with great generosity. But their arrival inevitably puts pressure on public services that are already strained, and arouses fears of competition for jobs. Meanwhile, Venezuela has become a base for organised crime and drug smuggling.

How can this nightmare end? In the past Venezuela's combination of hyperinflation, economic collapse and an unpopular and now illegitimate government would have prompted a *pronunciamiento* (bloodless coup), with or without Ameri-

can help. According to the *New York Times*, a United States government official met three times in the past year with a group of army officers who planned such a power-grab. But in the end the Trump administration denied them support.

Although a one-off meeting to seek information is not unusual, the purpose of the subsequent dealings is not clear, says Frank Mora, who served under Mr Obama. Marco Rubio, a Republican senator, said recently that there was a case for military action to topple Mr Maduro. Such hawks should be careful what they wish for, warns Mr Mora. Venezuela's top brass have much to lose, not least their cocaine business. There is no guarantee that a coup would lead to a swift and bloodless restoration of democracy.

Were this indeed to happen, many in Latin America would doubtless breathe a quiet sigh of relief. But no government wants its fingerprints on a putsch. Many prominent Latin Americans still insist that the Venezuelan regime will collapse of its own accord. "A foreign intervention is never justified [unless] there was a massacre or genocide," says Ottón Solís, an adviser to Costa Rica's government. This is a widely shared view.

But the regime's demise is far from inevitable. Mr Maduro is driving opponents out. Tellingly, the coup-plotters asked their American contact for encrypted radios. Protected by Cuban counter-intelligence agents, Venezuela's government pounces on dissent. Scores of would-be military mutineers have been arrested.

Latin America has good reason to reject American military intervention in Venezuela. But it faces a stark choice. Either it mobilises global support to force serious talks in which Mr Maduro agrees to go, or it will have to live with the consequences of his country's implosion.





### The Korean peninsula

## Keeping hope alight

SEOUL

**The two Koreas are preparing for another summit. The South's president badly wants a breakthrough**

IT HAS been a busy month for theatrics in Pyongyang. On September 9th North Korea celebrated its 70th anniversary with a big parade through the city centre (pictured). It also kicked off weeks of “mass games”—synchronised gymnastics by thousands of performers in homage to the eternally ruling Kim clan. This year's games have featured flip-card displays of a meeting in April between the North's despot, Kim Jong Un, and the South's elected president, Moon Jae-in. In North Korea summitry is showbiz. Mr Kim will be starring again on September 18th when Mr Moon is due to travel to Pyongyang for the first visit to the city by a South Korean leader in more than a decade.

Politically, however, the third North-South summit this year will be more important for Mr Moon than for Mr Kim. His popularity has fallen thanks to bad economic news and a minimum-wage hike that unions thought too small and firms too big. His trip to Pyongyang will be a chance to show that he can still succeed as a peacemaker. Mr Moon and officials in Washington hope the summit will revive nuclear diplomacy on the peninsula, which has largely stalled since Donald Trump, America's president, met Mr Kim in Singapore in June. On September 10th the White House said that preparations

were under way for a second Trump-Kim summit. No dates have been announced for this encounter.

But the primary aim of the Kim-Moon meeting will be to strengthen inter-Korean ties, says Moon Chung-in, a senior adviser to Mr Moon (they are not related). The two sides hope to discuss ways of reducing military tensions, such as by moving guard posts farther away from the “demilitarised zone” that divides them. They are also eager to work on an agreement that would formally end the Korean war of 1950-53. During their summit in April, the two leaders said they aimed to declare the conflict over by the end of the year.

### Moonshine over the North

Mr Moon wants much more than such symbolic gestures, however. He talks of a “new economic map” for the two Koreas, involving the repair of their road and rail links, the building of pipelines through the North to send Russian gas to the South, and the revival of visits to the North by South Korean tourists. Mr Moon also wants to reopen a joint industrial complex in Kaesong on the North's side of the border that was closed in 2016 following a North Korean missile test. This, he hopes, will be a prelude to investment by South Korean firms in economic zones throughout the North.

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That would be fine for Mr Kim and his cash-strapped regime. As well as goose-stepping soldiers, the country's birthday parade featured brightly coloured floats praising economic development. Indeed, despite tough international sanctions on the North, the two Koreas have already started preparing for closer economic cooperation. In July they conducted joint inspections of cross-border railways. On September 14th they plan to open a joint liaison office in Kaesong in readiness for the day when South Koreans start doing business there again. At a regional economic forum this week in Vladivostok (see Europe section), Gazprom, a Russian state energy firm, said that it was mulling plans to build pipelines to South Korea. Business leaders are expected to accompany Mr Moon to Pyongyang next week to explore investment opportunities.

Unfortunately for Mr Kim and Mr Moon, the sanctions are unlikely to be eased until North Korea is deemed by America and the UN to have made sufficient progress towards giving up its nuclear weapons. Unlike China, which in recent months has turned a blind eye to sanctions-busting, South Korea cannot afford to jeopardise its relations with America by flouting them, says Andrei Lankov of Kookmin University in Seoul. Mr Moon is painfully aware of this.

Ordinary South Koreans are losing patience. Most still support Mr Moon's dovish approach, but heady expectations of an imminent nuclear deal, which were fuelled by the first inter-Korean summit in April, have faded. The president's approval ratings, which hit a peak of 83% in May, have slumped to below 50% in some polls. South Koreans want Mr Moon to get on ▶▶

▶ with fixing the economy at home.

The president may grow even less popular when voters realise how much of their money he will need to spend to realise his economic plans in the North—all the new infrastructure will cost sums that the North does not have. Few people in the South say they are willing to cough up more taxes for this cause. Much less do they want to bear the cost of eventual reunification, which could involve huge government spending on northern areas.

A nuclear breakthrough might help to distract the public from its concerns about the economy. So at next week's summit Mr Moon will encourage Mr Kim to make progress in talks with America over nukes. In late August Mr Trump called off a planned visit to Pyongyang by Mike Pompeo, his secretary of state, saying North Korea had not done enough to dismantle them. The North disputes this, pointing to what it claims was its demolition in May of its main nuclear test site. The North says Mr Trump should reciprocate by declaring that the Korean war is over. Mr Kim says he promised to do so in Singapore. The White House is guarded about whether this is so.

Like Mr Trump, Mr Moon believes that the next step is for North Korea to hand over an inventory of its nuclear capabilities. Moon Chung-in, his adviser, says that next week the South Korean leader will press Mr Kim on this. Mr Moon hopes that if Mr Kim shows his nuclear hand, America might be ready to declare an end to the war and ease sanctions. Moon Chung-in says that South Korea is placing hope in "Trump personally", rather than in any of his advisers who are deeply suspicious of the North (see Banyan).

Mr Trump has yet to spell out his conditions for sanctions relief, but he does appear upbeat about his relationship with Mr Kim. He was delighted by the absence of nuclear missiles from the North's anniversary parade. "This is a big and very positive statement from North Korea. Thank you To Chairman Kim. We will both prove everyone wrong! There is nothing like good dialogue from two people that like each other!" the president tweeted (never mind that previous such parades have not always featured nukes and that America's spies believe the North has built more of them since the summit in Singapore).

The announcement of plans for another Trump-Kim summit was apparently inspired by a friendly letter from the dictator. Stephen Biegun, America's diplomat in charge of North Korean affairs, has been visiting Seoul this week to discuss the next steps. Even if the North has no intention of engaging in meaningful disarmament, "it suits all sides to keep pretending that everything is fine," says Mr Lankov. That will certainly be evident next week in Pyongyang. Expect one of Mr Kim's usual performances. ■



Australia's aboriginals

## Turning the tide

BOURKE

**An outback town resurrects lost tribal authority to fight crime**

EVERY day James Moore meets police at a community centre for aboriginal people in Bourke. He and the officers swap reports of trouble during the previous 24 hours. A local aboriginal himself, Mr Moore says he wants to change the mindset of the town, which had a romantic past as a booming river port but became better known for its rampant crime, especially among aboriginals. The daily briefings are part of a novel experiment aimed at making the town safer.

"Back of Bourke" is Australian vernacular for the outback. The town faces the Darling River, about 800km north-west of Sydney in the state of New South Wales. About a third of its almost 3,000 people are aboriginals. Until recently, Bourke had one of the state's highest imprisonment rates for aboriginals under 17. (Nationwide they are just over 2% of the population, but more than a quarter of prison inmates.)

In its late-19th-century heyday, people called Bourke Australia's "Chicago of the west" because of its wealth from wool. But the white settlers who made it rich treated aboriginals with contempt, grabbing their land and trampling on their culture. Mr Moore blames the high crime rate among aboriginals on these historical abuses. But Australia's state governments have responded to such problems mainly by stressing the need for punishment. New South Wales, the most populous state, last year said it would spend A\$4bn (\$2.8bn) on building more prisons. Its government

proudly called it the "largest single prison expansion in the state's history".

More sensitive approaches to curbing crime among aboriginals are unusual in Australia. Frustrated by this, and by the government's failure to reduce crime by jailing large numbers of people, aboriginals in Bourke decided to take matters into their own hands. About two years ago they started Australia's first big trial of "justice reinvestment", a scheme suggested by the Open Society Institute, a think-tank funded by George Soros, an American billionaire. It encourages governments to redirect some of the money earmarked for building more prisons towards projects that help people stay out of them.

On the Darling's banks, the pilot seems to be working—albeit with funding from philanthropic outfits rather than prison budgets. The experiment was launched by Alistair Ferguson, a former civil servant of the Barkinji tribe, who said he was tired of "the constant revolving door of young people in handcuffs" at Bourke's courthouse. Just Reinvest, a Sydney-based advocacy group, has been collaborating.

One of the project's aims is to make young aboriginals feel more positive about their future. It offers them vocational training. Mr Moore takes groups of them into the outback to immerse them in age-old, long-lost cultural practices. His daily meetings with police help him to identify young people who need support to prevent them from turning to crime. He liaises ▶▶

# Banyan | Hawks uncaged

Asia hands in Washington are working with Donald Trump, not against him

HOW is Asia policy made in Washington? The trite answer is by Donald Trump's Asia hands waking up each day and checking the president's tweets. The answer from Mr Trump's officials is that not all Mr Trump's pronouncements on Asia should be taken literally. They say the old alliances with Japan and South Korea still stand (despite Trumpian grumbling), and that America still believes in upholding an international order in which Asia has prospered. And despite the president's infatuation with strongmen, America—they say—really doesn't think leaders should gun down suspected drug-dealers. An anonymous official wrote last week in the *New York Times* of a "steady state" pushing back against chaos and misrule in the White House. Many Asia hands would consider themselves such defenders of stability.

There is not much those hands can do about the president's dealings with North Korea. Since his summit in June with Kim Jong Un, Mr Trump has been trying to do things his way. His people see Mr Kim pulling the wool over his eyes by promising "denuclearisation". Mr Trump dreams of a dramatic peace deal, preferably before congressional elections in November, and a Nobel prize. Both men want to deal *capo a capo*. Even Mike Pompeo, Mr Trump's secretary of state, is little more than the desk officer on North Korea matters, as Douglas Paal of the Carnegie Endowment, a think-tank, puts it.

Yet do not exaggerate how much the Asia hands work in opposition to their president's preoccupations. Among the policy experts, a consensus is hardening over confronting China. Mr Trump's key Asia officials, including Matt Pottinger, a former journalist and marine who is in charge of Asian affairs at the National Security Council, and Randall Schriver, the

point man for Asia at the Pentagon, are China hawks. (So is the likeliest candidate for the still unfilled post of chief diplomat responsible for East Asian and Pacific affairs, General David Stilwell.) The hawks deplore China's growing military footprint in the South China Sea, its pressure on Taiwan and its pursuit of what they call "debt-trap diplomacy" through the Belt and Road Initiative. Their latest concern is China's mass detention of Muslim Uighurs in the far western region of Xinjiang, surely the world's most egregious example of hi-tech dictatorship in action.

The hawks believe China is trying to make the world, in their language, a "safe space" for authoritarians. They advocate pushing back on every front. The administration lambasted China last month when El Salvador became the latest Central American country to fall for blandishments and threats and switch diplomatic recognition from Taiwan to China. Last week America recalled its senior envoys from El Salvador, the Dominican Republic and Panama for "consultations" following those countries' dumping of Taiwan (even though America itself broke off official re-

lations with the island in 1979). As for the South China Sea, President Xi Jinping broke the promise he made to Barack Obama in 2015 not to militarise China's installations there. Mr Obama was far too soft on China, Trump people say. Some want a greater show of force by America in the disputed maritime area.

It is not clear that these matters interest Mr Trump much. But trade, and China's surplus with America, certainly do. So a hardening towards China, including Mr Trump's latest threat to impose tariffs on most of China's trade with America, is all of a piece, even though trade policy is run not by Asia hands but by the United States Trade Representative, Robert Lighthizer, who backs the president's approach.

Tariffs, restrictions on Chinese investments and strong-arming American firms in China to bring production home: Chinese leaders claim this increasingly feels like cold-war containment. Once upon a time in Washington the arguments of China hawks were met by those calling for "constructive engagement". But in frustration or alarm over China's state capitalism, corporate espionage and technology theft, no one calls for that now.

A consensus, then—yet the administration's confrontation with China looks as much like a gorilla beating its chest as a considered Asian strategy. For a start, it is not clear what concrete measures the administration wants China to take.

As for the "free and open Indo-Pacific" policy unveiled by Mr Trump at the annual APEC regional summit last year, intended to show his commitment to Asia as China rises, his experts have struggled to get him to mention it since. In fact, he is not even attending this year's meeting. As they say at these Asian gatherings, showing up is half the battle. Mr Trump's aides can't seem to get him to do even that.



▶ with school heads and social workers to ensure they get the attention they need.

Importantly, it is the town's aboriginal people who are running the project. Mr Ferguson set up two bodies for the purpose: Maranguka ("caring for others" in the language of Ngemba, a local tribe); and the Bourke Tribal Council. "This concept of allowing the community to be decision-makers has been here for thousands of years," Mr Ferguson says. "It got lost when white settlement pushed traditional structures away." The aboriginal leaders have overseen the creation of "Men of Bourke", an informal group open to any aboriginal

male who would like to talk to peers about problems relating to domestic violence and the abuse of drugs and alcohol that fuels it. Jonathon Knight, a member, says participants want to "focus on men so we can be role models". The Sisters of Charity, a Catholic group, recently donated a plot of land shaded by gum trees for use by the group, called "Men's Space".

Local officials are pleased with the results. At a meeting of project leaders in July, police said domestic violence, as well as crimes committed by children, had fallen. School attendance has risen steadily; numbers suspended from classes have

dropped. Greg Moore, the local police chief, says the project has been crucial to achieving this. In March the Australian Law Reform Commission, a federal agency, said it wanted a national body to be set up to promote similar efforts elsewhere. A report by KPMG, an auditor, says that the success of the Bourke experiment suggests that governments should pay.

Even the prison-loving government of New South Wales sounds keen. Brad Hazard, its health minister, says Bourke has found "the most likely recipe for success". But his government has yet to agree to put prison money into it. ■





### Politics in Pakistan

## Liberal apostasy

ISLAMABAD

### A new blow for a beleaguered minority

IT SEEMED a speech worthy of a place in history, and one to delight Pakistan's shrinking cohort of liberals. On September 4th Fawad Chaudhry, information minister of the Pakistan Movement for Justice (PTI), the party that leads the new government, hit out against religious bigotry. He defended the appointment of Atif Mian (pictured), a Princeton professor, as an economic adviser. That Mr Mian belongs to Pakistan's 400,000-strong Ahmadi minority should not matter, he thundered. Why, he asked, should the PTI not appoint "the person everyone thinks will win a Nobel prize in the next five years?"

In the 44 years since Pakistan declared Ahmadis non-Muslim, no politician has spoken so openly in their support. They believe a second prophet, Mirza Ghulam Ahmad, born in 1835, followed Muhammad. So many Pakistanis deem Ahmadis heretics; the law forbids them from even reading the Koran. In the past decade, around half of them have left Pakistan. Conspiracies painting them as wealthy, Jewish-backed saboteurs have flourished, with distressingly bloody consequences. The PTI itself exploited such fears in the run-up to the election.

Alas, Mr Chaudhry's words were destined not for the history books but the scrapheap. Tehreek-e-Labbaik (TLP), a new, rabble-rousing Islamist party dedicated solely to punishing blasphemers, was quick to demand Mr Mian's dismissal. The

### The ornamental-fish trade

## Economies of scale

SELIMBAU

### Why Asia is obsessed with arowanas

AT THE end of a dirt track framed by rubber trees, Herman proudly shows off his family's fish farm. Three rectangular ponds of cloudy water house about 70 Asian arowanas, a coveted ornamental fish. Both of his parents are civil servants in Selimbau, a village in West Kalimantan, a province in the Indonesian part of Borneo. But they earn more from selling arowanas. Young ones can fetch 4m rupiah (\$268) from a local wholesaler, more than Indonesia's average monthly wage. Big ones make even more. Wire netting and CDs suspended by string above the ponds prevent eagles from snatching the prized livestock. Corrugated-iron walls, watchtowers, barbed wire and a hefty padlock keep out thieves. Similar small-scale operations are cropping up across the province.

That is because arowanas, or "dragonfish", are the world's most-prized aquarium pets. They come in a range of colours and are bred across South-East Asia. In Singapore the average price for a young arowana is around \$300. Rare breeds, like the red ones found in West Kalimantan, go for about \$1,500. Adult albinos sell for an astronomical \$70,000.

The fish was listed as endangered in 1975. That helped turn it from a meal into a status symbol, says Emily Voigt, author of a book on arowanas. By the 1980s they were in vogue in Taiwan before spreading to the rest of Asia. Superstition also helps make them popular. Some owners believe they bring good luck. Their dragon-like features—shimmering scales and long bodies—add to the allure.

But the surge in new breeders has depressed prices, says Yap Kok Cheng of Qian Hu Corporation, an ornamental-fish firm in Singapore. In the 2000s new money flooded into the market. Big farms proliferated. Data from the Convention on International Trade in Endangered Species track the legal exports of arowanas. In 2016 over 200,000 trades were

recorded, three times more than in 2006. Most of the fish came from Indonesia or Malaysia and ended up in Chinese aquariums. Breeders in Singapore say that since the 2000s the price of red arowanas has fallen by a third.

Still, arowanas remain Asia's favourite fish, despite competition. Their appeal has endured partly because they are tricky to breed. Mr Yap's farm collects DNA from the fish to help monitor their fecundity and boost productivity.

But the high price makes the arowana business risky. Violent thefts are not uncommon. Owners have even been killed or kidnapped for their fish. At fish beauty-contests armed guards escort rare breeds. So valuable a pet needs pampering, too. Plastic surgeons for fish have sprung up in Singapore. Procedures include eyelid lifts and fin enlargements. Some owners, known as arofanatics, put their fish through a tanning regime to perfect their hue.



Pretty in pink in a tank

PTI caved in and on September 7th asked him to step down. Two other foreign-based members of the 18-strong Economic Advisory Council—typical of the bright young minds the PTI had hoped to recruit—resigned in protest. The prime minister, Imran Khan, a former cricket star, should have been ready for this. In 2014, in opposition, he had bowed to Islamist pressure to retract an invitation to Mr Mian to be his prospective finance minister.

Yet the PTI has the political capital to

make a stand. It enjoys widespread support, credibility among Islamists, and unprecedented backing from the country's most powerful institution, the army. "This was the time to push back," argues Madiha Afzal of the Brookings Institution, a think-tank in Washington, DC. Party leaders trotted out *realpolitik* excuses. Mr Khan only grudgingly went along with the decision, they briefed. With a slim majority in parliament, the PTI was dangerously split over Mr Mian. The opposition, for its part, let its ►►

► cadres whip up the issue. If the TLP had launched another of its city-crippling protest rallies, it might have disrupted the PTI's crucial first months in office.

Even if, as seems likely, the PTI makes no further effort to stand up for Ahmadis, it will probably face more trouble. The TLP has been “really bolstered”, says Hussain Nadim, an Ahmadi political adviser. Fund-raising and recruitment are up. It had already claimed credit for forcing the PTI to put pressure on the Dutch government over a “blasphemous” cartoon competition, which was cancelled. Lacking other such causes to latch on to, the TLP's leader,

Khadim Hussain Rizvi, a surprisingly foul-mouthed cleric, may well seek to grab headlines on his own. That might mean calls to execute blasphemers languishing on death row (the state has yet to implement the death penalty for the offence).

Or the party could call for apostasy laws, formalising Ahmadis as leavers of the faith, an offence for which Islam mandates death. In the wake of the controversy over Mr Mian, many quipped that Mr Rizvi, not Mr Khan, was the real leader of Pakistan. Ahmadis can only pray that they are wrong, and that the elected prime minister does not give in so easily next time. ■

every Hindu-nationalist bogey— violent Maoists, human-rights groups, Christian missionaries, Muslim Kashmiri separatists, the opposition Congress party, Western academics, Dalit activists, China and academic institutions abhorred as “anti-national” by the Indian right. On August 28th the latest arrests prompted a warning from India's Supreme Court: “Dissent is the safety-valve of democracy. If it is not allowed, the pressure cooker will burst.”

Several theories circulate as to why, despite its obvious flimsiness, the case is being pursued and even loudly endorsed by Mr Modi's senior henchmen. One is that this is pure politics. The rumpus allows the BJP, which faces state elections in November and a general one in the spring, to play to its strengths as nationalist, pro-Hindu and pro-dominant caste. A more alarming theory suggests that India's generally quiescent “deep state” wants a stronger role. However innocent, the charged activists may find themselves entangled in years of legal wrangles, serving as a warning to critics of the security forces in such ugly arenas as Kashmir and the Naxalite regions.

Or perhaps it is all local. Maharashtra's police force has egg on its face from the limpness of its investigation into the murder of two outspoken critics of Hindu nationalism in the state in 2013 and 2015. By contrast, police in the neighbouring state of Karnataka have rounded up more than a dozen suspects, including the confessed trigger man, in the similar murder last year of Gauri Lankesh, a firebrand secular journalist. The rival detectives appear to have exposed a Hindu extremist hit squad, mainly based in Maharashtra, linked to well-connected religious groups and armed with a list of secular targets. But this theory, too, is odd. It suggests that Maharashtra's finest think they can appear heroic by labelling elderly sandal-wearing intellectuals as dangerous assassins. ■

## Politics and the law in India

# Conspiracy theories

DELHI

## The aftermath of a riot could bode ill for Indian politics

JUST one person died in the riot that broke out on January 1st this year in the riverside village of Bhima Koregaon in the western state of Maharashtra. But shockwaves from the violence, which pitted higher-caste agitators against an annual gathering of out-of-caste Dalits (once known as untouchables), have spread far. As the Maharashtra police tell it, they include a plot to kill Narendra Modi, the prime minister, and topple his government. Liberal activists retort that the riots have provided a pretext for a crackdown on dissent that bodes ill for looming national elections, and for Indian democracy.

A pillar in a dusty park in Bhima Koregaon marks the victory on New Year's Day in 1818 of a British-led but largely Dalit-manned army against the Marathas, a Hindu dynasty which then controlled most of western India. Locals of Maratha descent still tend to disdain Dalits, who come from far and wide to mark this triumph. Yet before this 200th anniversary year, which drew a bigger crowd than usual, there was seldom trouble. Different groups have traded blame for it. Dalits accuse Hindu extremists of planning and leading attacks. Hindu-nationalist groups, allied local politicians and a think-tank in Pune run by ex-army officers have all fingered leftist activists, who they claim sought to use the event to stir anti-government feelings.

Unsurprisingly, since Dalits face continued discrimination and the Hindu-nationalist Bharatiya Janata party (BJP) is in charge both of Maharashtra's government and the national one, the state police have ignored eyewitness testimony. Instead, they have pursued the theory of a leftist—specifically Maoist—conspiracy. Since April they have raided houses across

the country, arresting ten well-known leftists, among them activists, lawyers, writers and academics, and charging them under draconian anti-terror laws. Pro-government TV networks have put the spotlight on letters allegedly found that neatly tie each suspect by name to a 50-year-old armed insurgency by ostensibly Maoist guerrillas, known as Naxalites, that festers in India's poorest interior regions. One letter also appears to hint at plans to kill Mr Modi with a suicide-bomb.

The ten arrested activists, including Varavara Rao, a poet in Hyderabad (protesters are pictured demanding his release), are unlikely to be convicted. Few were anywhere near Bhima Koregaon in January. The letters are riddled with inconsistencies and, all too conveniently, link up virtually



Preposterous allegations against a grey-haired poet




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**Separatism in Hong Kong**

## A slippery slope

HONG KONG

**The government wants to ban a pro-independence party. Democrats are worried**

**S**IPPING tea in the corner of a chic café in Kowloon, a commercial district of Hong Kong, Andy Chan seems like just another yuppie on his lunch break. With a disarming smile, he chats about his day job as an interior designer. Before long, however, the 28-year-old warns that plain-clothes police officers may be listening in. That is because Mr Chan (pictured) doubles as leader of the Hong Kong National Party, a group that advocates the territory's formal separation from China. In July the government, almost certainly at the urging of higher-ups in Beijing, launched proceedings to ban the party. It would be the first political group to be outlawed in Hong Kong since China took control of the territory in 1997.

The clock is ticking for Mr Chan. He has been given until September 14th to explain to the Security Bureau why his party should not be banned. He has already been granted three extensions of the deadline. Another is unlikely. As *The Economist* went to press, Mr Chan was consulting his team of lawyers over how, or whether, he should respond.

Only a small fraction of Hong Kongers support his call for outright independence. Even Mr Chan admits that there is very little chance of actually achieving it as long as the Communist Party still rules China. But among the young “there is a growing con-

stituency for the idea”, even if only as a theoretical notion, says Ray Yep of City University. Many are angered by what they see as China's increasingly blatant attempts to undermine the “one country, two systems” arrangement whereby China promised Hong Kong a “high degree of autonomy” from 1997 until at least 2047 and eventually to allow “universal suffrage” in the territory's elections.

**Fertile ground**

After the failure of the pro-democracy “umbrella movement” in 2014 many youngsters concluded that China would never grant Hong Kongers full democracy. They have been further disheartened by the barring of people from standing for election to the semi-democratic legislature, Legco, because of their independence-leaning views (Mr Chan was one), the expulsion from Legco of members who had failed to swear proper allegiance to China, and the abduction of Hong Kongers by Chinese agents for selling gossipy books about China's leaders. Surveys by the University of Hong Kong show that confidence in “one country, two systems” has fallen from 77% in 2008 to just 40% today. Another opinion poll by the same university found that 40% of residents choose to identify themselves exclusively as

“Hong Kongers”, rather than “Hong Konger and Chinese” or just “Chinese”—double the proportion a decade ago.

On the face of it, Mr Chan's party is unlikely to pose a real threat. He says he has under a thousand members. (Some suspect the real figure is a few dozen.) The party does not have a physical headquarters. It does not hold a single elected seat at any level. But China appears to worry that the party's emergence two years ago could be the start of a bigger political movement. On his visit to Hong Kong last summer to mark the 20th anniversary of its return to China, Xi Jinping, the country's president, warned people not to cross a “red line” by challenging China's rule.

Such alarm is likely to have grown this month. At welcoming ceremonies marking the first day of term, student-union presidents at four of Hong Kong's biggest universities called for the territory's independence or expressed sympathy for pro-independence activists such as Mr Chan in their prepared remarks. Carrie Lam, the territory's chief executive, quickly condemned the speeches as “unlawful” (and mentioned the red line). One of the union leaders, Owen Au of the Chinese University of Hong Kong, says he later received a threatening phone call from a “mysterious” person who warned him that he was betraying his country.

Many pro-democracy politicians reject Mr Chan's views and his party's offensive language on Facebook about Chinese mainlanders (concerning, for example, their “repulsive behaviour” and “vile” Mandarin tongue). But the government's efforts to ban Mr Chan's party has wider implications for other, more mainstream, democrats. That is because China has nev- ▶▶

er made it clear exactly where the red line is. As many Chinese officials see it, calling for free elections, in which the central government would have no ability to veto candidates, is tantamount to separatism. Yet many Hong Kongers fear that banning Mr Chan's party could lead to bans on other activities.

The use of the Societies Ordinance, a colonial-era law used mainly against triad gangs, has fuelled such concerns. Freedom of speech and association is enshrined in the Basic Law, Hong Kong's mini-constitution. But the Societies Ordinance allows the government to ban any society on grounds of "national security or public safety, public order or the protection of the rights and freedoms of others". This wording was added to the bill in 1997. National security is defined as matters relating to "safeguarding the territorial integrity and independence" of China.

The police dossier against Mr Chan, a copy of which was given to him and which he later published on Facebook, contains more than 700 pages. Evidence cited against him includes a speech he gave to the Hong Kong Foreign Correspondents' Club in August; media interviews with him and his postings on social media ("conducting propaganda", it is alleged). But as long as his advocacy remains non-violent, says Johannes Chan (no relation) of the University of Hong Kong, even the Societies Ordinance does not provide a clear legal basis for banning the party. "Mere advocacy itself cannot be equated to threatening national security," he says.

Andy Chan has no doubt what the outcome will be. "It's a political issue, not a legal one," he says. He suspects that any documents he files by this week's deadline will be thrown into the bin. Other groups that China dislikes are next, he warns. ■

omy, has exacerbated fiscal crises in some Chinese cities. Leiyang, a city of 1.3m people in the southern province of Hunan, started to warn early this year that its finances were in a shambles. Social services were under stress, civil servants were going unpaid, and a city-owned firm that finances infrastructure had started to miss its debt payments.

In early September all this boiled over in violent protests at schools and government buildings. As a remedy for the underfunding and overcrowding, city officials announced that many students would be sent to privately run schools. Hundreds of angry parents, concerned that these were of lower quality and that attending them would entail far greater expenses, took to the streets. They threw bricks and bottles, blocked roads and hoisted banners that read, "Reject private schools!" and "Fair education" (see picture). Police said that 30 of their officers were injured and that vehicles were damaged. Protests continued for several days; 46 people were detained. Local officials, clearly worried about the reaction of higher-ups to the disorder, said implausibly that the disturbances had been stirred up by "outside troublemakers".

To calm the parents, Leiyang's government promised subsidies that would spare families from paying extra fees because of the change. But parents have another worry: reports of formaldehyde contamination in some private-school buildings. The city government said that independent parties had carried out tests and found nothing abnormal, but many residents remain sceptical and angry.

The root of Leiyang's financial trouble is the collapse of its coal industry. The effects of this can be seen in places like Gaolu, a village under the city's jurisdiction. Most of the shop fronts on Gaolu's main street have been shuttered. Lorries piled high with coal still rumble through, but in nothing like the numbers they once did. Residents say there is now only one coal mine operating in the area, compared with a dozen or so a decade ago.

"We have nothing else here but coal," laments one man. Some have tried their hand at growing crops but most have gone to find work in Leiyang or elsewhere. Residents know that their lost jobs in the mines will not be coming back. As part of a national policy to consolidate the industry, Hunan closed 650 coal mines between 2014 and 2016, and announced plans to close another 130 by the end of this year.

This means the city's fiscal woes are likely to persist, along with the strain on its school system. In his speech on Teachers' Day, Mr Xi spoke of a need to give educators the "social prestige" they are due. He said students should, among other things, "be guided to love and support" the Communist Party. That will be a lot easier when everyone has a place to sit. ■

## Education

# Class struggle

LEIYANG

**Rising urbanisation and drooping local finances lead to school crowding, parents' anger and violent protests**

"STUDENTS should be encouraged to treasure their time in school and concentrate on seeking knowledge in an undistracted manner," said Xi Jinping, China's leader, on September 10th. His speech, at an education conference in Beijing marking Teachers' Day, coincided with the end of the long summer holiday and a return to school for a quarter of a billion young Chinese. Across China, cooling temperatures have been matched by the sight of yellow school buses and crowds of backpack-toting children adding extra noise and bustle to each day's commuter rush. Alas, once they get to school, many of them face serious distractions.

One of the biggest of those distractions is overcrowded classrooms at government-run schools. Education officials define classes of "normal" size as those with up to 45 students. Classes with more than 55 pupils are considered "large" and those with more than 65 are "super-large". But the average for junior-high schools exceeds 45 in 15 Chinese provinces, and is more than 55 in two. One district in Chongqing, a region in the south-west, reports an average size of nearly 73 students. A class size of 120 has been reported at a secondary school in Hebei province, which surrounds Beijing.

In some cases, this pressure is a result of China's rising level of urbanisation, which last year reached 58%, up from 45% a decade earlier. Rural towns and villages,

along with their schools, are becoming hollowed out. As a result, the number of primary schools has tumbled, from 280,000 in 2009 to 176,000 last year. There were 28.9m students enrolled in rural schools in 2016, down from 56.6m a decade earlier. But in the cities, student populations are growing.

This influx, along with a slowing econ-



Leave our kids alone

# Chaguan | The original tea party

Our new China column takes its name from a meeting-place of ideas



**G**IVEN his love of Chinese teahouses, Mr Yang, a retired academic from Chengdu, was born in the right place at a terrible time. Within living memory his home town, the capital of Sichuan province, had boasted more than 600 teahouses, or *chaguan*. Some were famous for storytellers or opera. Others welcomed bird-lovers, who liked to suspend their pets in cages from teahouse eaves to show off their plumage and singing. Some served as rough-and-ready courtrooms for unlicensed lawyers (to “take discussion tea” was to seek mediation). One place might attract tattooed gangsters, another intellectuals. Wang Di of the University of Macau, a scholar of teahouses, cites an old editor who in the 1930s and 1940s ran his journal from a teashop table.

Mr Yang, who declined to give his full name, favours Heming teahouse, a lakeside tea garden where patrons may spend hours in bamboo armchairs, reading newspapers, munching melon seeds or paying a professional ear-cleaner to rootle away with metal skewers. But he has known more dangerous times. Soon after first visiting the teahouse as a child in the 1960s, such businesses were targeted when young, fanatical Red Guards roamed his city during the Cultural Revolution. “Back then everyone was busy chanting about revolution on the streets—this type of culture was criticised,” he recalls. Slow tea-sipping was called time-wasting, vain and bad. Maoist zealots closed teahouses.

This was not their first taste of repression. Before Communism, Chengdu endured iron-fisted rule by the Nationalist regime of Chiang Kai-shek. Despots with a bossy, scoutmasterly streak, the Nationalists issued dozens of orders to stamp out bad teahouse habits. Managers were told to report clients spreading political rumours. Bawdy songs were banned. Teahouses were told to expel itinerant barbers (who did sometimes drop hair clippings in other patrons’ teacups, it is true). During the war with Japan, teahouses in Chengdu were ordered to display Nationalist flags, slogans and leaders’ portraits, and to inscribe approved news headlines on blackboards. In 1948 Sichuan’s governor demanded teahouse controls to “regulate people who do not follow rules” and “turn uselessness into usefulness”.

Teahouses had been little safer during the first decades of the 20th century, when warlords had brought terror to cities, or even earlier in the dying days of the final imperial dynasty, the Qing.

The author Lao She, who in 1956 charted a Beijing teashop’s woes over a half-century in his play “Teahouse”, drew on life when he had the establishment’s manager pin up signs pleading “No talk of state affairs”, or when he showed grey-gowned secret police arresting customers for questioning the government.

That teahouses managed equally to enrage Red Guards, Nationalist police chiefs and desiccated imperial mandarins might be reason enough to cherish them, and to name *The Economist*’s new China column “Chaguan” in their honour. But teahouses are more than fine places that attracted the right enemies. In their heyday, when some city streets might have boasted half a dozen, they were places to relax, do business, gossip and exchange ideas, both lowbrow and highfalutin. Some teahouse litigators were crooks, writes Qin Shao of the College of New Jersey, another teahouse historian. But at its best, teashop mediation with crowds hearing every word, could expose and shame local bullies, offering a rough sort of accountability.

Like users of social media today, teahouse patrons loved tales of corruption, broken promises and immorality among the mighty. Some were false. Others contained enough truth to help explain why officials raged at them. A stubborn, indignant, often mocking resistance to finger-wagging propaganda is as much a Chinese tradition as deference to authority.

Officials have spent more than a century vowing to modernise China, promoting reforms that—certainly in the past 40 years—often demand the world’s admiration. Chinese leaders argue that their vast country cannot risk the morale-sapping confusion that might be sown by a free press, independent courts or even civic groups with the right to criticise official wrongs. Anyone calling for democratic freedoms is attempting to infect China with dangerously alien, indeed Western notions, officials assert.

Yet such claims look questionable, not to mention self-serving, after reading historic accounts of teahouses and the unmistakably democratic impulses that sometimes moved customers. Even signs reading “No talk of state affairs” can be read as ironic symbols of protest against the suppression of free speech, as Wang Di has written. Similar democratic impulses can still be seen all over China, whenever citizens note that powers are being abused, mistakes covered up or that life seems unfair or absurd.

Teahouses are unlikely to boom again in Chengdu. Youngsters at Heming spoke of making time to “chill for the afternoon”, as they are usually too busy. Tastes change. This writer was on a first China posting two decades ago when Starbucks opened its inaugural shop there, in Beijing. The chain plans to have 6,000 outlets in China by 2022, with one opening every 15 hours.

## Orders for the doctor

But teahouses are more than places to buy a drink. They represent something precious: a space that is public yet not state-controlled, where citizens may speak, listen and be moved, find work, do deals or seek redress, or simply idle for a while. Today that spirit can be found online or in the gig economy, despite government controls. It is seen when citizens’ groups report injustices, displaying a complex mix of distrust and trust in officials, whose help they seek while doubting what it can achieve.

“Chaguan” aims to cover that China, writing about society, the economy and culture. Long ago, in a spirit of teasing respect, teahouse waiters were dubbed “tea doctors”. To be a tea doctor, patiently serving while patrons talk, seems a good ambition for a China columnist. Stoke the stove, then. To work. ■



# The Economist at 175

Reinventing liberalism for the  
21st century

## ACKNOWLEDGMENTS

This essay has benefited from the insights and assistance of a great many people. In particular, Alexander Zevin of City University of New York, author of a forthcoming independent history of this newspaper (*The World According to The Economist*, to be published by Verso Books), was an outstanding guide to our history.

A bibliography and suggestions for further reading can be found online at [economist.com/liberalism175](http://economist.com/liberalism175)

**I**N SEPTEMBER 1843 James Wilson, a hatmaker from Scotland, founded this newspaper. His purpose was simple: to champion free trade, free markets and limited government. They were the central principles of a new political philosophy to which Wilson adhered and to which *The Economist* has been committed ever since. That cause was liberalism.

Today liberalism is a broad faith—far broader than it was to Wilson. It has economic, political and moral components on which different proponents put different weights. With this breadth comes confusion. Many Americans associate the term with a left-wing belief in big government; in France it is seen as akin to free-market fundamentalism. But whatever version you choose, liberalism is under attack.

The attack is in response to the ascendancy of people identified by their detractors, not unreasonably, as a liberal elite. The globalisation of world trade; historically high levels of migration; and a liberal world order premised on America's willingness to project hard power: they are all things that the elite has sought to bring about and sustain. They are things the elite has done well out of, congratulating itself all the while on its adaptability and openness to change. Sometimes it has merely benefited more visibly than a broad swathe of lesser souls; sometimes it has done so at their expense.

Populist politicians and movements have won victories by defining themselves in opposition to that elite: Donald Trump over Hillary Clinton; Nigel Farage over David Cameron; the Five Star Movement over the Brussels bureaucracy; Viktor Orban over George Soros, who was not actually running in the Hungarian elections last April but personifies that which Mr Orban despises, and is Jewish to boot. The populists deride the leaders of the past as obsessed with bossy political correctness and out of touch with what matters to ordinary people; they promise their voters the chance to “take back control”. Meanwhile rising powers—as well as Russia, which though in decline is still dangerous—seek to challenge, or at least amend, the liberal world order. And in the near future the biggest economy in the world will be China, a ▶▶

▶ one-party dictatorship. In all these ways the once-barely-questioned link between economic progress and liberal democracy is being severely put to the test. *The Economist* marks its 175th anniversary championing a creed on the defensive.

So be it. Liberalism has succeeded by serially reinventing itself while staying true to what Edmund Fawcett, a former journalist at this newspaper, identifies in his excellent history of the subject as four key elements. The first is that society is a place of conflict and that it will and should remain so; in the right political environment, this conflict produces competition and fruitful argument. The second is that society is thus dynamic; it can get better, and liberals should work to bring such improvement about. The third is a distrust of power, particularly concentrated power. The fourth is an insistence, in the face of all power, on equal civic respect for the individual and thus the importance of personal, political and property rights.

Unlike Marxists, liberals do not see progress in terms of some Utopian telos: their respect for individuals, with their inevitable conflicts, forbids it. But unlike conservatives, whose emphasis is on stability and tradition, they strive for progress, both in material terms and in terms of character and ethics. Thus liberals have typically been reformers, agitating for social change. Today liberalism needs to escape its identification with elites and the status quo and rekindle that reforming spirit.

### Epic stale males

The specific liberal philosophy Wilson sought to promulgate was born amid the tumult of industrialisation and in the wake of the French and American revolutions. It drew from the intellectual inheritance of Enlightenment thinkers such as John Locke and Adam Smith. That tradition was further shaped by a series of Victorian intellectuals, most notable among them John Stuart Mill, which included this newspaper's second editor, Walter Bagehot.

There were at the time liberal movements and thinkers throughout continental Europe as well as the Americas. The first politicians to claim the name, Spain's *liberales*, did so in a short-lived era of parliamentary rule after 1812. The creed was embraced by many of the 19th century's newly independent Latin American countries. But the movement's centre was Britain, the world's predominant economic and political power.

That liberalism was not today's. Take foreign affairs. Victorian liberals were often pacifists who welcomed the ties of trade but eschewed military alliances. Later, a tradition of "liberal imperialism" justified colonialism on the basis that it brought progress—in the form of laws, property rights and so forth—to peoples that lacked them. Few make either argument today. *The Economist* was sceptical of imperialism, arguing in 1862 that colonies "would be just as valuable to us...if they were independent". But "uncivilised races" were owed "guidance, guardianship and teaching".

Liberalism was not born with the umbilical link to political democracy that it now enjoys. Liberals were white men who considered themselves superior to the run of humanity in both those particulars; though Bagehot, like Mill, supported votes for women, for most of its early years this newspaper did not. And both Mill and Bagehot feared that extending the franchise to all men regardless of property would lead to "the tyranny of the majority".

Or consider the relationship between the state and the market. Liberals like Wilson had a near-religious faith in free enterprise and saw scant role for the state. Early *Economist* editorials inveigh against paying for state education through general taxation and greater public spending on relief efforts during the Irish famine. But in the early 20th century many European liberals, and their progressive cousins in America, changed tack, seeing progressive taxation and basic social-welfare systems as necessary interventions to limit the market's failures.

This led to schism. Liberal followers of John Maynard Keynes embraced a state role in boosting demand to fight recession and providing social insurance. As this newspaper noted on its centenary in 1943, "The greatest difference...between the 20th century



### Many liberals have become conservative

were touting. After the Depression and the second world war we hewed to Keynesian views that both allowed for significant state involvement in the economy and saw value in liberal nations working together to create a world in which their values could thrive. When we rebelled against the subsequent state overreach to champion the deregulation and privatisation that Margaret Thatcher and Ronald Reagan would later bring in, we were moved as much by the failures of the status quo as by libertarian zeal.

*The Economist* of recent years has been a supporter of stable prices and fiscal responsibility at home, of open trade and investment internationally, and of the market-friendly cocktail of policy prescriptions dubbed the "Washington consensus". Amid today's distrust of liberalism—and liberal self-doubt—it is worth remembering just how fruitful those positions have been. The core liberal causes of individual freedom, free trade and free markets have been the most powerful engine for creating prosperity in all history. Liberalism's respect for diverse opinions and ways of life has whittled away much prejudice: against religious and ethnic minorities, against the proposition that girls and boys should have an equal opportunity to attend school, against same-sex sex, against single parents. The post-war liberal world order has contained conflict better than any previous system of alliances. Liberalism's principles, pragmatism and adaptability have generated policies that solve practical problems while advancing its core tenets.

There is, in short, much to be proud of. But the liberal ascendancy that came with the end of the cold war has been troubled. The misguided invasion of Iraq (which this newspaper supported at the time), and other failed interventions in the Middle East have exposed the hubris and difficulty of military action in the pursuit of universal values. The global financial crisis laid bare the dangers of under-regulated finance. Liberal economists paid too little attention to the people and places harmed by trade and automation. The liberal world order failed to confront the epic challenge of climate change or to adapt its institutions to the growing importance of emerging economies. Liberal thinkers paid too little heed to those things people value beyond self-determination and economic betterment, such as their religious and ethnic identities.

These failures mean that liberalism needs another reinvention. Those in favour of open markets and societies need to see off the threat posed by those who value neither. They also need to do a lot more to honour their promise of progress for all. That means being willing to apply their principles afresh to the existing and emerging problems of the ever-changing, ever-conflicted world.

It is a tall order. And it is made taller by the fact that this has, indeed, been a period of liberal ascendancy. Liberals like Wilson saw themselves, by and large, in opposition to entrenched elites. Today that is hard for liberals to do with a straight face. They have been the shapers of the globalised world. If it is a smallish number of the rich, and a large number of the very poor, who have done best out of that ascendancy, rather than liberals *per se*, liberals ▶▶

▶ have still done pretty well; it is not too wide of the mark to caricature their views on migration as more influenced by the ease of employing a cleaner than by a fear of losing out. The wars, financial crisis, techified economy, migrant flows and chronic insecurity that have unsettled so many all happened on their watch, and in part because of policies they promoted. This undermines their credibility as agents of change.

Worse, it can also, shamefully, undermine their willingness to be such agents. Many liberals have, in truth, become conservative, fearful of advocating bold reform lest it upset a system from which they do better than most.

They must overcome that fear—or, if they cannot, they must be attacked by true liberals who have managed to do so. As Milton Friedman once put it, “The 19th-century liberal was a radical, both in the etymological sense of going to the root of the matter, and in the political sense of favouring major changes in social institutions. So too must be his modern heir.” On the occasion of our 175th birthday, we offer some ideas to meet Friedman’s challenge.

## II

### Free markets and more

“JESUS CHRIST is free trade and free trade is Jesus Christ.” Even by the standards of the 1840s, Sir John Bowring, a British politician, made bold claims for the rock on which *The Economist* was founded. But his zeal was of the times.

The case for getting rid of British tariffs on imported grain was not a dry argument about economic efficiency. It was a mass movement, one in which well-to-do liberal thinkers and progressive businessmen fought alongside the poor against the landowners who, by supporting tariffs on imports, kept up the price of grain. As Ebenezer Elliott, a radical and factory owner, put it in one of the poems that led him to be known as the “Corn Law rhymer”:

Give, give, they cry—and take!  
For wilful men are they  
Who tax’d our cake, and took our cake,  
To throw our cake away.

When liberals set up the Anti-Corn Law League to organise protests, petitions and public lectures they did so in the spirit of the Anti-Slavery League, and in the same noble name: freedom. The barriers the league sought to remove did not merely keep people

from their cake—bad though such barriers were, and strongly though they were resented. They were barriers that held them back, and which set people against each other. Tearing them down would not just increase the wealth of all. It would bring to an end, James Wilson believed, the “jealousies, animosities and heart-burnings between individuals and classes...and...between this country and all others.”

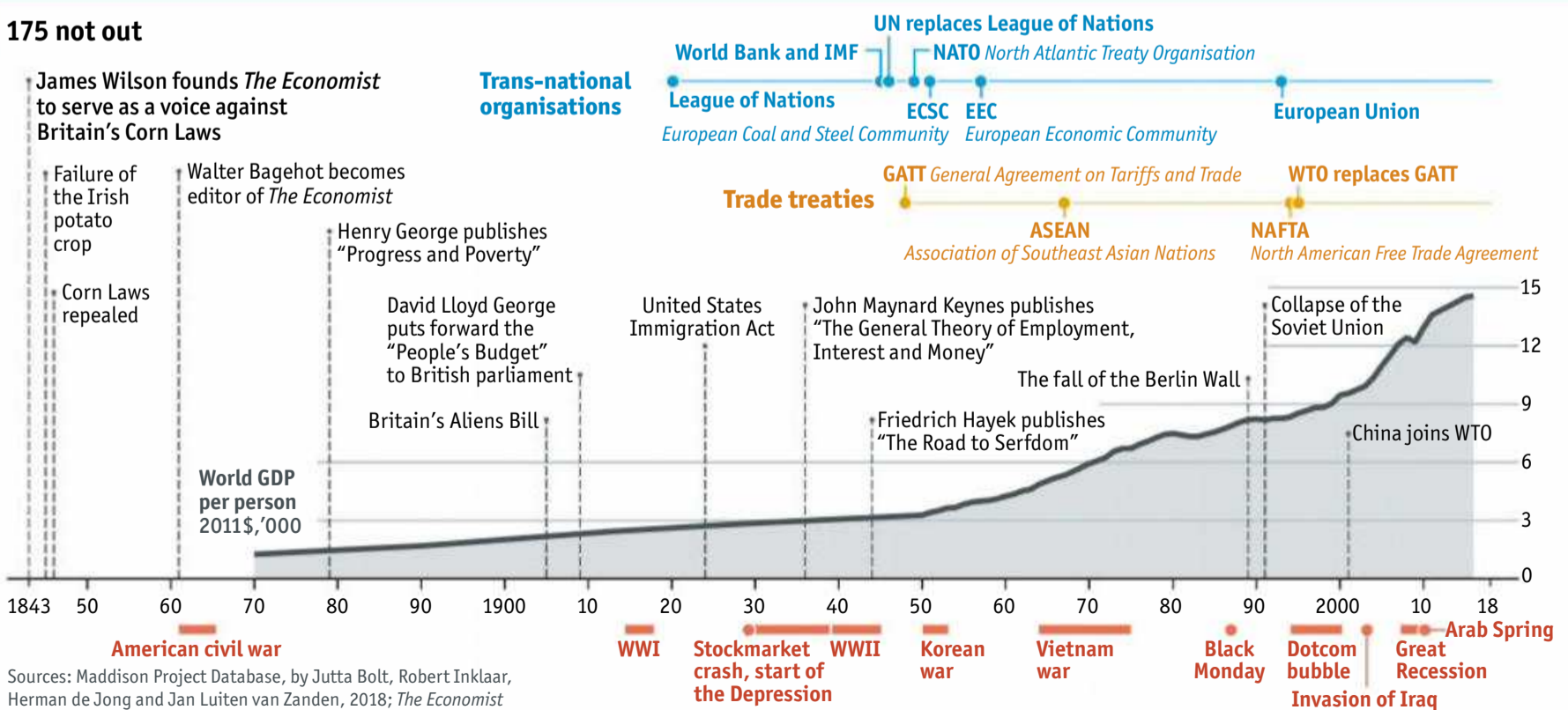
The age of global trade ushered in by the free trade that followed the repeal created a remarkable amount of wealth. Given that it ended in the first world war, though, its record on reducing animosity was, at best, mixed. The next great age of global trade, which began after the second world war and grew into fullness with the end of the cold war, did even better, bringing with it the greatest reduction in poverty ever. Unfortunately there is still significant cause for jealousy, animosity and heartburning among those who live in places that lost out—enough of it that, amplified by unscrupulous leaders with protectionist politics, it is putting the remarkable gains of past decades at risk.

The modern era of multilateral trade negotiation was ushered in by the General Agreement on Tariffs and Trade (GATT) in 1947. It was based on the insight that unilateral tariff reductions, such as the repeal of the Corn Laws, are unstable. The concentrated displeasure of producers exposed to foreign competition is more powerful than the diffuse gratitude of the mass of consumers, and so tariffs get reimposed. If reductions are taken in concert with foreign powers, some producers gain new foreign markets, thus becoming supporters, and the international nature of the obligations makes backsliding harder.

In 1995 the GATT became the WTO, and almost every country on Earth now belongs to it. Tariffs are cut by negotiation and agreed rates applied to all trade partners; a dispute-settlement system authorises retaliation against miscreants. There are still high levies on some goods, and many emerging economies, such as Egypt’s or India’s, would benefit a lot if tariffs were cut further. But tariffs on goods are in general no longer a big barrier to global commerce. The best estimate is that getting rid of those which remain would add only about 1% to global GDP.

Freeing trade in services, such as those of lawyers, architects or airlines, would yield gains six times larger, maybe more. But the WTO, for which nothing is settled until everything is settled, has spent decades failing to reach big deals on services. Nor has it succeeded in stopping China, which joined in 2001, from flouting the spirit, if not always the letter, of its rules by shaking down foreign investors for technologies it fancies and giving under-the-table assistance to its own industries. ▶▶

#### 175 not out





► The trade system would benefit hugely from a grand agreement forged between America, China and Europe that put multilateral trade on terms appropriate for the 21st-century economy, and for a world in which the biggest trader is not a free market. Terms attractive enough that the rest of the world could be brought into them would both require and allow substantial reform of the WTO. Multilateral agreements in which groups of like-minded countries forge ahead should lead the way. Working towards such a goal should be at the forefront of trade policy.

Alas, the more urgent necessity is to ensure the survival of the current system which, having been undermined by China, is now under determined attack by America, once its greatest support. Fighting to forestall losses is not as inspiring as fighting for new progress. But it is yet more vital; backsliding is a threat to the livelihoods of hundreds of millions of people.

### By George he had it

Defending the existing trade system is thus a paramount goal. And the gains it may yet offer, in services and elsewhere, are substantial. But no one could claim that free trade has the capacity to stir the spirit today in the way that the fight against the Corn Laws did, nor that it offers as much scope for progress in an already globalised world as in the mercantilist 19th century. Modern liberals must look for new reforms where dismantling barriers and increasing freedom will once again produce transformative gains for individuals and society.

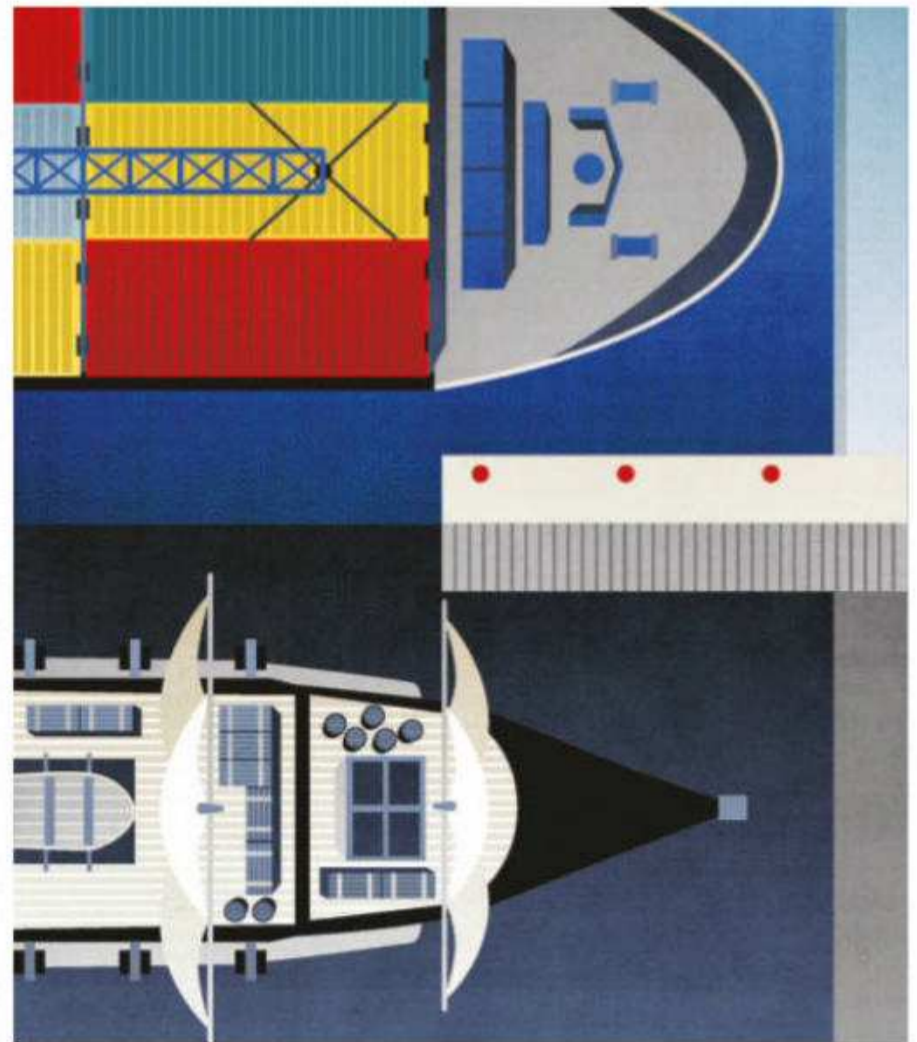
They are spoilt for choice: there is much to do, from rewriting campaign-finance laws that give lobbyists disproportionate power in politics to removing the implicit subsidies still enjoyed in parts of the financial system. In both those cases, and many more, concentrations of power allow the rigged markets and rent-seeking that liberals abhor. But the cause of free trade was powerful in its simplicity, and in that respect two new targets stand out.

One is the market in urban land; the other, the anti-competitive economics of the modern economy, and particularly of the digital-technology businesses that increasingly dominate it. In both cases monopoly power distorts markets in ways that are economically significant, politically potent and ethically unjustifiable.

Start with land. Most 21st-century productivity growth and wealth creation will take place in highly productive cities. The world's 50 largest conurbations house 7% of the population but account for 40% of gross product. The productivity gap between such cities and poorer places has widened by 60%, on average, in the past two decades, according to the OECD, and is still growing. Property prices in leading cities have soared. In Paris, Hong Kong, New York and London the median household spends on average 41% of its income on rent, as opposed to 28% 30 years ago.

This is a huge windfall gain for a relatively small number of property owners. It reduces the chances of prosperity for a much larger number who are prevented from moving to high-productivity cities offering better wages, and in doing so holds back the economy. One study suggests America's GDP would be 9% higher if the less restrictive zoning laws of the median American city were to be applied to the priciest, fanciest ones.

The best solution to this is not new: it was well known, and pursued by liberals, in the 19th century. Tax landowners according to the underlying market value of the land that they own. Such a tax would capture for society part of the windfall that accrues to a landowner when his local area thrives. Land taxes capable of replacing all existing property taxes (which are raised on the value of what sits on the land, rather than just the land itself) and then some would greatly sharpen the incentive to develop. Because the amount of land is fixed, a land tax, unlike most other taxes, does not distort supply. At the same time, ease planning restrictions. It is no good raising the incentive to develop if regulation then stands in the way. But development rights have been so far collectivised in many cities as to come close to undermining the very notion of property. The curtailment of development rights enriches even owners of vacant plots; if the windfall gains from soaring property



values are heavily taxed, NIMBYism will not be such a profitable strategy. The problem is getting those owners to give up the windfall and submit to a land tax in the first place.

The concentration of corporate power is a trickier problem. Returns to scale and strong network effects—the more users you have, the more you have to offer the next user—have encouraged concentration in various industries built around digital technology, and this encouragement has gone largely unchecked. One or two giant firms dominate each segment: Google in search, Facebook in social on one side of the Great Firewall, Alibaba and Tencent on the other. In addition, by collecting ever more data on ever more users' habits, and armed with ever better algorithms, the incumbents can tweak their products to make them yet more attractive in various ways.

This risks reinforcing, perhaps supercharging, a wider trend for industries to be dominated by a few companies. In 2016 research by this newspaper showed that two-thirds of America's 900 industrial sectors had become more concentrated from 1997 to 2012. In 2018, in a similar analysis for Britain, we found the same trend. It may help explain both higher profits and the squeeze on labour that has seen the wages of the less-skilled lowered.

If there is an economic problem in need of radical new intellectual approaches, this is it. The existing antitrust framework, created in the progressive era and refined in the 1980s, cannot deal with the nature of market concentration in the 21st century. The pace of mergers has risen. Large asset managers hold sizeable stakes in today's big incumbent firms, and may encourage them to hoard profits and adopt safety-first strategies. Tech-platform firms enjoy network effects and are continually bundling more services together. The spread of artificial intelligence will give even more power to firms with access to lots of data.

Part of the answer is a tougher attitude to policing deals and to ensuring that new firms are not unfairly squashed. But when it comes to tech, something fresher and rooted in individual action and competitive markets would be best. One approach is to consider the data that users generate as a good they own or a service they provide for fees.

As with land taxes, there will be intense resistance to newly vigorous antitrust and competition law, or changes in the power ►►

▶ structures building up around data, however popular they may be. Henry George's call for a land tax, "Poverty or Progress", sold more copies in America in the 1890s than any other book save the Bible. But the immense political power of landowners saw off the threat, there and elsewhere. David Lloyd George, a Liberal chancellor of the exchequer, put forward a land tax (with this newspaper's support) in his 1909 "People's Budget". It did not pass.

Still, more affordable housing, more choice, lower prices and better jobs remain causes that people can get behind. And the ability of popular movements to grow as never before with the help of both social and mass media is one of the striking aspects of the modern age. This has allowed dissatisfaction with today's liberal elite to mushroom; it might allow a liberalism of new reforms, new ideas and new alliances to do so, too.

This makes keeping the digital sector open and competitive all the more vital. Barriers to wealth-creation there are bad enough. Dominant companies which might limit, or skew, free expression, open deliberation and self-determination—encouraging "jealousies and animosities" in the realm of ideas—are worse.

## III

### Immigration in open societies

THE bill in front of the House was a wretched thing, as the opposition politician explained. It would "appeal to insular prejudice against foreigners, to racial prejudice against Jews, and to Labour prejudice against competition". But he could see why the majority party might like it. It would "no doubt supply a variety of rhetorical phrases for the approaching election."

Substitute the word "Mexicans" for "Jews", and this might have been a Democrat on the floor of the House of Representatives denouncing this year's Securing America's Future Act, a hardline Republican immigration bill. In fact they are the words of Winston Churchill, in 1904, speaking from the Liberal benches in opposition to the Aliens Bill that the Conservatives had brought before the House of Commons. The bill was the first attempt to legislate a limit to migration into Britain.

Immigration was as politically potent in the early 20th century as it is in the early 21st. Previous decades had seen a surge of people on the move across Europe. Millions had moved farther, heading across the Atlantic to America: hundreds of thousands of Chinese crossed the Pacific to the same destination. Xenophobic backlashes followed. Congress passed a law prohibiting Chinese migrants in 1882. By the time of the Immigration Act of 1924 it had, in effect, banned non-white immigration. It also curtailed the rights of non-whites already there in the same ways as it did the rights of its black population, with laws against miscegenation and the like. The flow of migrants across Europe produced a similar reaction. In "The Crisis of Liberalism" (1902) Célestin Bouglé, a French sociologist, marvelled at how a modern society could spawn bigotry and nativism. When Churchill mocked the idea of a "swarming invasion" in 1904, Britain was the only European country without immigration curbs; the following year it brought in its first.

Today some 13% of Americans are foreign-born; that proportion is approximately what it was in 1900, but much higher than it was in the intervening years. In 1965 it was just 5%: older Americans grew up in a pretty homogeneous society that was hardly a nation of immigrants. In many European countries the foreign-born share of the population has surged. In Sweden it is 19%, twice what it was a generation ago; in Germany, 11%; in Italy, 8.5%.

The reactions have not been as harsh as they were a century

ago. Indeed, in America the appetite for more immigration has grown even as the immigrants have arrived. In 1965 only 7% thought the country needed more immigrants; 28% do today. But any liberals feeling complacent are clearly not paying attention. Anger over immigration has fuelled the rise of illiberal regimes in central Europe; it is the main reason why right-wing populist parties are now in power in six of the European Union's 28 countries; it explains much of the popularity of Brexit, and of Donald Trump. Concerns are growing in emerging economies, too—from Latin America, where the exodus of Venezuelans is roiling the region's politics, to Bangladesh, which is struggling with the arrival of 750,000 Rohingya fleeing genocide in Myanmar.

There are four reasons to expect the issue to get yet more divisive. First, migrant flows are likely to rise. People in the global south are still poor compared with those in the north; modern communications make them very aware of this; modern transport networks mean that, poor as they are, many can afford to try to live the life they see from afar. According to Gallup, 14% of the world's adults would like to migrate permanently to another country, and most of those would-be migrants would like to go to western Europe or the United States. Over the coming decades the consequences of climate change are likely to force large numbers of people, particularly in sub-Saharan Africa and south Asia, to move, and though most will probably not move all that far, some will try to go all the way. Some will be welcome; ageing populations in developed countries will need more working-age people to look after them and pay tax. It is very unlikely that all will.

Second, the world lacks good systems for managing migration. The 1951 UN Convention on Refugees set up a liberal and eventually near-universal regime for people fleeing oppression and other state malfeasance. It is ambitious and (theoretically) generous. There are no other mechanisms that give people general rights to seek their fortunes abroad. The result is that refugees' treatment frequently falls far short of the legal rights to which they are entitled. Meanwhile low-skilled people without family members in rich countries with whom they might seek to be reunited have no way in. So some seek refugee status on dubious grounds.

#### The wrong kind of liberalism

Third, the modern welfare state complicates the issues around migration in a way that it did not a century ago. Illegal immigrants are not entitled to such benefits. But refugees often qualify, as do the children of people who have arrived illegally. The absolute level of spending may be small; the perception of inequity, though, can be beyond all proportion to the cost. People resent paying taxes to fund benefits that they perceive as going to outsiders.

Fourth, liberal attitudes to immigration have changed. Liberalism came of age in a Europe of nation states steeped in barely questioned racism. Nineteenth-century liberals were quite capable of believing that nations had no duties towards people beyond their borders. *The Economist*, although it did not support the Aliens Bill in 1904, made clear that it did "not want to see the already overgrown population swollen by 'undesirable aliens'".

Much modern liberalism has a more universalist view, along the lines of that enshrined in the Universal Declaration of Human Rights. To some, this means that no controls on immigration are justified: that a person born in Mali has the same right to choose where to live as one born in Germany. Totally open borders are rarely if ever politically feasible. But increased migration tends to be seen as good in itself by today's liberals. It removes barriers that keep people from the lives they want, it produces more diverse societies and it offers economic betterment to all. People who move to places where they can be more productive realise almost instant gains; higher shares of immigrants are correlated with higher rates of entrepreneurship and dynamism. Economists estimate that, were the world able to accommodate the wishes of all those who wanted to migrate, global GDP would double.

A positive attitude to immigration pits liberals against many of their fellow citizens—for all liberals, despite what anyone may say, ▶▶

**Open borders  
are rarely if  
ever politically  
feasible**

▶ are citizens of somewhere—more than any of their other beliefs do. The conflict is made worse by the fact that today's left, including many identified in America as liberals, has moved sharply towards an emphasis on group identity, whether based on race, gender or sexual preference, over civic identity. This leaves them leery of imposing cultural norms, let alone a sense of patriotism.

The 19th-century assumption that immigrants would assimilate and learn their new country's language seems, to such sensibilities, oppressive. Several American universities have declared the phrase "America is a melting pot" to be a "microaggression" (a term in pervasive use and taken by the majority to be innocuous but which communicates a hostile message to minorities). It is hard, given such views, for left-liberals to articulate a position on immigration much more sophisticated than opposition to whatever restrictions on it currently seem most egregious. The more opposition you show, the better your credentials.

### Trust, but E-verify

This is not a way to win. Liberals need to temper the most ambitious demands for immigration while finding ways to increase popular support for more moderate flows. They have to recognise that others place greater weight on ethnic and cultural homogeneity than they do, and that this source of conflict cannot be wished away. They must also find ways for the arrival of new migrants to offer tangible benefits to the people worried about their advent.

People often dislike immigration because it exacerbates a sense that they have lost control over their lives—a sense that has grown stronger as globalisation has failed to spread its prosperity as fully as it should have. Removing other barriers that get in the way of self-determination for people already living in their countries is thus both a good in itself and a way to lessen antipathy to migration. But restoring a sense of control also means migration has to be governed by clear laws that are enforced fairly but firmly.

Wary though liberals rightly are of state snooping, technology can help with this in various ways. Fully 75% of Americans support E-verify, a system that allows employers to check a worker's immigration status online. If the system is administered in a just, efficient way and with proper procedures for appeal, liberals should feel happy to join them.

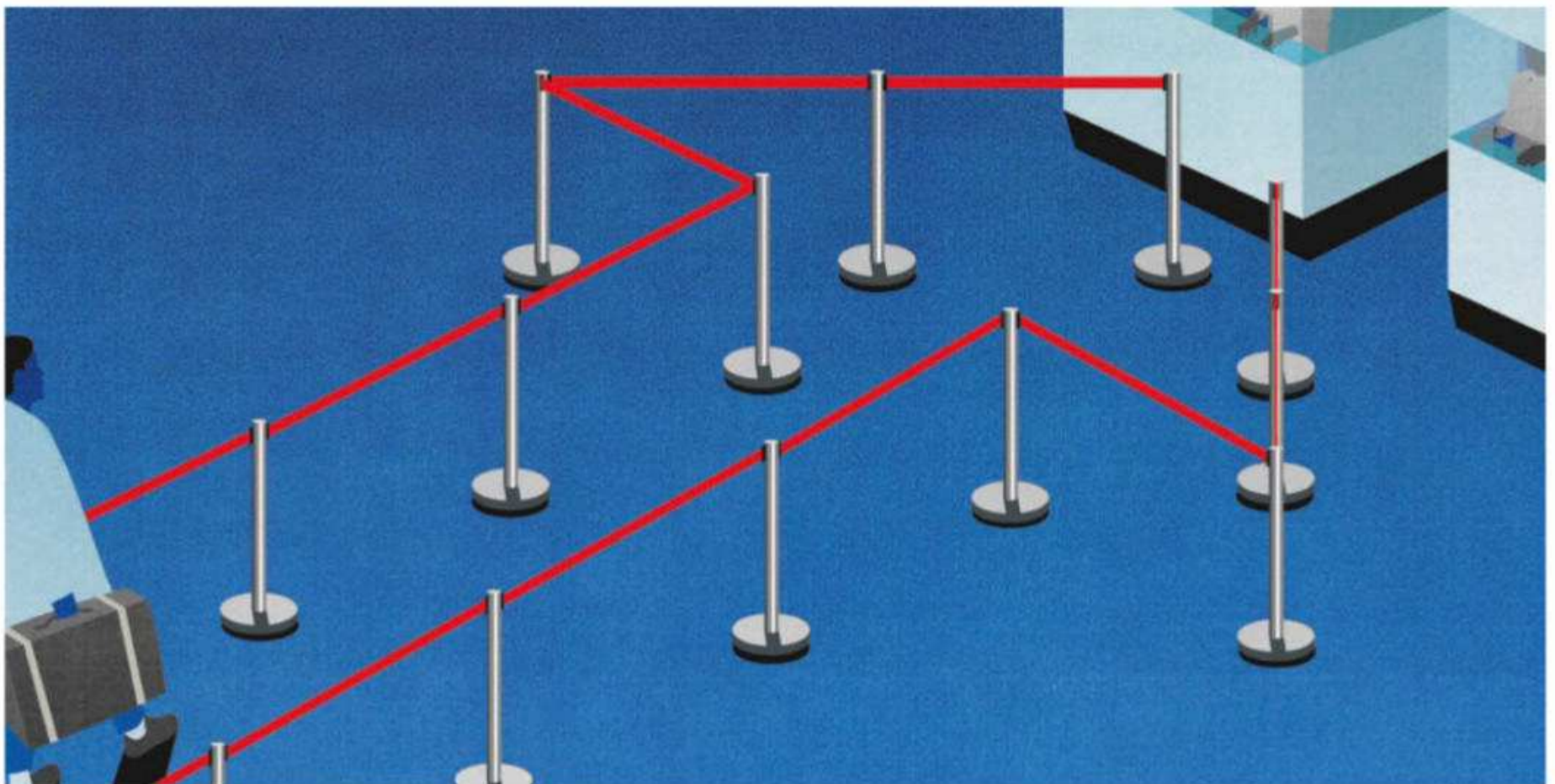
One aspect of setting clear rules is reforming the international system for refugees. In "Refuge" (2017) Alexander Betts and Paul Collier, two British academics, argue for a complete overhaul. This

would include a broader definition of refugee status while encouraging people who claim that status to stay closer to their former homes. For this to work the refugees need to be integrated into local labour markets; investment needed to further that end should come from richer countries. At the same time, new avenues need to be found to give people who do not qualify as refugees some real hope of a legitimate route to wherever they want to go.

Then there is the question of distributing the benefits. Today most of the financial gains from migration accrue to the migrants themselves. Lant Pritchett of Harvard University reckons the annual income of the average low-skilled migrant to the United States increases by between \$15,000 and \$20,000. How could some of those gains be shared with the hosts? The late Gary Becker, an economist from the University of Chicago, argued for auctioning migrant visas, with the proceeds going to the host state. In their book "Radical Markets" Eric Posner and Glen Weyl argue that individual citizens should be able to sponsor a migrant, taking a cut of their earnings in exchange for responsibility for their actions. There is a bevy of less extreme reform ideas, such as "inclusion funds" paid for by a modest tax on the migrants themselves, which would spend their money in the places where migrants make up a disproportionate share of the population.

As well as taking a little more from immigrants, there will be circumstances when the state should give them a little less. Systems that offer migrants no path to citizenship, such as those of the Gulf states, are hard for liberals to stomach, and that is as it should be. But that does not mean all distinctions between migrants and established citizens should cease the moment they leave the airport. In America entitlement to retirement benefits kicks in only after ten years of contributions; in France, we hear, no one gets free baguettes until they can quote Racine. This is all entirely reasonable, and not illiberal. All who have arrived legally, or have had no choice in the matter, should have access to education and health care. Other benefits may for a time be diluted or deferred.

Liberal idealists may object to some or all of this. But if history is a guide, the backlashes that often follow periods of fast migration hurt would-be migrants, the migrants who have already arrived and liberal ideals more generally. Liberals must not make the perfect into the enemy of the good. In the long run, pluralist societies will accept more pluralism. In the short run, liberals risk undermining the cause of free movement if they push beyond the bounds of pragmatism.



## IV

## The new social contract

OTTO VON BISMARCK—no one’s idea of a liberal—started Germany down the road to a welfare state in the 19th century. Trade unionists across the world fought for them in the 20th. Benito Mussolini built a fascist one. And James Wilson would have hated the idea. But from Lloyd George’s People’s Budget of 1909 to FDR’s New Deal in the 1930s to Ludwig Erhard’s *soziale Marktwirtschaft* in post-war West Germany, there was a distinctive liberal cast to the creation of modern welfare states. William Beveridge, the architect of the post-war British welfare state, was a liberal and Liberal politician. (He was also a trustee of *The Economist*.)

Some liberals, as well as most conservatives, grudgingly accepted these reforms as the lesser of two evils. By sharing the benefits of free enterprise more evenly welfare states could stave off the more radical, and damaging, redistributive promises of fascism and, for rather longer, socialism. But their creation was more than just a way to maintain the conditions in which liberalism could flourish. At their best and most liberal, welfare states cushion people from the rougher edges of capitalism while still putting a distinctive liberal stress on individual responsibility. They enhance freedom, enable free enterprise and bring about a broader embrace of progress. Or at least that is what their liberal creators believed—and what today’s liberals need to make sure of.

Giving governments responsibility for the education of the young, pensions for the old, financial support for the indigent, disabled and jobless, and health care for at least some, and occasionally all, required massive reforms, the details and ambition of which varied in different places. Since their creation, though, welfare states have changed rather little. Some countries have added benefits. America, even before Obamacare, was incrementally expanding the government’s role in health. Others, especially in Europe, have trimmed them: less generous assistance for the unemployed, extra conditions for welfare. But Beveridge would recognise today’s NHS, and FDR would recognise America’s unemployment insurance.

This is not because everyone is satisfied with the status quo. Conservatives contend that it dulls the edge of capitalism and the urge for self-betterment. Those on the left see it as a flimsy and patchy safety-net that needs expanding. Indeed, those countervailing stances go a long way towards explaining why social protection has changed remarkably little since the 1970s. The problem is that while welfare states have stood still, societies have not. And interventions originally intended to help people help themselves have not always done so.

Far more women take paid work now than in the middle of the 20th century. Far more households are headed by a single parent. Jobs are much less likely to last for life, to start at nine or to end at five. People are more likely to have more than one at a time. Some of them like this, especially when one is a passion that the other subsidises. Others resent working at unpredictable hours for little money at the beck and call of more than one master. An OECD study suggests only 60% of the rich world’s workforce has stable employment. Most important, in terms of expense, health care is getting costlier and people are living much longer.

The system has tried to cope, especially with the bits that most drain the public purse. But the coping has been neither sufficient (increases in retirement age have not kept up with increases in life expectancy) nor popular (people, especially people likely to rely on state pensions, do not like having the retirement age raised). As

### Welfare systems and tax regimes have lagged behind a changing world

for helping people to adapt to changes in the world of work, much too little has been done. The greatly increased need for parental leave and for some forms of child care has been scarcely addressed. Workers desperate for new skills see public investment in education overwhelmingly directed at the not-yet-employed. Meanwhile the interaction of tax policy and welfare system often makes jobs unreasonably unattractive. Nearly 40% of the jobless in the OECD see a marginal tax rate of more than 80% when they start work.

The failure of welfare systems to cushion the huge changes brought about largely by liberal policies—on destigmatising single parenthood as much as on trade—is one of the reasons people are a lot less likely than they once were to trust liberals offering to fix things. But things must be fixed. According to the OECD, the ratio of working-age to retired people across rich countries is set to fall from 4:1 in 2015 to 2:1 in 2050. Add on higher health-care costs and spending on the old will soar as the number of workers to sustain that spending plunges. If the failure to raise the retirement age significantly is expensive today, it will be ruinous tomorrow. And if workers are not made more productive, even the less-than-ruinous expenses will be hard to pay.

### UBI enchaîné

The erosive effects of robotisation and artificial intelligence on the world of work are debatable and frequently exaggerated. But though optimists think clever and more dexterous machines will make most of their human colleagues more productive, rather than redundant, they hardly see a return to the 20th-century world of copious lifelong jobs. The coming decades will further strain people’s ability to predict what skills they will need and how their careers will evolve.

This means that a liberal rethink of the welfare state starts with education. Thanks to earlier liberal reformers, who sought universal schooling in the 19th century and welcomed greatly expanded universities in the 20th, today’s states make their educational investments mostly in people from five or six to 20 or 21. This no longer makes much sense. Pre-school interventions, including many not specifically aimed at the classroom, do a lot more for the life chances of poor children than spending on universities does. And people can need training and further education a long time after their years of university and apprenticeship. There is a case for a big change in priorities here.

New approaches should lay less stress on existing institutions and more on helping people take down the barriers that stand in their way. The periodic “lifetime learning” credit that Singapore gives to all adults to pay for training is one way forward, but things need to go further, perhaps with lifetime vocational education taking the place of a year or so’s support at university.

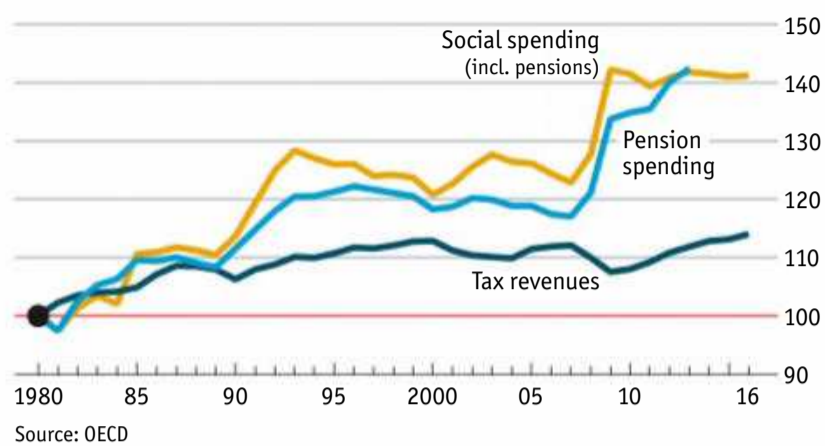
Then there is the challenge of curbing the continuous rise in pension payments by focusing their benefits on the people who need them most. Better educated, more skilled people are working and living longer; the less affluent and skilled stop work earlier and tend to live less long. (In America they are seeing their life expectancy fall.) Pension policy should reflect this. It makes no sense for rich workers to begin drawing a state pension in their 60s. They do not need the support and their long lives mean that the state will end up paying out for years. There are people with better claims on that money.

The greatest potential for reform, however, lies in consolidating and reducing the distortions in the mass of other social-protection schemes—unemployment insurance, food stamps, welfare and so forth. In the past few years the idea of a “universal basic income” (UBI) that would be paid to all, with no strings attached, has generated a lot of debate, and significant support, both on the left and the right.

Right-wing UBI supporters like it because an unconditional payment does not affect people’s incentives to work; an extra job, or an extra hour at work, does not reduce benefits. They also see it as removing various distortions in today’s welfare states, slashing ▶▶

## A change is gonna come

OECD countries, public spending and tax, % of GDP  
1980=100



► bureaucracy and government snooping. Supporters on the left are keen because they see UBI as redistributive, egalitarian, welfare enhancing and liberating. Enthusiasm for UBI has spawned pressure groups, public campaigns and randomised trials.

Many of the idea's attributes appeal to liberals too. A UBI would reduce the state's interference in people's lives. But from the liberal point of view such gains must be set against two big disadvantages, one a matter of principle, one of practicality. The principle is that the 20th-century social contract from which the welfare state was born was that the state would help people help themselves, rather than just give them stuff: it should provide a safety-net, not a platform scattered with silk divans. Liberals tend to believe that people will be happiest if they can achieve self-reliance. And, in practical terms, UBI would mean either eye-popping increases in tax or cuts in support for the genuinely needy, particularly in countries where welfare spending is already relatively targeted on the poor. In America a UBI of \$10,000 a year would require a tax take of at least 33% of GDP—less than the level in many countries, but some \$1.5trn more than the current 26%.

A more modest, but still radical, alternative is to replace today's welfare schemes with an expanded commitment to guaranteeing minimum income through negative income taxes. First championed by Milton Friedman, such taxes mean that the state tops up the income of anyone earning less than a guaranteed minimum. Both Britain and America have tax credits to top up wages along these lines.

Because they avoid transfers to the rich, such schemes are inherently cheaper than UBI. A great deal could be achieved by simultaneously overhauling payroll taxes (the form of tax that has the greatest impact on low-income earners) so that the path from receiving a top-up to paying taxes is much smoother, and perhaps by broadening the eligibility criteria for the negative tax. There are various forms of currently unpaid labour, most notably in caring, that some societies might wish to support in such a way.

This, though, is only the beginning of the reform needed. Like welfare systems, tax regimes have lagged behind a changing world. Indeed, reform has often gone the wrong way. Over the past 40-odd years taxes on capital have fallen, as have income taxes on high earners. That made sense, considering the heights which the top rates of those taxes reached. The benefits that accrue to society as a whole from investment and well-rewarded work required that taxes be reduced.

At the same time wealth taxes, particularly on property and inheritance, have been reduced or eliminated in many developed countries. As a result the share of tax revenue from property has stayed the same and that from capital has fallen, even as the value of property and the share of national incomes going to capital have soared. Outside America, value-added taxes have been imposed on consumption, producing a welcome increase in the tax system's efficiency but also making it more regressive.

In the 21st-century economy these shifts should be reversed. Labour, particularly low-skilled labour, should be taxed less. Fold-

ing payroll and other employment taxes into the income-tax system would ease the squeeze for low-skilled workers. Shrinking the gap between taxes on capital and taxes on labour would counter the skew towards capital; and if capital investment were written off against corporation tax, this would not need to deter investment. Moderate inheritance taxes—a liberal invention, stemming in part from a healthy distrust of the concentration of wealth and power—should be maintained or reinstated, not least because they are fairly efficient. Loopholes used to avoid them should be tightened up. Property taxes should be reformed into land taxes. Taxes on carbon and other negative externalities, though not a universal panacea for the problems of climate change, would be a reform in the right direction, too.

This adds up to an agenda for reform much bigger than the tax-and-welfare tinkering seen over recent decades. In some ways these changes are likely to be politically harder than the reforms which built up the welfare state and the taxation systems which support it in the first place. It is easier to build from scratch than to attempt to change a huge and complex edifice on which millions rely, which millions resent, and which all have opinions on. And all this needs to happen in a world where the threat of socialism no longer scares conservatives into taking the liberal side.

But if liberal democracies are to continue to provide progress for their citizens they need a new form of welfare. And if they are to afford that welfare reform, they need a tax system that is both more efficient and better fitted to encouraging what society wants more of and discouraging what does it harm.

Similar arguments apply to the other great innovation of the post-second-world-war world: the international liberal order. It is necessary to preserve it; it is perhaps harder to preserve than to build; and there is no longer a socialist, or indeed communist, bogeyman that can serve to unite liberals with all others committed to private property and economic well-being. Indeed, there is what some might see as a state-led post-communist siren instead. It is to that challenge that we now turn.

# V

## A liberal world order to fight for

WERE a single document to mark the high-point of liberal-world-order hubris, it would surely be “The End of History?”, an essay written by Francis Fukuyama, an American academic, in 1989. Mr Fukuyama's question, posed a couple of months before the fall of the Berlin Wall, was whether the world was seeing the “universalisation of Western liberal democracy as the final form of human government”. His answer was yes.

How extraordinary that seems in 2018. China, the world's most successful economy over the past 30 years and likely to be its largest over the coming 30, is growing less liberal, not more, and its state-led, quasi-capitalist illiberalism is attracting admirers across the emerging world. In the Muslim world, and elsewhere, ties of sect and community, often reinforced by war and the fear of war, bind far tighter than those of liberal aspiration. On a measure of democracy made by the Economist Intelligence Unit, our sister organisation, more than half of the 167 countries surveyed in 2017 were slipping backwards. The backsliders include America, where the president seems to prefer dictators to democrats.

That is particularly worrying. America did more than any other nation to create and sustain the order Mr Fukuyama celebrated. In the 1940s it underwrote the Marshall plan and championed the creation of the IMF, the World Bank, the GATT and NATO. It cheered on the first moves towards European unity. Its armed forces contained liberalism's greatest enemy, the Soviet Union. Its dollar underpinned the global economy. And because America was founded on liberal values, this Pax Americana espoused liberal values, even if it did not always live up to them. ►►

▶ Mr Fukuyama thought the end of the cold war would let the liberal internationalist project move beyond its reliance on American power. The prosperous examples of America, Europe, East Asia's tiger economies and a Latin America abandoning military rule, along with a lack of alternatives, would bring the rest of the world on board. So it did, to some extent, for a while. But it was far from universal. And America has become an unhappy Atlas.

President Donald Trump's rejection of the values underlying NATO and the WTO has been remarkable, his spurning of America's role in maintaining them even more so. Yet his approach is not without precedent, or support. In 2002, the outrages of September 11th 2001 still fresh in their minds and hearts, only 30% of Americans agreed that "America should deal with its own problems and let other countries deal with theirs". But long, painful wars in Afghanistan and Iraq have reinforced American scepticism about interventions abroad that cannot be pulled off quickly and do not seem vital to the national interest. By 2016, the idea of America dealing with its own problems and leaving the rest of the world to deal with theirs appealed to 57%. Younger people are astonishingly insouciant about revanchist Russia and ascendant China. Only one in two millennials think it is important for America to maintain its military superiority.

It is possible that the next president could swing in the opposite direction, recognising the vital role its alliances play in American security, seeking to reform rather than vilify international institutions like the WTO and reinvigorating international co-operation on climate change—a grave threat to the world order which has been far less doughtily faced than that of communism. But it is unlikely. So is any notion of Europe and other democracies taking on the challenge. And even if either were to come about, China would still represent a daunting challenge. Xi Jinping's determination to centralise power and to hold on to it indefinitely is a large part of that. But Mr Xi may represent a deeper shift: one made possible by the addition of digital technology to the apparatus of centralised authoritarianism.

Liberals have long believed that state control eventually collapses under its inefficiencies and the damage that the abuse of power does to systems that lend themselves to it. But the enthusiasm with which China has embraced digital living has given the Communist Party new tools for political control and responsive tyranny. Cyber-China may not have solved for all time the challenge of identifying and quashing opposition without stirring up more of it. But its efforts in that direction could last longer than hitherto imagined. It would be a foolish mistake to base an international order on the assumption that China will become more liberal any time soon.

Liberals also used to believe that autocracies might be capable of one-off bursts of innovation, like *Sputnik*, but could not produce technical progress reliably, year in year out. Yet in the past five years, Chinese tech firms have generated hundreds of billions of dollars of wealth. The protection afforded them by the Great Firewall and government policy is part of that success, but not all of it. China's government is investing huge resources in tomorrow's technologies while its new digital giants make full use of the vast amounts of data they have on Chinese needs, habits and desires.

Mr Xi sometimes stresses China's commitment to peaceful, harmonious development. But he then speaks more ominously about "great-power diplomacy with Chinese characteristics". On climate change, or indeed trade, China talks warmly of the rules-based global system. Yet it ignores international-court rulings against its militarised island-building in the South China Sea and blocks UN criticism of its abysmal record on human rights.

A reasonable forecast is that China will embrace international collaboration where it sees advantage in doing so and act unilaterally where its interests dictate. It will also devote some of its burgeoning technological capabilities to new ways of making war. If America continues on its current path it will do much the same. This will not make the two equivalent. Though China's military capabilities will grow quickly, they will not match America's. And

it will always be easier and wiser for liberals to trust America to do the right thing in the end.

But if there is no clear international order, just big powers doing what they want, the world will get more of the same as Brazil, Indonesia, India, Nigeria and others increase in strength. Regional powers rubbing up against each other unconstrained; nuclear weapons; the destabilising effects of climate change: it might all work out for the best. But that is not the way to bet.

### Getting a League of Nations right

Faced with this uncomfortable reality, 21st-century liberals must remember two lessons from the 20th. The failure of the League of Nations between the world wars showed that liberal ideals are worthless unless backed by the military power of determined nation states. The defeat of communism showed the strength of committed alliances.

Liberals should thus ensure that the states which protect their way of life are able to defend themselves decisively and, when necessary, to blunt the ambitions of others. America's European and Asian allies should spend both more, and more wisely, on their arsenals and training their troops. Healthier existing alliances will ease the creation of new ones with countries that have reason to worry about China's ambitions.

Military capabilities are crucial. Only with them firmly in hand can the most be made of the world's many mechanisms for peace.



### Liberal ideals are worthless unless backed by military power

In the cold war, the West and the Soviet Union had few economic links. The big economies of the 21st century are highly integrated. The gains to be reaped from working together to repair, reform and sustain the rules-based trade and economic system are huge.

In this spirit China's ambitions to make the yuan an international currency should, in general, be welcomed—they will only serve to hasten its economic liberalisation. The new Asian infrastructure bank it supports is likely to prove a useful addition to international finance. Some of the "One Belt One Road" infrastructure with which it is forging links to the rest of Eurasia will be useful—though the West needs to keep an eye out for cryptic militarisation.

A strong West can welcome China's more forthright voice and increased influence, while limiting the threats that it poses.

The strength which serves that end cannot be purely military, or indeed purely economic. It must be a strength of values, too. At the moment, the West is in disarray on this front. Mr Trump has no values worth the name. European politicians are hard put to maintain liberal values at home, let alone stand up for them abroad. Nor do the leaders of India, South Africa, Brazil and the other big democracies of the developing world go out of their way to support abroad the values they espouse at home.

A decade ago the late John McCain proposed the idea of a "league of democracies". Such a league's members might champion liberal, democratic values and at the same time hold each other to account in such matters. It is an idea worth revisiting as a credible and useful alternative forum to the UN. The more clearly the people of liberal democracies can show that their countries work well, and work well together, the more secure they will feel, the more secure they will be and the more others will wish to join them. The world needs a vision of international relations which shores up, promulgates and defends liberal ideals. If liberal nations look only inward and give up either the power or the will to act, they will lose the moment, and perhaps their future.

## VI

## A call to arms

OVER the past couple of years there has been a boom in gloomy books with titles such as “The Retreat of Western Liberalism” or “Has the West Lost It?”. Magazine articles routinely ask “Is Democracy Dying?” (*Foreign Affairs* and more recently the *Atlantic*) or “What’s killing liberalism?” (the *Atlantic* again). The cock-of-the-walk confidence with which liberals strode into the 21st century has given way to trembling self-doubt.

Good. A complacent liberal is a failing liberal. The crucial liberal reinventions at the turn of the 20th century, during the Depression, and in the stagnation and inflation of the 1970s were all accompanied by books in which liberals (and sometimes a few others) declared the creed to be in crisis, betrayed or dead. Such restless self-doubt spurred the adaptability that has proved liberalism’s greatest strength.

This essay has argued that liberalism needs an equally ambitious reinvention today. The social contract and geopolitical norms that underpin liberal democracies and the world order that sustains them were not built for this century. Geography and technology have produced new concentrations of economic power to tackle. The developed and the developing world alike need fresh ideas for the design of better welfare states and tax systems. The rights of people to move from one country to another need to be redefined. American apathy and China’s rise require a rethinking of the world order—not least because the huge gains that free trade has provided must be preserved.

The need for new thinking does not mean ignoring the lessons of history. The 21st century brings some challenges not seen before, most obviously and most worryingly climate change, but also the prospects of intrusive new technologies of the mind. But inequality of opportunity and the discontent it drives are not new. Nor is the unhealthy concentration of wealth and power. That is why it is worth dusting off 19th-century ideas, from vigorous competition policy to the taxation of land and inheritance.

Whether it was the Anti-Corn Law League, America’s Progressive movement, the architects of the Bretton Woods system or the free-marketeers who urged the taming of inflation and the rolling back of the state in the 1970s, liberal reformers at their best have shared a dissatisfaction with the status quo and a determination to attack established interests. That sense of urgency and boldness is missing now. Liberal reformers have become liberal insiders, satisfied beneficiaries of the world they have helped to build. Their setbacks provoke despondency and panic more than determination. They lack a motivator on a par with the fear (of socialism, fascism or communism) or the trauma of failure (the Depression, the world wars) that drove past reinventions. The threats of nationalism and authoritarianism, though grave and pressing, seem less acute. The success with which policymakers prevented the 2008 financial crisis from spiralling into a global depression added to the complacency and dulled the hunger for more radical reform—even though the mishandling of the crisis in Europe led to many of that continent’s current political problems.

Liberals need to shake themselves out of this torpor. And they need to persuade others of their ideas. All too often, in recent years, liberal reforms have been imposed by judges, by central banks and by unaccountable supranational organisations. Perhaps the best-founded part of today’s reaction against liberalism is the outrage people feel when its nostrums are imposed on them with condescending promises that they will be the better for it.

Liberals also need to look at the degree to which self-interest blunts their reforming zeal. The people who produce and promulgate liberal policy are pretty well enmeshed with the increasingly concentrated corporate elite. Its well-heeled baby-boomer bloc is happy to get pensions that economic logic says it should forgo. If

there is a greater liberal stronghold than the international institutions which liberals need to reform, it is the universities that they need to reappraise, given the urgent need to support lifetime learning. Liberals have gained the most when they have taken on entrenched power. Now that means attacking both their current allies and their own prerogatives.

How do you kick-start a liberal reinvention? It may be necessary to up-end traditional party structures, much as Emmanuel Macron has already done in France. It may demand a new generation of politicians who cannot be blamed for the way things are and articulate better than today’s crop how things should be. But whoever leads, they and their followers need to be willing to test their ideas against others’ as forthrightly as possible.

That means free speech—a lot of it. And speech that is well informed and in good faith, too. But as autocrats gain clout, the room for free speech is shrinking. Only 13% of the world’s people live in a country with a truly free press, according to Freedom House. In America, Donald Trump’s pathological lying and constant attacks on the media as “enemies of the people” and “fake news” are taking their toll. But the fact-free world of paranoid fantasy that right-wing media provide for his followers is a bigger problem.

So is the echo chamber afforded by social media—even when they are not being manipulated by foreign powers. By reinforcing people’s biases, they cut off the competition ideas need if they are to improve. At the same time they discredit the compromise that democracy needs. They relentlessly encourage a focus on the identity politics that increasingly consume left-liberals, particularly in America, drawing attention away from the broad canvas of economic and political reform to the fine brush strokes of comparative victimology. Online as elsewhere, identity politics have obstructed robust debate and promoted soft censorship.

*The Economist* thus marks its 175th anniversary with wariness, with optimism and with purpose. Wariness because not enough people have grasped the scale and urgency of the reforms needed if the values and insights that underpin our founding creed are to flourish as they should. Optimism because those values are as relevant as ever.

Purpose because nothing serves liberalism better than “a severe contest between intelligence, which presses forward, and an unworthy, timid ignorance obstructing our progress”. James Wilson’s words are reprinted on the first page of his newspaper this week and every week. We start our second 175 years with a renewed determination to live up to them. ■





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Zambia

# End of the road

LUSAKA

**An increasingly authoritarian regime is pushing Zambia towards a debt crisis**

THE cars in Lusaka are moving even more slowly than usual: hidden speed cameras have spooked drivers in Zambia's capital. The government is desperate for cash, so motorists who speed are being fleeced. The regime has also announced taxes on boreholes, internet calls and even weather reports. "The pressure is falling on the ordinary people," complains John Phiri, a taxi driver. "All because the state has run up too much credit."

Concern on the street is mirrored in markets. Of the 75 countries whose bonds make up the Bloomberg Barclays Emerging Markets Index, a basket of sovereign debt, none has performed as badly in 2018 as Zambia (see chart). Given crises in Argentina and Turkey, that is some achievement. "The market is pricing in a default," notes Gregory Smith of Renaissance Capital, an investment bank. Zambia is therefore a warning for other African countries which also received debt forgiveness in 2005-06 but today find themselves on the verge of another crisis.

Zambia's economy made a good start to the century. Growth averaged more than 7% a year from 2000 to 2010, buoyed by high prices for copper, which makes up 80% of exports. (The top destination for Zambia's exports is Switzerland—home to Glencore, a commodities trader.) The boom meant that aid, which amounted to

57% of national income in 1995, was just 5% by 2010.

The boom ended in about 2011. Copper prices fell and growth slowed. The Patriotic Front (PF), which still rules Zambia, was elected that year. It soon embarked on a spending splurge. As well as new roads, hospitals and airports, the PF has almost doubled the civil-service wage bill in real terms and expanded the number of districts from 72 to 115 so as to dole out more patronage.

Extra spending has been funded by borrowing. Public debt increased rapidly, from

21% of GDP in 2011 to 59% at the end of 2017. Roughly two-thirds of that borrowing is denominated in foreign currency and owed to Chinese creditors or Western investors who bought its Eurobonds: \$3bn worth of dollar bonds issued in Europe.

Paying back these debts is putting huge pressure on Zambia's finances. The biggest item in the budget used to be education. Today it is debt service, with nearly a quarter of government spending going to pay back loans. The fiscal deficit for 2018 is set to be more than 9% of GDP. Civil servants were not paid on time last month. When pay was delayed last year a government spokesperson helpfully recommended that bureaucrats start breeding chickens. Arrears for government contractors are mounting. This in turn is hurting businesses. The share of bad loans on banks' books has increased to 13% from 8% two years ago.

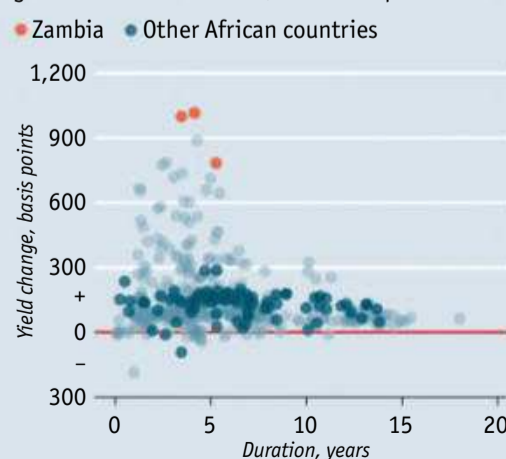
Zambia is one of 18 African countries the IMF says is at risk of "debt distress"—double the number in 2013. A further eight are already in distress (meaning they are delinquent or in default). Yet Zambia is resisting the fund's call for restraint and relations with it have all but broken down. Talks over a bailout are on ice and, under pressure from Zambia, the IMF has reassigned its representative.

It is not as if the money has been well spent. Much has been spent haphazardly—or, in some cases, stolen. "People are asking: where did all the money go?" says Geoffrey Chongo of the Jesuit Centre for Theological Reflection, a local charity.

One answer is tarmac. Since 2011 Zambia has announced plans to build 9,000km of roads. Few doubt the need for better infrastructure. But the country has overpaid. A study by the World Bank in 2017 found that Zambia paid \$360,000 per kilometre, ▶▶

### Feeling nervous

Bloomberg Barclays emerging-market government bond index\*, Jan 1st-Sep 11th 2018



Source: Renaissance Capital \*Excluding Venezuela



▶ which is more than twice the African average. And since upkeep has been neglected, many new roads are already potholed.

Other deals have been similarly wasteful. Zambia bought 42 fire engines for \$1m each—a 70% mark-up. And it has regularly paid over the odds for infrastructure built by state-owned Chinese companies. Take the contract for the new airport terminal in Lusaka (known locally as “the hamburger” though it looks more like a *bao* sandwich), which has been designed to accommodate a rather improbable ten-fold increase in passenger traffic.

These deals are opaque. Typically loans are agreed between Zambian government departments and China’s Export-Import Bank, which then lends directly to the Chinese contractor. Only later, if at all, are the true costs revealed. Many worry that some deals remain undisclosed, and that President Edgar Lungu will hand over state assets such as ZESCO, the energy utility, to China in exchange for debt relief. A Zambian delegation returned last week from Beijing, where it attended the triennial summit of Chinese and African leaders.

Many Zambians resent the Chinese influence. Businessmen, for instance, complain that they are locked out of the best contracts. Privately, though, Zambia’s elites are more likely to blame their government than the Chinese. Under the PF, governance is weak and venal. Reports from Zambia’s Auditor-General and the Financial Intelligence Centre, an ombudsman, suggest that corruption has increased markedly under Mr Lungu’s regime. One economist who has studied road deals estimates that 5-10% is skimmed off the top.

Corruption goes hand in hand with repression. After the election in 2016, which he won amid allegations of rigging, Mr Lungu jailed the opposition leader, Hakainde Hichilema, for the crime of not yielding to the presidential motorcade. A critical newspaper was shut down and journalists have been harassed. Mr Lungu has packed the constitutional court with his hand-picked judges and threatened chaos if they do not allow him to run for an unconstitutional third term in 2021. “I have been here for 21 years and never seen so many people afraid to speak out,” says an academic in Lusaka. “Zambia has become an authoritarian state.”

Defenders of Mr Lungu reckon that Zambia has time on its side. The principal on the first of its three Eurobonds is not due until 2022. China may extend the terms of its credit. But given the rising debt burden, Zambia cannot go on as it is. Later this month the government will outline its budget for 2019; investors and the IMF will be watching to see if there is any sign of change from Mr Lungu and his cronies. If not, 12 years after the world forgave its loans, Zambia will keep heading towards another debt crisis. ■

## The Democratic Republic of Congo

# War and cheese

MASISI

## How dairy farmers cope with chaos

**E**ASTERN CONGO is best known for producing coltan, a mineral used in mobile phones, and refugees. But it also makes rather good cheese. At his dairy on the hillside of Masisi in North Kivu, Lambert Sinamenye churns out 12 rounds a day. After maturing for 21 days they taste like Gouda, only more salty, and are named “Goma”, after the provincial capital, 55km away.

The verdant hills of this region, dotted with Friesian cows and known as “Africa’s Switzerland”, are ideal for caseiculture. Some Belgian monks who arrived in the 1970s soon began crafting camembert. Italian missionaries whet appetites for mozzarella. In their heyday, dairies in Masisi also churned out butter, cream and yogurt.

Now, however, farmers are lucky to eke out a few dollars a day. War and lawlessness have curdled their business. Twice a week Mr Sinamenye sells his cheeses for the equivalent of \$3 each to a trader who straps them onto the back of a motorbike and braves the muddy track to Goma. There they are sold to shopkeepers, who in turn sell them for \$5 each.

Mr Sinamenye could make bigger profits selling milk. But, as in most of Congo, there is no electricity to pasteurise it or keep it cool on the way to market. The only way of preserving it is to cast it into sturdy rounds. A few villagers come and buy fresh milk in plastic jerrycans, but most of it is turned into cheese.

Making a profit is something of an achievement. Mr Sinamenye, whose family has managed a dairy farm here since 1976, recalls how it once supported a herd 4,500-strong. Then chaos spilled across the border. After the genocide against Tutsis in neighbouring Rwanda in 1994, the Hutu militias that had perpetrated it fled into Congo (then called Zaire), where they terrorised civilians and slaughtered cows, which were seen as symbols of Tutsi wealth.

“Twice a week we’d flee at the sound of their gunshots,” he remembers, “and return to find more cows were missing.” Many of the carcasses were left to bloat in the fields. Over the following few years armed groups would loot the farm, killing cows to eat or for meat to sell. By 1998 all the cattle were dead and Mr Sinamenye had fled to Goma.

In 2000 he returned, leasing enough land from the farm’s owner, an army general in Kinshasa, to graze 400 cows. Business is picking up since the reopening of a nearby coltan mine: he now has hungry miners coming to the farm to buy cheese and milk. Sometimes they even buy a whole cow, which is chopped up and cooked for them by Mr Sinamenye’s wife. But he still fears the rebels who descend from North Kivu’s nearby hills, killing and kidnapping villagers. “We can only rely on God to protect us,” says Mr Sinamenye. Not all cheesemakers are blessed.



Who will move his cheese?

## A new battle for Iraq

## Messopotamia

BAGHDAD

Rivalry between America and Iran may wrench Iraq apart again

THE capital has not looked so good in decades. Baghdad's restaurants have had fancy facelifts. New malls seem to be opening every month. Cranes motionless since Saddam Hussein's fall in 2003 are moving again as rich Iraqis have begun to invest at home instead of squirrelling their takings abroad. Huge billboards of frowning clerics have been replaced by neon advertisements of unveiled smiling girls. Rockers pack an open-air peace festival on the bank of the River Tigris.

Baghdad's security has improved markedly since the jihadists of Islamic State (IS) were repelled from the city's gates in 2014. But the city's revival is under threat again, this time by rivalry between America and Iran and their proxies. Inside the Green Zone, Baghdad's government enclave, Brett McGurk, America's regional envoy, and Qassem Suleimani, commander of the Quds Force, Iran's foreign legion, are marshalling their allies.

Each is trying to shape the formation of a ruling coalition to his taste, following Iraq's messy general election in May. Iran wants a "Shia house"—comprising more than 200 of the parliament's 329 members drawn from a range of Shia parties—to run the show. Mr McGurk wants to have the reins held by a cross-sectarian coalition of Kurds and Sunni Arabs led by Shia "nationalists" less beholden to Iran. Mr McGurk's would-be coalition, called *Islah* ("Reform"), has some 145 seats. General Suleimani's rival bloc, known as *al-Bina* ("Reconstruction"), has 109 or so. Neither has the majority required to choose a president and prime minister.

Political tensions are turning violent and spilling out of the Green Zone. Though American and Iranian commanders battled in tandem against IS, they are now at loggerheads. On September 6th mortars landed near America's embassy in Baghdad; its consulate in Basra was later struck, too. These were the first attacks by Shia militias on American targets in Iraq since 2011. Two days later Iran fired missiles at a Kurdish base in Koya, an Iraqi town close to its border. This was reportedly the first salvo fired by Iran at Iraq since the long war between the two countries in the 1980s.

Even more dangerously, Iran is flexing its muscle in Basra, Iraq's neglected second city, which lies close to the Iranian border. It plugged rivers supplying the city with water and cut its electricity. Locals protested by blocking roads to Iraq's giant oil-



Anger boiling over

fields and only port, which provide 90% of government revenues. Security forces attempted to impose a curfew by shooting protesters, but only inflamed their ire. In a four-day rampage, they torched government offices and the Iranian consulate.

This should have alerted the politicians in Baghdad. After all, the last time they bickered after another inconclusive election in 2014, IS fighters swooped into Mosul and much of northern and western Iraq, igniting three years of war.

Haider al-Abadi, the caretaker prime minister, has sought American backing for a second term by suspending Abu Mahdi al-Mohandes, Iran's man commanding the Popular Mobilisation Committee, which oversees the country's plethora of militias. Mr Abadi has also promised to abide by American sanctions on Iran's reeling economy. He has told Iraqi banks to stop dollar transactions with the country, thus blocking a prime conduit for foreign currency. If America does not grant a reprieve, say Mr Abadi's officials, Iraq will stop importing an array of goods, including fuel, from its eastern neighbour by November.

Those Iraqis who see Iran as their chief ally are fuming. After all, Iran was the first to rush to Iraq's aid when IS closed in on Baghdad. Hoteliers in Iraqi cities hosting Shia shrines bemoan the recent dearth of Iranian pilgrims. "We've had no bookings since June," says a hotel manager in Najaf.

But Iraq's nationalist camp is just as feverish. "Iran *bara, bara!*" ("Out, out, Iran!"), chant supporters of Muqtada al-Sadr, a Shia cleric who is popular among the urban poor. His bloc won the most seats in the election. Sadrists ripped down portraits of Ayatollah Ali Khamenei, Iran's supreme leader, to whom many of Iraq's militias are loyal. Massing for Friday prayers in Baghdad's vast slum known as Sadr City, they castigate pro-Iranian militia leaders, whom they once cheered for repelling IS,

saying they are worse than Saddam Hussein, the blood-drenched former dictator.

In past crises Iraq's senior Shia clergy in the holy city of Najaf, such as the now ailing Grand Ayatollah Ali al-Sistani, would have mediated. But their authority has waned. The non-aligned Kurds have watched from the sidelines. Few influential voices urge compromise. Militiamen and politicians alike predict a return to assassinations and a Shia-on-Shia civil war. And after months of merciful calm, the thud of car-bombs can be heard again on highways out of Baghdad. ■

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America and the Palestinians

## Back to the future

CAIRO

After decades of talks, the Palestinians are no longer welcome in Washington

FORTY years ago the Palestine Liberation Organisation (PLO) took a first step to representation in Washington, DC. President Jimmy Carter allowed it to open a three-person "information office" in 1978, though it was then considered a terrorist group. It was a move towards an American-brokered peace process meant to lead to a two-state solution. The relationship was often rocky. Ronald Reagan wanted to close the office. George Bush senior was furious that the PLO supported Saddam Hussein's invasion of Kuwait. But it endured, and the peace process became central to American diplomacy. Perhaps no longer.

On September 10th America announced that it would shut the PLO's mission, which served as a de facto embassy. It offered a few justifications, accusing the PLO of "refusing to engage with the US gov- ▶▶

ernment”, which is untrue. The ambassador, Husam Zomlot, visited the White House four times in 2017 and met the president’s special envoy, Jason Greenblatt, three times.

America also complained that the Palestinians had condemned Donald Trump’s peace plan before they had seen it. That is accurate, though understandable. Since December the president has recognised Jerusalem as Israel’s capital and ended payments to the UN Relief and Works Agency, which aids Palestinian refugees. This month Mr Trump also froze \$25m in funding for six Palestinian hospitals in East Jerusalem. Unlike his predecessors, who urged Israel to stop Jewish settlers from building in the West Bank, Mr Trump seems to encourage the settlements. They are not an obstacle to peace, says his ambassador to Israel.

Given this record, Palestinians conclude that Mr Trump, egged on by Israel, is trying to bully them into surrendering their aspirations to a state in territories occupied by Israel in 1967, with East Jerusalem as its capital. If America loses interest in a two-state deal, there is scant hope of anyone else taking the job.

The European Union has little influence over Israel. Arab states, preoccupied with their rivalry with Iran or their internal difficulties, have little interest. As for the Palestinians, they have few tools with which to respond to Mr Trump.

The Palestinian Authority (PA), the limited self-government created under the Oslo Accords of 1993, often threatens to stop security co-operation with the Israeli army. But co-operation serves the authority’s interests by propping up Mahmoud Abbas, the Palestinian president, who has more to fear from Hamas, a militant Islamist group, than Israel does.

A more credible threat runs through The Hague. The Palestinians signed up to the International Criminal Court (ICC) in 2015, and in May asked it to investigate possible Israeli war-crimes. That has infuriated both Israel and America. John Bolton, America’s national security adviser, announced the closure of the PLO office during a speech assailing the ICC, a bugbear of his. But the court has not decided whether to start an investigation, and it would be years before it pressed any charges.

That leaves a final, dramatic option available to Palestinians: to dissolve the PA. Corrupt and ineffective, it offers residents of the West Bank overcrowded hospitals and roads that are more pothole than pavement. It lost control of Gaza more than a decade ago. Most of all, it preserves the fiction of a conflict between two sovereign states when ultimate power rests with Israel. Dissolving the PA, critics argue, would force Israel to bear responsibility for its half-century of occupation.

Though the PA is loathed by most Pales-

## Guns in Yemen

# Heat check

MUKALLA

## A city in war-scorched Yemen tries gun control

AS YOU would expect in a country at war, Yemen bristles with guns. The forces of the internationally recognised government carry Kalashnikovs. So do the Iranian-backed Houthi rebels, who toppled it in 2015. But it is not just the combatants who pack heat. The country has more privately owned guns per person than any except America, where prosperous gun-lovers can afford far more. Many Yemenis sling rifles over their shoulders or tuck handguns into their trousers before going out. Markets sell everything from pistols to bazookas. You cannot go far in most cities without seeing someone with a gun.

That is what makes Mukalla, the capital of Hadramawt province on the southern coast, so unusual. The only people carrying guns are in uniform. Banners warn civilians not to bear arms

in public. Those wishing to enter Mukalla must hand over their weapons at one of several checkpoints. As if manning a cloakroom, soldiers hand out receipts so that owners can reclaim their guns when leaving. A storage container at the al-Solb checkpoint holds enough confiscated guns to equip a militia.

In 2015 Mukalla was overrun by al-Qaeda in the Arabian Peninsula (AQAP), seeking to carve out an emirate far from the battlefields to the West. A year later Yemeni recruits trained and backed by the United Arab Emirates and its special forces wrested control of the south and kicked out the jihadists. The fighting led to an influx of weapons, says Brigadier Omar Ahmed Badubeis, who manages operations in the southern part of Hadramawt. Nevertheless, the city has remained relatively peaceful since then. The ban on carrying guns in public aims to keep it that way.

No other city in Yemen has tried such an experiment—because it probably would not work anywhere else. “In other places, manhood is proven by carrying weapons,” says a resident of Mukalla. It is also how tribes show their strength. But with its strong ties to India, Mukalla has been different for generations. In the 1930s Britain established a Hadrami Bedouin Legion to bully local tribes into signing truces. The lasting result was weaker tribes, fewer feuds and less of a gun culture. “Even in tribal disputes, people decline to fight, and go to the courts instead,” says Faraj al-Bahsani, the governor of Hadramawt.

The ban has gone down well with Hadramis, who consider themselves unique. Abu Bakr, a trader in Mukalla, says they are less politically ambitious and therefore more peaceful than most Yemenis. The Sufi brand of Islam is popular in the region and is credited with steering people away from weapons. It is really quite simple, says Abu Bakr, “we don’t like carrying guns.” If only the rest of Yemen felt the same way.



Dressed for a wedding, shotguns optional

tinians, only 42% of them support getting rid of it. That number has not increased for five years. The PA employs about 170,000 civil servants in the occupied territories. Closing it would be painful. Most people in the West Bank worry that without it there would be chaos and economic crisis.

The Palestinian embassy in Washington did not provide consular services, and its lobbying and public-relations work fell

on deaf ears. Losing it is symbolic—but the symbol matters. Twenty-five years after the Oslo accords, the Palestinian national movement is weaker than ever. Far from winning a state, it could not even keep an office in Georgetown. Some hope to restart peace talks with Israel once Mr Trump leaves office. But others have started to utter the unthinkable: what if a two-state solution is no longer possible? ■



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## Sweden

# Still standing

STOCKHOLM

**The anti-immigrant Sweden Democrats did much less well than they hoped at the election. But they may hold the balance of power**

ELECTION day, September 9th, looked like a festival in Rinkeby, a largely immigrant neighbourhood of social-housing projects outside Stockholm. On the pedestrian shopping square, Somali-Swedes in niqabs and Eritrean-Swedes in leather jackets milled about between the parties' campaign booths. A stream of voters marched towards the local school to cast their ballots. Turnout was high, said Ismahan Abdulahi, a Somali-Swedish woman canvassing for the centre-left Social Democrats.

"They're voting out of fear," Ms Abdulahi explained. Immigrants are worried by the rise of the Sweden Democrats (SD), a nationalist party that blames them for a rise in violent crime, and wants to make it harder for them to stay and to get benefits. The number of votes cast in central Rinkeby rose by a fifth since the previous elections in 2014, with 69% backing the Social Democrats and a further 14% the more radical Left Party.

Just 25km north-west of Rinkeby, where the city gives way to horse farms and birch forests, the tide was running the other way. In Habo-Tibble, a village of wooden houses and trimmed hedges, Helena Persson, who used to support the Social Democrats, had switched to the SD. The government no longer has money to provide summer jobs for teenagers, she complained: "I feel the immigrants have priori-

ty now. The Swedish people come second." For the first time, the SD finished first in Habo-Tibble, with 29% of the vote.

All over Europe, observers had been watching Sweden for signs of the strength of anti-immigrant populists. The migrant crisis of 2015, when Sweden let in 163,000 asylum-seekers (more than any European country but Germany, and more than Germany as a proportion of the population), gave the Sweden Democrats a huge boost. Polls showed them passing the centre-right Moderates to become the country's second-largest party. The governing Social Democrats and the prime minister, Stefan Lofven, looked set for one of the walloping that centre-left parties all over Europe have suffered. The Moderates' leader, Ulf Kristersson, was expected to form the next government.

Instead, the Sweden Democrats won 17.5%, 4.7 points more than in 2014 but still only good enough for third place. The Social Democrats won 28.3%, down only 2.8 points. The Moderates' showing of 19.8% was better than the polls predicted. Overall, the country's left- and right-wing groupings (excluding the SD) ended up with almost exactly the same number of seats in the Riksdag, Sweden's parliament. Since all parties have vowed not to co-operate with the populists, neither side can form a majority coalition.

That is forcing a change in Sweden's politics, traditionally divided between the conservative Alliance (comprising the Moderates, the Christian Democrats and the Centre and Liberal parties) and the "green-red" bloc (the Social Democrats, the Greens and the Left Party). On September 12th the four conservative parties invited the Social Democrats to discuss terms for supporting an Alliance government. Mr Lofven refused, deriding them for "acting as though they had won". Coalition negotiations may take weeks or fail entirely, requiring new elections. What is clear is that as in other European countries, political fragmentation will push the mainstream left and right to co-operate—or force the

### Rising tide

Sweden, parliamentary election results

	Left Party	Social Democrats	Greens	Liberals	Centre Party	Moderates	Christian Democrats	Sweden Democrats
<b>2018*</b> Seats	28	100	16	20	31	70	22	62
Vote share, %	8.0	28.3	4.4	5.5	8.6	19.8	6.3	17.5 <sup>†</sup>
<b>2014</b> Seats	21	113	25	19	22	84	16	49
Vote share, %	5.7	31.2	6.8	5.4	6.1	23.2	4.6	12.9 <sup>†</sup>

Source: Swedish Election Authority

\*Preliminary result †Others

▶ right to bring in the populists.

Mr Lofven has rejected Mr Kristersson's demand that he resign over the election, which left the government of Social Democrats and Greens with just a third of the seats in parliament. But the Alliance will call a no-confidence vote when parliament reconvenes on September 24th, which the prime minister is sure to lose. Mr Kristersson is then expected to get the first chance to form a coalition. Yet a government of the Alliance alone might be too weak to withstand a challenge from the red-green bloc if the SD joined in to bring it down.

The Social Democrats argue that as the biggest party, they should continue to govern, especially if the final results (due on September 14th) confirm that the leftist parties won slightly more votes. Initial results gave the red-green bloc 144 seats in parliament, to the Alliance's 143. But in fact the Social Democrats' route to holding power looks no easier. They have declined to include the Left party in government, in large part because of its anti-NATO foreign policy. Many Social Democrats would prefer to work with the Centre party and the Liberals, but those parties would turn down any coalition supported by the Left.

When it comes to policy, though the left and right are sharply divided over privatisation in health care and education, in other areas a centrist government could find much to agree on. Nearly all parties have taken a tougher line on immigration since 2015, and border restrictions have cut the inflow of asylum-seekers to a trickle.

But for the Social Democrats, the spectre looming over any broad coalition is that of the other European countries that have tried it. In the Netherlands, the Labour party joined a coalition with the centre-right Liberals in 2012 in order to keep out the populist Freedom Party. In the 2017 election, its vote fell from 25% to 6%. Germany's Social Democrats have been in coalition with Angela Merkel's Christian Democrats since 2010, and have seen their support shrink relentlessly to around 17%.

Meanwhile, some Moderates have argued that excluding the SD from power is self-defeating. Populist-nationalist parties have long participated in government in Denmark, Finland and Norway. But unlike those groups, the SD grew out of explicitly racist movements in the 1980s, and some of their founders had neo-Nazi ties. The current leader, Jimmie Akesson (pictured, previous page), has moderated the party; many of the more racist and anti-Muslim members left last year to form the Alternative for Sweden. But Mr Kristersson says he will not co-operate with the SD on policy, and Mr Akesson says he will back no Moderate government that does not give the SD influence. For now, all parties say they will shun the populists. But should coalition negotiations drag on, threatening new elections, some may reconsider. ■

Gay asylum-seekers

## Under the gaydar

Ridiculous tests for gay asylum-seekers in Europe

HOW can you tell if a refugee is gay? Austrian officials seem to have relied on old Bee Gees lyrics for a reason to reject an 18-year-old man from Afghanistan who said he risked persecution back home for his sexual orientation. "Neither your walk, your behaviour, nor your clothing indicate even in the slightest that you could be homosexual," they told him. Confusingly, an Iraqi seeking asylum was reportedly rejected last month because he was too effeminate. Officers thought he was shamming.

The Austrian interior ministry says it has removed the official who turned away the Afghan man. But such stories are common. Many European countries recognise that for people from some parts of the world, simply being gay is grounds for being granted asylum. Yet Evelyne Paradis of ILGA-Europe, a gay umbrella group, says that many officials "think there is only one way to be an LGBT person".

The European Court of Justice (ECJ) has curbed some of the most egregious practices. A ruling in 2014 barred prurient questions about sexual activity and "arousal tests", where asylum-seekers are shown gay porn to see if it excites them. This year the court told Hungary to stop using Rorschach tests. Some officials had been trying to discern gayness from the way refugees responded to inkblots.

Sabine Jansen of COC Nederland, a

Dutch LGBT group, says that new kinds of stereotyping have emerged. Her research in the Netherlands found that case officers expected gay asylum-seekers from conservative Muslim countries to conform to a preconceived personal narrative. "If you don't say that you feel ashamed to be gay, or if you say you didn't struggle with the contradictions between your sexuality and religion, they are unlikely to believe you," she says.

It is hard to know the scale of the problem, as most countries do not provide data on the grounds for asylum claims. But figures from Britain show that only 39% of the 3,535 people who applied for asylum based on sexual orientation were accepted between July 2015 and March 2017. Ms Jansen says that the Netherlands accepted 63% of 267 such applications from October 2015 to April 2016.

Such cases are inevitably hard. No test can reliably tell whether someone who claims to be gay is telling the truth. A mistake could be fatal: gay people in Saudi Arabia or Yemen can still be stoned to death. To make matters trickier, LGBT asylum-seekers are often reluctant to go into details about their intimate lives. Many do not bring up their sexual orientation during initial interviews, hoping to secure asylum on other grounds, and only mention it as a last resort.

"Officials who handle these cases need to learn that queer people come from all kinds of backgrounds and experiences," says Marty Huber of Queer Base, an Austrian NGO. "They need to really listen to people's stories." In practice, this would mean pursuing multiple lines of questioning during an interview, offering asylum-seekers more than one way to demonstrate their credibility. Some might best be able to ▶▶



Well, you can't tell by the way I use my walk

do so by describing their internal struggle, but others might instead prefer to discuss participation in underground LGBT groups or instances of persecution for their sexuality. Sweden, unlike Austria, requires an expert in LGBT issues to be present when a gay asylum-seeker is questioned.

Some fear that gay people will find it harder to win asylum in the future as political pressure grows to accept fewer refugees. Ms Huber suspects that in Austria, where the government has vowed to reduce immigration, some of the questions in interviews are designed to trip people up. She cites the story of an Iranian man who was asked if he knew what the orange stripe in the rainbow flag means. (It stands for healing, though it is possible that not every gay Iranian man knows this.) “He had an Austrian boyfriend waiting outside who was willing to serve as a witness, but they didn’t even call him in,” she says. ■

## Hungary

# Orban sceptics

### Europe’s parliament condemns a strongman, but sanctions are unlikely

SINCE coming to power in 2010, the government of Hungary’s prime minister, Viktor Orban, has consistently disdained judicial independence, academic and media freedoms, and the rights of migrants. It has, in the view of many people, run roughshod over some of the core values of the European Union. So far, the EU has done nothing to rein it in. But on September 11th Judith Sargentini, a Dutch MEP, made an attempt to do so, launching a detailed report that documents Mr Orban’s transgressions, from widespread corruption to the forced sterilisation of Roma women in the past. She took to the floor of the European Parliament and called on her colleagues to choose: “Will you ensure the value of this union is more than just words written on a piece of paper?”

Mr Orban, who bashes Brussels even as he accepts colossal subsidies from EU taxpayers, arrived at the debate both late and defiant. It was “insulting”, he told the chamber, that they wanted to “strip Hungary of the right to represent its interests in the European family where it belongs”. Supporters of the Hungarian populist, including Nigel Farage, the chief cheerleader for Brexit, came to his aid. But the following day MEPs voted with more than the required two-thirds majority to start the process of sanctioning Hungary under Article 7 of the EU treaty. In doing so they collectively stated that Mr Orban’s government posed a “systemic threat” to democracy

## Cricket in Corfu

# At the crease in Greece

### Another island where flannelled fools thrive—despite batty rules

THE guide books all note that Corfu’s lovely old town bears the mark of lands to the north. But even so, it can still feel surreal to sit in a Parisian-style arcade or a Venetian-inspired mansion and look out at 22 white-clad players engaged in an English-born game.

Corfu is one of the few non-Commonwealth spots where cricket thrives. It offers enjoyable, knockabout games, as players from Australia, India and South Africa can attest after recent exhibition matches. And since 1978, when a gaggle of English comedians and sportsmen flew in to play, it has been loved in cricket’s homeland.

The island has two cricket grounds besides the pretty one in the old town, which adjoins UN-protected heritage and the azure sea. Less happily, a car park is gobbling up the turf, though only in jest do players suggest that smashing a wind-screen merits extra runs.

All this is a legacy of the day in 1823 when islanders saw the Royal Navy play the British garrison (Britain had taken the island during the Napoleonic wars). Corfiots longed to participate, and produced a couple of teams which survived and multiplied after Britain’s exit in 1864.

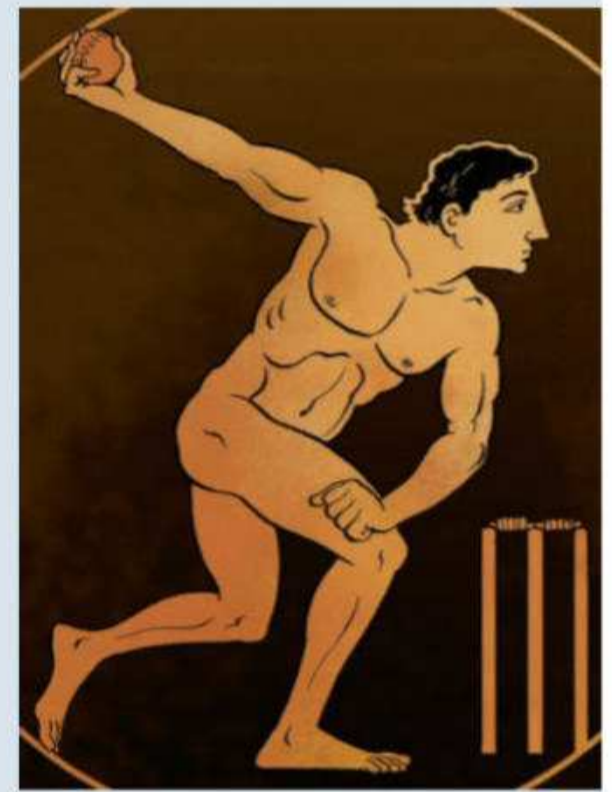
Amid Greece’s turbulent history, Corfiot cricket could have died, but it remains popular among local men and, increasingly, women. Three female teams have just been formed.

Not all Greek cricket is Corfiot; 200 miles south-east a different scene exists. In grimy Athens, Asian migrants borrow a football ground three times a year for two-day contests. Last month’s attracted 12 teams. Mehdikhan Chaudry, the organiser, says he could get twice that number, given time and space. These worlds occasionally connect. One of Corfu’s top cricketers is Mohammad Aslam, an

electrician who came from Karachi in 1995 and never left.

Ideally, keen Corfiots and proud Pakistanis should combine to give Greek cricket a boost. But Greece is sadly absent from the current European championship; Germany, with no historic background in the game, excels.

Why so? First, the International Cricket Council (ICC) says participating countries must have 10 organised men’s teams playing at least five matches a year. Corfu fell slightly short. The ICC has also slackened the rules for players, so a passport, a birth-place or three years’ residence entitle you to represent a country. That helps Germany, with many residents of Commonwealth origin. But Greek sporting rules foolishly make it hard for non-citizens to represent the country. Only if that problem is solved can Hellenic cricket hope to score another century.



and the rule of law. Notably, another conservative leader often accused of excessive nationalism, Austria’s Sebastian Kurz, told his party to vote against Hungary. Mr Kurz is a fellow-member of the European People’s Party, the main right-of-centre political grouping at the parliament.

In theory, the vote could lead the EU to impose sanctions on Hungary and even to suspend its voting rights. But in order for this nuclear option to be used, the leaders of the EU’s other 27 members must unanimously agree. That is unlikely because Poland is currently facing the same procedure; and Poland and Hungary have

vowed to support each other.

Mr Orban may not care all that much about the vote. His primary audience in Strasbourg was not MEPs but domestic voters, and the defeat will only serve to boost his popularity, as he presents himself as a valiant defender of the beleaguered Hungarian nation against the hostile external forces (that pay its bills). “These debates help him to mobilise his own camp and will work much more at a domestic level,” says Andras Biro-Nagy of Policy Solutions, a Budapest think-tank. The lead in the polls held by Mr Orban’s Fidesz party is anyway unassailable. More than 50% of Hungar- ▶▶



Is he bothered?

►ians back it against a fractured opposition.

The EU vote, though expected, infuriated Fidesz MPs and MEPs, who said the punitive action was in revenge for Hungary's determination to stand firm against mass migration. The decision was an act of "petty revenge", said Peter Sziijarto, the foreign minister. The Sargentini report was full of "unjustified, untruthful accusations".

The criticisms have long been resolved with the European Commission, government officials argue. Mr Orban, they note, has won three elections in a row, partly by promising to crack down on migration and the NGOs which support it. His team reckon that he is being punished for fulfilling his democratic mandate. ■

## Vladivostok

# Brother enemy

VLADIVOSTOK

**Russia's far east is close to China but far from making good use of that fact**

**M**USIC was blasting, rockets were flying and pancakes were frying in Russia's far east on September 9th. A vast screen placed on the embankment in Vladivostok, a port city on the shores of the Pacific, juxtaposed a North Korean military choir singing patriotic songs with images of burning American flags and rockets hitting Capitol Hill. A few hundred miles to the north-west, Russian, Chinese and Mongolian troops were readying for their joint war games, timed to coincide with the Eastern Economic Forum, a three-day annual gathering organised by Vladimir Putin.

On Russky Island, linked to Vladivostok by a shiny new bridge, Mr Putin and

China's president, Xi Jinping, ate caviar and toasted each other with vodka. Russian youth danced to old Soviet pop songs among eastern-style pavilions. All this symbolised Russia's new improved friendship with China, energised by the Western sanctions that followed the annexation of Crimea in 2014, and China's trade war with America.

Russia's pivot to Asia, so Mr Putin has repeatedly promised, would transform the fortunes of the sparsely populated Russian far east. So far, however, the words have not been matched by actions. The two leaders' personal relationship may be flourishing, but the partnership rests largely on military co-operation and political alignment. The only significant economic deal announced during the forum was an agreement by Alibaba, a Chinese e-commerce giant, to team up with Russia's sovereign wealth fund and a Kremlin-friendly oligarch, Alisher Usmanov, who controls the country's rival to Facebook, to create a joint platform. The deal, yet to be finalised, shows that Russia is looking to China for technology, not just money.

The main beneficiaries of Russia's turn towards China are Mr Putin's cronies and state firms such as Gazprom and Rosneft, the state gas and oil giants. China's investment in Russia overall is relatively modest. The figures are murky, since many Chinese firms invest in Russia via offshore hubs such as Singapore, but it is estimated that China has invested \$40bn in Russia since 1991, half of it in the past six years, a number that is dwarfed by Europe's investment in Russia and China's investment in Europe. Only a tiny part of that Chinese money goes to the Russian far east, and the Chinese presence there is mostly limited to small manufacturers and farmers. Private business is cautious, lacking in incentives and success stories.

China still sees Russia primarily as a source of energy and raw materials. Its trade war with America will increase demand for this. China is particularly keen on Russian soya beans, and Russian officials are promising to give Chinese investors 1m hectares of land to grow them. But research by Ivan Zuenko, a China expert in Vladivostok, shows that the region does not have much available land, and its soya production is already reaching its peak. Such promises, he argues, are "an imitation of activity". The result will be inflated expectations and inevitable disappointment.

Some Russian firms complain that China puts up trade barriers to their products, while flooding the Russian market with goods that often circumvent Russian customs by going via poor Central Asian countries, such as Kyrgyzstan, which are part of Russia's customs union.

For all the talk of closer ties, Russia's border crossings to China are pitiful and often look like sheds rather than gateways.

Two planned bridges to China that were supposed to symbolise an improvement have become symbols of the wide gap between expectations and reality.

One, a railway bridge that was proposed more than a decade ago to cut the distance required to shift Russian iron ore to China quite literally hangs in the air. The Chinese long ago completed their part of the bridge to the line in the Amur river that forms the frontier, but Russia has barely started on its much shorter bit. Having missed many deadlines, Russia now promises to complete it next summer, along with a two-lane bridge for cars that will link Blagoveshchensk, little changed since Soviet times, with Heihe, which has grown from a village into a metropolis of 1.6m people and numerous skyscrapers.

## Too many snoops

One of the main barriers to better relations is Russia's security apparatus, which still views China (and ordinary Russians, for that matter) with great suspicion. In contrast, local people see China as an underexploited opportunity rather than a threat, and are frustrated by Moscow's colonial attitude towards the region. According to Viktor Larin, a scholar of the area, a third of the population in Russia's far east say Moscow's policy towards them is one of the top three security threats, along with international terrorism. Tax breaks have not done much to change this attitude.

Frustration at all this showed up in recent regional elections, where Kremlin-backed candidates fared poorly, and were forced into run-offs, considered a slap in the face for the central government. While ideologues try to persuade Russian people that their destiny lies with authoritarian China, people in the far east seem as keen on Western lifestyle and institutions—such as property and human rights—as are the Chinese. The irony is that Russia's confrontation with the West, as well as its weak property rights, is making it less attractive to China, whose banks are reluctant to do business with people and institutions under sanctions. North Korean choirs, vodka and rockets will not remedy that. ■



# Charlemagne | For those in peril on the sea

Jean-Claude Juncker braces for the storms on Europe's horizon



THE custom of the president of the European Commission delivering an annual American-style “state of the union” speech to the European Parliament dates back to 2010. It has come to serve as a barometer for the Brussels institutions, and to some degree for the continent. In 2016 Jean-Claude Juncker was gloomy, speaking in the wake of Britain’s vote to leave the EU. Last year he was cheerful, declaring that “the wind is back in Europe’s sails” following economic recovery and the election of Emmanuel Macron, a vigorous pro-European, to France’s presidency. On September 12th he gave his final State of the Union speech ahead of European Parliament elections and the appointment of a new commission next year. What did it augur?

Some of the optimism lingered. Mr Juncker noted that Greece had left its bail-out programme and that the number of migrants attempting to cross the Mediterranean had fallen. He hailed 21 quarters of economic growth, a new “zero tariffs” agreement with Donald Trump, unity on Brexit and the nearly completed EU-Japan partnership agreement. Under the mantra of “delivering on our promises” he pledged to boost the EU’s popular legitimacy by cracking down on single-use plastics and to return the power over clock-changing in summer and winter to member states. This, to co-opt last year’s nautical metaphor, was about a European hull made fast against the slapping of the waves.

Yet the president’s speech was really about the storm clouds on the horizon. Europe now needed *Weltpolitikfähigkeit*, “the capability to do world politics”, insisted Mr Juncker. This should take several forms: increasing defence spending, a new partnership with Africa, expanding the use of the euro as an international alternative to the dollar and a move to qualified majority voting on certain foreign-policy subjects (opposing Chinese human-rights abuses, for example). Closer to home, there should be measures to strengthen the euro’s stability, a drive to remove terrorist content from the internet faster and a big increase in the staffing and powers of the EU’s puny border- and coastguard. In other words: crisis prevention and mitigation measures for a Europe whose neighbourhood is increasingly turbulent and whose protector and bastion, America, has gone missing. It was “sunny, optimistic and peaceful” in 1913, noted the commission president in one of his better lines.

Set against such mighty waves, it is questionable whether the patches on Mr Juncker’s dinghy will hold. The notion of the EU as a “global player” looks farcical at a time when Beijing, for example, barely pays attention to Brussels (and vice versa, grumble some). The next economic downswing is only a matter of time, and Mr Macron’s push to reform the euro while the sun is shining has mostly dissolved on contact with German reluctance. Full banking union remains a distant prospect. Meanwhile the migration crisis is far from resolved: 400 asylum-seekers enter Germany every day, a higher proportion of those risking the Mediterranean crossing are dying, and successive rescue ships are being turned away from ports. The next surge in numbers is a question of when, not if.

Much of this comes down to politics. The differing outlooks and traditions of EU states still make a truly common foreign policy difficult. Angela Merkel’s domestic circumstances prevent her from backing Mr Macron’s plans to fix the euro. Migration policies that make sense and command diplomatic support in the abstract—the centralised border force, pre-screening at “disembarkation platforms” in third countries outside the EU, processing centres within Europe and national quotas for the admission of valid asylum-seekers—all run up against national reluctance. Mediterranean member states are wary of delegating border controls to Brussels, countries in north Africa lack the willingness or ability to run the platforms humanely and effectively and few EU states would accept the processing centres or quotas.

As Mr Juncker suggested in the melancholy peroration of his speech, the politics may be getting even harder: “I would like us to reject unhealthy nationalism and embrace enlightened patriotism,” he urged, in a nod to shifts in national politics that some fear will mark the next European Parliament but also—with populists in power in Rome, Warsaw, Budapest and Athens—the next commission, whose members national governments nominate. The new populist coalition in Italy, which is both the greatest risk to the euro zone and at the heart of battles over how to intercept, process and distribute Mediterranean migrants, is spoiling for battles with the EU on both fronts. It may well be over Rome that Europe’s next big storm breaks.

## The next bail-out

If the commission has done too little to prepare the union for the coming tempest, that is partly Mr Juncker’s fault. (He never really understood the eastern states, complains one insider.) But the main reason is to do with the institution’s declining structural power; that is, its waning ability to drum up support for its ideas among national governments and the European Parliament. That story goes back many years. A more dynamic commission president (say, Christine Lagarde, who heads the IMF) might have achieved more in the circumstances. But she would still have faced the same obstacles.

Europe’s national leaders should nonetheless note the warnings between the lines of Mr Juncker’s speech, and resolve to give the next commission more power and flexibility to respond to them. Tolerating “multi-speed” vanguards of nation states on subjects where unanimity is lacking and selecting the next president for her or his skill and experience—rather than through the *Spitzenkandidat* process whereby the figurehead of the largest European Parliament group gets the job—would help. Without more backing, the commission, the EU’s executive authority, can only do so much to ready the ship for the squalls to come. ■






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**The Brexit negotiations**

## Chequers, the unlikely survivor

BRUSSELS AND LONDON

**Despite being under attack from all sides, Theresa May's Chequers plan for Brexit refuses to die**

**C**OMPROMISES have few friends. So it has proved with the Chequers plan for Brexit, which proposes staying in the single market for goods along with a complex “facilitated customs arrangement” chiefly designed to avert a hard border in Ireland. Brexiteers hate being tied closely to Brussels. Pro-Europeans think the plan is worse than continuing membership. And the EU sees both of its main features as unworkable and undermining the integrity of its single market.

The noisiest attacks come from hardline Tory Brexiteers. Two ministers, Boris Johnson and David Davis, quit the cabinet in July over Chequers. They want Brexit to be based on a Canada-style free-trade deal instead. Yet this week the Brexiteers failed to come up with the detailed alternative plan that they had long promised. A paper claiming that a no-deal Brexit would boost the economy attracted much ridicule. So did a purported plot by Tory MPs to oust Theresa May as prime minister. Yet Tory hardliners believe that, even if they cannot topple Mrs May, they have enough votes to scupper a Chequers deal in Parliament.

At the same time, Chequers is disappointing to the hardliners' opponents. They see rule-taking in the single market for goods, with no privileged access for services, as a backward step. Several would prefer to be like Norway, which as a member of the European Economic Area is fully in the single market. Some Tories are argu-

ing for the Norway option as a temporary home that would both avoid the pain of a no-deal Brexit and create the time and space needed to negotiate a more comprehensive free-trade deal. Others like the idea of another referendum, especially if Parliament cannot pass any deal.

Across the channel other EU countries are closely watching Britain's political chaos. They expect Mrs May to have a torrid time with Mr Johnson and his friends at the Conservative Party's conference in two weeks' time (see next story). They know that Labour is likely to oppose any deal she brings back from Brussels. That this would make it hard to win parliamentary approval will colour their approach to Mrs May. Why concede ground over a deal they dislike if it is heading for rejection at home in any event?

The timetable is now desperately tight. Brexit is due to happen on March 29th 2019. Next week Mrs May will lobby her fellow EU leaders at an informal summit in Salzburg. They will listen politely and are likely to avoid declaring Chequers dead. Yet hopes that leaders might then soften the strict guidelines they have set for the Brexit talks will be dashed. Only at the October summit will they seriously engage with Brexit, for the first time. There is then likely to be an emergency summit in mid-November that tries to agree to a deal, although many in Brussels consider December a more realistic goal.

What sort of deal might be achievable? In Brussels the emphasis is on the formal Article 50 withdrawal treaty that has to be agreed and ratified before Brexit, whereas details around future trade relations will be negotiated afterwards. Most of the withdrawal treaty, on money, EU citizens and so on, is settled, but with one big outstanding issue: a backstop to avoid a border in Northern Ireland in all circumstances, even if no deal can be reached.

The EU claims that last December Mrs May acquiesced to a backstop that keeps Northern Ireland in the customs union and single market even if the rest of the country leaves both. Mrs May says this is unacceptable since it implies a border in the Irish Sea. Yet Brussels is unwilling to apply the backstop to the whole country, insisting it must be for the province alone. It also downplays worries about a border in the Irish Sea. Already inspections of meat products take place on ferries. Adding extra customs checks on all goods would hardly amount to the EU annexing Northern Ireland—and would surely be less damaging than the alternative of border checks between north and south.

It may be possible to fudge some aspects of the backstop, but EU diplomats say it has to be legally operational. Even so Mrs May could accept it on the ground that it will never come into force as a future trade deal supersedes it. That points to ensuring that a political agreement on the future deal is reasonably specific about its terms. Yet Mujtaba Rahman of the Eurasia Group, a consultancy, sees this as tricky, since the other EU countries want to make clear that the future arrangement is not one that is overtly based on the Chequers model.

Hence the appeal of another idea that would, in effect, kick the can down the road. The detailed withdrawal treaty would still have to be agreed and ratified, ►►

▶ but the political declaration on the future trade relationship would be kept largely aspirational. Mrs May could still maintain that this keeps the Chequers plan going (despite what the EU says). If the declaration avoids too many specifics and gestures towards a deep and comprehensive free-trade agreement, the thinking is, it will be harder to attack. Surely neither Brexiteers nor Remainers can easily object to a vague statement of intent?

Such an ambiguous, “blind” Brexit may run into problems with the European Parliament, which will have to ratify it. But the bigger obstacle will be Westminster. Mrs May has proved a rotten salesman for Chequers, both at home and abroad. Many MPs say they would be unhappy to be asked to approve a withdrawal treaty, including paying some £39bn (\$50bn) to the EU, without firmer guarantees about the exact nature of a future trade deal. Yet offi-

cialists think that Mrs May could still win the day, mainly by using different arguments for the various factions in her party.

Thus hardline Brexiteers will be told that if they vote down a deal, the resulting political chaos risks not just bringing in a Labour government but also reversing Brexit altogether. The message for soft Brexiteers will be that, if the deal fails, the most likely alternative will be to leave the EU without a deal. Remainers unhappy with Chequers will be advised that, if Mrs May is forced out by a rejection of the deal, they risk getting Mr Johnson as their new party leader. And so on.

The Brexit negotiations are entering a high-risk, high-pressure phase. The chances of an accident that leads to a messy no-deal Brexit are rising. Yet however much its opponents on all sides may insist that Chequers is dead, its shade seems very much alive. ■

**Boris Johnson**

## The clown prince

**The former foreign secretary’s bid for the leadership of the Conservative Party is gathering momentum**

ONE of Boris Johnson’s favourite phrases is *aut homo aut mus*: are you a man or a mouse? The former foreign secretary, classicist and contender for the Conservative Party leadership is going out of his way to prove that he is no rodent. Barely a week passes without his lobbing a missile at Theresa May in the form of a newspaper article, speech, *bon mot* (or *faux pas*). He uses his weekly column in the *Daily Telegraph* to explain why she is making a mess of things. On September 9th he took to the pages of the *Mail on Sunday* to deliver his most incendiary one-liner yet: “We have wrapped a suicide vest around the British constitution and handed the detonator to Michel Barnier,” he wrote, referring to the EU’s chief negotiator.

Never a strong leader, Mrs May has been weakened by her travails over Brexit. On September 11th members of the European Research Group (ERG), an 80-strong collection of Brexit-supporting MPs, met in Westminster to discuss the mechanics of bringing down the prime minister. Mr Johnson is the prime contender to replace her. But what are his chances?

She will be at her most vulnerable in November or December when (and if) she returns from Brussels with a deal—presumably a modified version of her Chequers proposal—on which the House of Commons will vote. Steve Baker, the shop steward of the Brexiteers, claims that he has 80 votes against Chequers. That could trigger a

confidence vote on the prime minister.

Mrs May might well win such a vote, if only because Mr Johnson is so unpopular among Tory MPs. His problem is not just that the majority of Tory MPs voted “remain” in the referendum, and hate him as leader of the Brexiteers. MPs of all political persuasions regard him as a cad. One senior Tory says that “it’s 100% inconceivable that he’ll become leader of the Conserva-



**The Brexiteers’ great white hope**

tive Party...He’s a media clown, not a serious politician.” “He’s a shit who doesn’t give a shit about anything but himself,” says another. The list of charges against him is long: he doesn’t believe in anything but his own advancement; he doesn’t lift a finger to help his colleagues; he was a disaster as foreign secretary.

He has one big thing going for him, in the eyes of most Tory MPs: his performance at the polls. When he won two terms as mayor of Labour-leaning London he was praised for possessing the “Heineken factor”—the ability to reach parts of the country that other Tories couldn’t reach.

But since Brexit, Heineken has turned into Marmite: while some still like him, many loathe him. When he attended the England v India cricket match at the Oval on September 8th and his face flashed up on the screen, the crowd booed. A recent YouGov poll found that, among the general public, Mr Johnson leads Mrs May on “being liked” (36% to 29%) but trails her by 24% to 31% on “being a good prime minister”. More important, among Conservative voters he is on par with Mrs May on “being liked” and trails her by 42% to 69% in the good-prime minister stakes.

But should Mrs May lose a confidence vote, Mr Johnson has a good chance. The two further hurdles are probably surmountable. He has to get onto a shortlist of two MPs that the parliamentary party sends to the party’s 124,000 members, and then he has to win the membership’s support.

On the first, the Brexiteers, who include not just the ERG but other eurosceptics, have enough votes to get one of their own onto the final shortlist, and are likely to coalesce behind Mr Johnson. Jacob Rees-Mogg, their leader, has already said that he thinks that Mr Johnson would make an excellent prime minister.

On the second, Tory party members like Mr Johnson more than Tory MPs do—and are getting keener with every suicide-vest jibe. In a poll published on September 6th by Conservative Home, a website, Mr Johnson came top, with 35% of the vote; Sajid Javid, the home secretary, in second place, got 15%. A month earlier Mr Johnson got 29% and Mr Javid 19%. As Mr Johnson’s numbers go up those of his rival Brexiteers go down: Mr Rees-Mogg, the most extreme Brexiteer, is running at 10% and Michael Gove, the most pragmatic, is at 6%. In a party that voted overwhelmingly for Brexit, Mr Johnson is the popular leader of the Brexit cause.

There is an uncomfortably close parallel with the rise of Labour’s leader. Jeremy Corbyn was distrusted by the vast majority of Labour MPs but nevertheless won the support of party members. And just as Mr Corbyn has tapped into deep wells of anger on the left, so Mr Johnson might on the right. If he succeeds, it will be unfortunate for the country. ■

# Bagehot | Looking for light

Britain is seeing a resurgence of interest in political ideas



**S**TUCK in the middle of the fens outside Cambridge, the Babraham Research Campus is a nightmare to get to. Yet on September 8th 1,500 people braved challenging logistics and intermittent rain to spend a day in eight makeshift tents there to discuss political ideas. Is this the end of the liberal era? Can we forge a new national consensus in the aftermath of Brexit? How can we use the great thinkers of the past to solve today's problems? The festival is the brainchild of George Freeman, a Tory politician. Although the speakers and the audience tilted right, the participants included a smattering of left-leaning grandees and activists. "It's nice to come to a political meeting where people aren't spitting at you," said a Labour moderate.

The British public's appetite for this sort of thing is greater than for a generation. Mr Freeman's Big Tent Ideas Festival is just one of several focusing on political ideas. *The Economist* is holding its Open Future Festival on September 15th, in London, Hong Kong and New York; in mid-October the Academy of Ideas is staging a two-day Battle of Ideas. Publishers are cranking out books on the crisis of liberalism and democracy. A newish internet-based magazine, UnHerd, was founded with a mission to produce political long-form journalism.

Several engines are driving this interest in big ideas: frustration with politics as normal—the emptiness of political rituals, the viciousness of political quarrels and the vapidness of rolling news channels; a sense that Britain is failing to deal with big problems—rough sleeping is painfully conspicuous, food banks are multiplying, prisons falling apart; and fear—that Britain will crash out of the European Union without a plan and suffer the biggest economic shock since the second world war.

There are deeper explanations for the hunger, too. The first is Hegel's axiom that "the owl of Minerva spreads its wings only with the falling of the dusk." With the financial crisis, the growing hostility to immigration and the rise of populist nationalism has come the retreat of liberal orthodoxy. As intelligent liberals try to work out what went wrong, they are re-examining some of their most cherished assumptions. Supporters of other traditions are pressing their advantage. The 200th anniversary of Marx's birth earlier this year saw an outpouring of books and articles on why his ideas are more relevant today, in a world of monopolistic in-

ternet companies and insecure gig-economy jobs, than they have been for decades.

The neo-liberal era was characterised by a narrowing of political debate. Economics was acknowledged to be the Queen of the Sciences. Managerialism was sacrosanct. Questions of blood and soil were ruled out of bounds. The technocratic bent of policy-making was so pronounced that Downing Street even set up a "nudge unit" that dreamed up ways of "nudging" citizens into improving their behaviour.

With the retreat of neo-liberalism, the debate is broadening once more. Thinkers are asking difficult questions about things that have been taken for granted for years. Jerry Muller's "The Tyranny of Metrics" mercilessly exposes the downside of the cult of measurement and managerialism. They are also focusing on subjects that have been unjustly neglected.

The most emotive of these is immigration. Thanks to books such as David Goodhart's "The Road to Somewhere", Britain is belatedly having a serious debate about immigration after decades in which the subject was sidelined among the *bien pensants*. The most inspiring is the importance of aesthetics. Mr Freeman's ideas festival had two fascinating sessions on the subject—"can design beat nimbysism?" and "the fight for beauty in public life". Policy Exchange, a think-tank, has recently published polling which demonstrates that people are much less resistant to new buildings if designers take more trouble to tailor their creations to their surroundings.

## Too-whit too-who?

The second underlying explanation for the hunger for ideas is that Hegel's owl of Minerva loves nothing more than a puzzle, and the modern world is throwing up puzzles at a disconcerting pace. Not long ago tech gurus predicted that technology would dissolve some of our biggest political problems—replacing a world of shortages with a world of abundance and a world of tribal loyalties with a world of internet-enabled comity. Now the tech gurus are figures of derision, and technology has joined climate change at the heart of political debate. Digital abundance is leading to digital over-indulgence as consumers gorge on the fruits of the internet and then grow sick. Internet-enabled comity is going hand-in-hand with internet-enabled hatred. And the internet platforms are now so big that they are becoming threats to democracy itself.

This raises profound political questions about power. When is it reasonable for the state to step in to regulate the free market in bits and bytes? It also raises older political questions about how people should control themselves in the face of abundance and temptation. Julia Hobsbawm, the author of a book on how to survive in an age of overload, recommends that people should rediscover the wisdom of ritual and observe "techno-Shabbat" when they disconnect entirely from the virtual world.

So far no thinker or work has emerged with the capacity to galvanise opinion in the way that John Maynard Keynes's "The End of Laissez-Faire" did in 1926 and Milton Friedman's "Free To Choose" did in 1980. That may be in part because of the complexity of today's problems, which concern not just the barriers to economic progress but also the engine of progress itself—digital technology—and the profound psycho-social problems it throws up. Yet the appetite for change is palpable. Anyone who can satisfy this hunger with a well-cooked polemic has a chance to define the next political era. ■



## Climate change

## Local government v global warming

SAN FRANCISCO

**Cities, regions and corporations want to help tackle global warming. How much can they achieve?**

**S**UPPOSE Britain's prime minister ordered civil servants to make the world's fifth-biggest economy fully carbon-neutral by 2045, and thereafter to extract more greenhouse gases from the atmosphere than it emits. In a sense that is what happened on September 10th, when Governor Jerry Brown of California—whose economy last year overtook Britain's—inked an executive order mandating state agencies to begin such preparations.

He had just signed into law a bill setting the same 2045 deadline for the state's complete transition to renewable and other zero-carbon electricity. The bill could be revoked by a future legislature, and the order by Mr Brown's successor. But the Golden State's inveterate environmentalism makes that unlikely. Californians, the outgoing governor has made clear, remain committed to the Paris agreement of 2015, in which countries vowed to keep global warming "well below" 2°C relative to pre-industrial levels, and ideally to no more than 1.5°C.

Days earlier, in Bangkok, President Donald Trump's administration had been trying to scupper the Paris deal. Mr Trump plans to quit it as soon as rules permit (which happens to be a day after he faces re-election in 2020). For now, however, his negotiators still attend—and disrupt—pow-

wows like this one, aimed at making abstract Paris goals a reality. This time they refused even to discuss aid for developing countries' efforts to cut emissions and adapt to floods, droughts and other perils of climate change. At home Mr Trump also wants to make it easier for energy firms to leak methane, a potent greenhouse gas.

America is the most unruly of the Paris agreement's 197 signatories. But many others look half-hearted at best. The current set of "nationally determined contributions" (NDCs), as countries' pledges are known, put Earth on course for 3°C of warming. Instead of strengthening their carbon-cutting targets, as the agreement envisaged, some countries want to weaken them. Australia's resources minister, Matt Canavan, recently declared that NDCs' voluntary nature "doesn't actually bind us to anything in particular". No big advanced economy attacked American penny-pinching in Bangkok. Irked by the lack of progress, on September 10th António Guterres, the UN's secretary-general, unveiled plans for a big climate summit of heads of state next year.

National governments' foot-dragging has raised the profile of local initiatives. California's heft means few are as momentous as Mr Brown's. But taken together, they are increasingly viewed as essential to

the Paris treaty's survival. Many American cities and states are turning to renewables for ever more of their electricity, imposing tougher energy-efficiency standards on buildings, or electrifying public buses. That includes even Republican-led ones prone to playing down the dangers of climate change. In Illinois the Republican governor, Bruce Rauner, signed a bill mandating a sharp rise in the state's solar capacity, and earmarking \$750m for job training in clean-energy industries. Utah is toying with a carbon tax.

Local efforts have also proliferated in countries still hewing to the Paris accord. From Aachen in Germany to Zapopan in Mexico, cities are pledging emissions reductions. In August, 19 cities, including Paris and Tokyo, vowed to make all new buildings carbon-neutral from 2030, and to retrofit others to meet the same standard by 2050. In May London's mayor, Sadiq Khan, promised to make the British capital zero-carbon by mid-century.

## Tales of the city

This year 620 cities and 122 regions have reported climate actions to CDP, a watchdog. More than 800 firms worth almost \$17trn have joined the We Mean Business coalition to reduce their carbon footprint. In all, the Non-State Actor Zone for Climate Action (NAZCA), a UN-run repository, lists more than 12,500 pledges by 2,500 cities, 209 regions, over 2,100 firms and nearly 500 investors.

Many of these pledgers have descended on San Francisco for a three-day summit organised by Mr Brown that started on September 12th. The aim is partly to help the formal Paris process keep up steam ahead of a crucial meeting in Poland in De- ▶▶

► cember, when the agreement's rulebook is supposed to be finalised. But the meeting will also showcase what is being done and compare the best methods to monitor, report and reconcile municipal and regional progress.

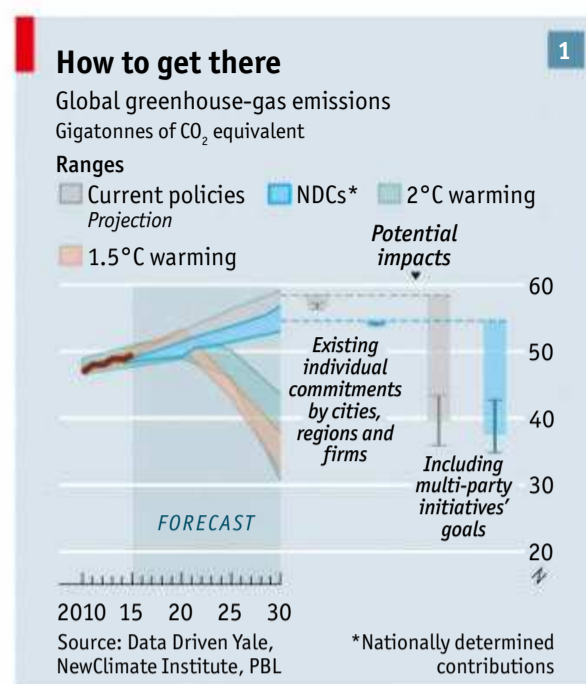
In principle, subnational governments could play a big role in combating climate change. This is particularly true of cities. Roughly half of the world's population lives in them, and that proportion is forecast to rise to 70% by mid-century. Urban areas consume two-thirds of the world's energy. They are vulnerable to the effects of climate change, such as flooding, so the cost of inaction is all too tangible. A survey by 100 Resilient Cities, a network of conurbations, found that climate change is the third-biggest concern among its members, behind inequality and ageing infrastructure. Cities also stand to benefit from climate-friendlier policies. New research presented in San Francisco by the C40 group of big cities and the Global Covenant of Mayors, which groups more than 9,000 municipalities, finds that climate policies such as boosting energy efficiency and decarbonising public transport and power generation could create 14m new jobs and prevent 1.3m premature pollution-related deaths a year by 2030.

So local climate activism is a cause for joy. Just how much joy, though, depends on what all their policymaking adds up to. So far the answer appears to be: not a lot.

### A hill of beans

Angel Hsu of Yale University and colleagues have sifted quantifiable pledges made by nearly 5,900 cities and 76 regions, home to about one in six humans, as well as by more than 2,100 companies with combined annual revenues of \$21trn. After stripping out overlaps—how far Seattle's ambition is embedded in Washington state's, say, or Microsoft's in Seattle's—they found that individual commitments add up to reductions in annual carbon-dioxide emissions of between 1.5bn and 2.2bn tonnes by 2030, compared with current policies—or 200m-700m tonnes relative to what could be expected under the current NDCs (see chart 1). Compare that with the 52bn tonnes emitted globally each year, expected to rise to 59bn tonnes by 2030 on current trends. California's latest measures would bring only marginal improvement, as it had already pledged to cut emissions by 80% by 2050.

Other studies have made similarly underwhelming findings. Bean-counters at America's Pledge, a response to Mr Trump's carbon-cuddling led by Mr Brown and Mike Bloomberg, a former mayor of New York, calculate that 155 American companies which have joined 115 cities and 20 states in the effort would cut just 26m tonnes of CO<sub>2</sub> from current emissions trajectories over the next seven years. Last



year the Global Covenant of Mayors estimated that they could curb emissions by 1.3bn tonnes by 2030.

Indeed, many commitments seem little more than attempts to signal virtue, perhaps to green-minded constituents. Philip Drost of the UN Environment Programme says many are “selfie initiatives” that are thin on specifics. Of the 220 pledges like the Covenant of Mayors or the C40, just 48 have adopted quantifiable goals, according to the UN's annual “Emissions Gap” report; 165 lack clear mechanisms for monitoring and reporting progress.

Even numerical targets may reflect merely what would have been done anyway. Mr Brown would doubtless have enacted California's clean-energy mandates without America's Pledge. Worse, local actions can have adverse unintended consequences. After Shougang Corporation, a Chinese steelmaker, in 2010 began moving its dirty business from Beijing to Hebei, the capital's emissions of CO<sub>2</sub> fell by 7.6m tonnes over the next five years, estimates a recent paper by Yuli Shan of Tsinghua University and colleagues. But Hebei's ballooned by 87m tonnes, in part because Hebei's energy production is much more carbon-intensive.

The record of subnational action, then, looks patchy. What about future prospects? Helen Mountford of the Global Commission on the Economy and Climate, an independent body of experts, believes that local action could eventually provide “cover, inspiration and a nudge” to national governments. It may also encourage other localities to step up their efforts for fear of being labelled laggards. On September 12th in San Francisco 11 cities joined the Under2 Coalition, bringing to 217 the membership of the biggest of the international undertakings, which covers a fifth of the world's population and two-fifths of its economy.

The Under2 Coalition wants to reach 250 members in the next few years. If the dozen or so biggest initiatives can be scaled up as their backers hope, the resulting

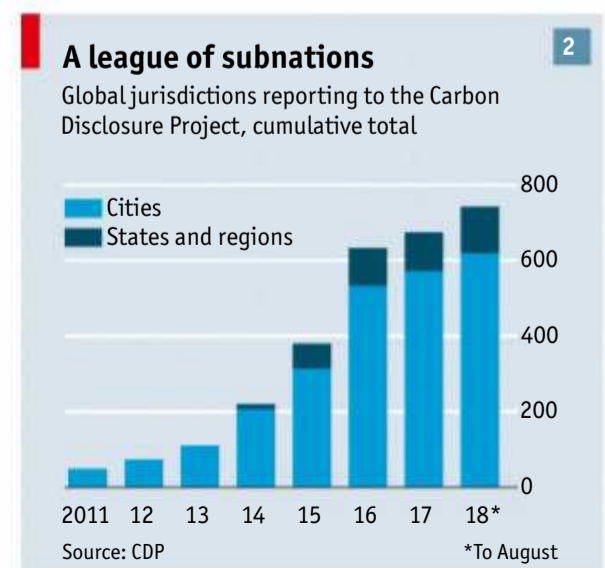
emissions cuts could total between 15bn and 21bn tonnes of CO<sub>2</sub> by 2030, Ms Hsu and her co-authors estimate. That would be enough to set the world on a path to meeting the Paris goal, perhaps even the 1.5°C aspiration.

Yet other forces are pulling in the opposite direction. For all the power of peer pressure, places that have resisted joining such forums are by definition harder to attract. The number of jurisdictions reporting to CDP continues to expand, but growth has slowed (see chart 2). And, as Mr Drost points out, “the more ambitious an initiative gets, the less attractive it becomes to many members.”

The NAZCA database brims with promises but it is hard to tell the serious from the flaky. Kevin Kennedy of the World Resources Institute, a think-tank, with headquarters in Washington, DC, notes another pitfall. Mobilisation in some quarters might demobilise others, who conclude they can free-ride on the climate-champions' efforts. If a carmaker “is selling more electric cars in California, it can sell more gas-guzzlers in Texas” and still meet national fuel-efficiency standards for the whole fleet, he remarks.

Echoing Mr Guterres, Mr Kennedy says that averting catastrophic climate change requires a concerted global effort involving those currently unwilling to act. That almost certainly requires top-down diktats. Even Mr Brown would admit that California's sterling environmental record stems less from its citizens' inherent green-heartedness, than from a century of state-level regulation to keep its air and water clean.

All this hints at the paradox of bottom-up climate policies. Places like California show that national action is not a prerequisite for local activism, but “mayors will move faster and more efficiently if they are supported by national governments,” concedes Mark Watts of the C40. Robust national action makes the grassroots sort less necessary. In the end, Mr Brown says, the climate challenge cannot be solved by cities, states and corporations alone. “It is not an either-or,” he says. “National leaders must get off their dime.” ■





### Corporate leadership in China

## Command and control

SHANGHAI

**Jack Ma's graceful exit from Alibaba contrasts with some other bosses' domineering influence**

**A** WRY joke has been circulating on China's internet. The founders of the country's three most prominent technology firms—Jack Ma of Alibaba, Pony Ma of Tencent and Robin Li of Baidu—go for a stroll. One drowns. How would their stocks react? If it were Mr Ma of Alibaba, its shares would fall. If it were Mr Ma of Tencent (no relation), they would remain unchanged. And if it were Mr Li of Baidu, they would rise.

The joke is one small indication of how China's entrepreneurs-turned-billionaires, symbols of the rise of its internet, engross citizens. They publish collections of their speeches and pen books, such as "Intelligence Revolution" by Mr Li and "China At Your Fingertips" by Tencent's Mr Ma, and their various pronouncements on how to succeed are memorialised as quotes.

Lately China's corporate superstars have given social-media crowds plenty more to parse. The joke proved partially correct about Jack Ma (pictured above): a report that he would abruptly retire, later clarified by the company to explain that Mr Ma would be stepping down as chairman in a year's time, prompted a decline of 3.7% in Alibaba's share price. But mostly investors took the news in their stride. To focus on his philanthropic foundation, he will hand over to Daniel Zhang—who lacks Mr Ma's star quality, certainly, but who has been an adroit chief executive for Alibaba since 2015.

All of which makes for a striking contrast with events at JD.com, Alibaba's arch-rival in e-commerce. Early this month it emerged that Richard Liu, JD.com's founder and boss, had been briefly arrested in the American state of Minnesota on a rape allegation. His mugshot circulated and Chinese internet users swapped information on details of America's legal process. In two days of trading JD.com's shares fell by 16%, their biggest drop since listing on America's Nasdaq in 2014, losing \$7.2bn of market value. The police investigation is ongoing (Mr Liu has denied any wrongdoing, through his lawyers).

The two events have concentrated minds on a thorny, long-standing problem in Chinese corporate governance: "key-man risk". Over-mighty technology bosses are a problem elsewhere, but in China opaque legal processes make it much worse, says Jamie Allen of the Asian Corporate Governance Association, based in Hong Kong. China's global champions employ control structures, built to ensure the founder's hold is ironclad, that attract criticism at home and abroad.

JD.com is outstandingly bad. According to its articles of association, its board of directors is inquorate without Mr Liu, even if he has been arrested somewhere—a structure "unusual not just in China, but anywhere", says Mr Allen. The board has only five members, allowing Mr Liu huge clout. Like many other Chinese companies listed

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in America, JD.com has a "dual-class" share structure, which allows founders to own a special class of shares with superior voting rights. JD.com set the ratio for those weighted voting rights at one share to 20 votes (it is typically half that).

The result is that Mr Liu is able to control four-fifths of JD.com's voting rights even though he owns less than one-fifth of the stock. JD.com has not convened an annual shareholders' meeting since its flotation, which it is allowed to do under the lax governance laws of the Cayman Islands, where it was incorporated. Baidu, listed in America in 2005 and also based in the Caymans, has not held one since 2008.

News of Mr Liu's arrest (on a university campus, while studying for a business-administration doctorate) was a reminder of how few Chinese tech giants have clear succession plans; no one is sure who is his second-in-command. Lin Yu-Hsin, a corporate-law expert in Hong Kong, expects key-man risk to worsen in the next 15 years as tech-firm founders, now in their 40s and 50s, come closer to retirement.

### Doing it Ma's way

Against this backdrop, Mr Ma has handled his own transition with aplomb. Duncan Clark, author of a book, "Alibaba: The House That Jack Ma Built", says it wanted to show it was different early on. To last at least 102 years (to span three centuries from its founding in 1999), it planned to build a culture that did not rely on a founder. The firm has partly achieved that. Mr Ma began to pull back in 2013, when he stepped down as chief executive. (By contrast, Mr Ma of Tencent, and Messrs Li and Liu, remain chief executives and chairmen of their firms.) He is the first founder of a big Chinese internet firm to announce his exit.

His role is also being reduced in Alibaba's "variable interest entities" (VIEs), a ▶▶

▶ legal device beloved of Chinese tech firms. China does not allow foreign entities to own sensitive assets, such as the government licences they need. Alibaba, like others, bundled them into VIEs which are owned by individuals in China and that hand control of those assets to its international holding company. Four of its five VIEs were indirectly owned by Mr Ma and one of his co-founders; next year all will be owned by two layers of holding companies, in turn owned by a broader set of Alibaba's senior Chinese staff.

VIEs continue to be popular, despite the power they bestow on their owners. China

Literature, a Tencent offshoot, and Xiaomi, a smartphone-maker, have both listed with this structure. Investors mainly shrug them off as a necessary evil, despite the occasional scare. In 2011, investors were unnerved after the ex-wife of the founder of Tudou, an online-video firm that was preparing to list in America, which has since been acquired, filed a lawsuit demanding a portion of the equity interests in Tudou's VIE, in which her former husband held a 95% stake. (She later dropped the claims.)

For all its fresh thinking, Alibaba is not perfect. Mr Ma will remain a lifetime member of the Alibaba Partnership, which con-

centrates control of the company in a club of 36 senior staff. They appoint a majority of board seats. Jefferies, a bank, expects Mr Ma to keep "an influential role in the company's culture and ecosystem". The succession plan will unite Alibaba's two biggest roles under Mr Zhang, a step backwards.

For the cleanest of the bunch, say corporate-governance experts, look to Tencent. It has VIEs, but the company has had a one-share-one-vote structure since it listed in Hong Kong in 2004. One account claims that Pony Ma chose Hong Kong's exchange, which only allowed dual-class shares in April, because he wanted his internet firm ▶▶

## Bartleby | Artificial stimulant

### Fears of the impact of new technology may be overdone

**A**SPECTRE is haunting workers—the rise of artificial intelligence (AI). The fear is that smart computer programs will eliminate millions of jobs, condemning a generation to minimum-wage drudgery or enforced idleness. Never mind the robots, fear the software.

There is no need to be so gloomy, say Ken Goldberg of the University of California, Berkeley, and Vinod Kumar, the chief executive of Tata Communications, a unit of India's biggest business house (which stands to profit from the spread of AI). They have produced a report\* that is much more optimistic about the outlook for ordinary employees. In many cases, it says, job satisfaction will be enhanced by the elimination of mundane tasks, giving people time to be more creative.

Their views are backed up by a survey of 120 senior executives, conducted for the report, which found that more of them (77%) thought that AI would create new roles than believed it would replace existing positions (57%; respondents could choose both options). Extra skills may be needed to cope with the new technology and more than half of the bosses are already taking steps to train their workforces.

Previous technology shifts have not had as negative effects on employment as was first feared. The authors note some well-known examples. Bar-code scanners did not eliminate the role of cashiers in America; jobs in the retail industry grew at an annual rate of more than 2% between 1980 and 2013. The arrival of automated teller machines (ATMs) spared bank employees the job of doling out cash and freed them to offer financial advice to customers.

Some jobs could be made a lot easier by AI. One example is lorry-driving. Some fear that truck drivers will be re-



placed by autonomous vehicles. But manoeuvring a lorry around busy streets is far harder than driving down the motorway. So the driver could switch into automatic mode (and get some rest) when outside the big cities, and take over the wheel once again when nearing the destination. The obvious analogy is with jetliners, where the pilots handle take-off and landing but turn on the computer to cruise at 35,000 feet. Using AI may prevent tired drivers from causing accidents.

Turning to office life, AI can help with complex and fiddly tasks like managing supply chains, allocating desk space and keeping records of meetings. All this can free up time for people to work on more important strategic decisions. The authors also think that AI could help collaboration within companies. One obvious example is the elimination of language barriers. Multinational companies may have employees who lack a common language; AI can handle translation in real time so that dialogue is easier.

And the report argues that AI can produce better decision-making by offering a contrarian opinion so that teams can avoid

the danger of groupthink. A program could analyse e-mails and meeting transcripts and issue alerts when potentially false assumptions are being made (rather like the boy in the Hans Christian Andersen tale who notices that the Emperor has no clothes). Or it can warn a team when it is getting distracted from the task in hand.

When a firm is starting a new project, AI can also suggest experts from other parts of the organisation who could contribute. In recruitment, managers could set criteria for "cognitive diversity" (seeking people with different academic and cultural backgrounds) when conducting a job search and allow AI to suggest candidates. This could eliminate remaining hiring biases in favour of white males.

Helen Poitevin of Gartner, a research company, says that some firms are using AI to suggest training possibilities to existing workers, based on the career paths of similar staff, as an aid to their career development. And programs are also being used to analyse individual employees' feedback so that managers can be aware of specific areas where a lot of people are unhappy. If they react in the right way, this should make workers' lives better.

All of which is a useful corrective to some of the more alarming predictions about the potential effects of AI. But as ever, it needs to be remembered that programs are only as good as the data they are given. If those who input the data have biases, they may show up in the suggestions that it generates. As Ms Poitevin says, AI can help improve diversity in the workforce "if we want it to". The best employers should be able to turn AI into a positive for workers.

\* "Cognitive Diversity: AI and the Future of Work"

▶ to stand out as able to meet its stricter corporate-governance requirements at the time. Mr Ma has lowered his economic and voting rights since 2007, from 13% to 9%.

Amid the online stir caused by JD.com, Wang Xing, the usually reserved founder of Meituan-Dianping, an online-services startup that is due to list in Hong Kong on September 20th, sent a cryptic message to his social-media followers: “Hope war does not break out or that there are other black-swan events in the next nine days.” For investors, the pressing matters are neither war nor shock events. They are more preoccupied by whether companies have VIES, super-voting stock and a joint position for founders as chairman and chief executive. It is not reassuring for critics of governance that Meituan, China’s latest tech star, will have all three. ■

## Volvo

# Safe at any Swede

GOTHENBURG

## A Chinese-owned Swedish carmaker abandons plans for an IPO

**V**OLVO puts safety first. The Swedish carmaker was the first to introduce three-point seat belts in 1959. Its aspiration is that its technology will ensure that no one is killed or seriously injured in any Volvo sold after 2020. Safety issues may also explain the decision on September 10th to shelve long-held plans for an initial public offering, which Volvo had hoped might value the firm at \$30bn. At that lofty price it might have struggled to protect investors’ money as conscientiously as it looks after the well-being of passengers.

The firm said the unpredictability of a brewing global trade war had persuaded it to wait. But an IPO that valued the upmarket Swedish carmaker on a par with Audi—which makes nearly 2m cars a year, three times as many as Volvo produces—always looked a stretch. Its owner, Geely, a Chi-

nese carmaker, decided to delay when it became clear that the firm would not merit such a high valuation.

Volvo is nevertheless worth a lot more than when it was snapped up in 2010 for \$1.8bn by Li Shufu, owner of Geely. The seller was Ford, and the Volvo brand was then close to the scrapyard (which was where Saab, another Swedish carmaker, ended up in 2011 under the ownership of General Motors). Even so, there was widespread incredulity that a Chinese maker of cheap, low-quality vehicles could be a suitable guardian for a premium marque.

In fact, Volvo has thrived largely by being left to get on with what it does best—developing fine cars with advanced technology and cool Scandinavian design. Production has nearly doubled since the last full year of Ford’s ownership, to 572,000 in 2017, when profits hit a record SKr14bn (\$1.6bn).

The association with Geely has worked well for both. Mr Li’s willingness to invest—Geely has put \$11bn into Volvo—has resulted in a string of well-received new models, such as the XC40 SUV (pictured). Volvo is also part of Mr Li’s attempts to build a worldwide carmaking group, which includes Malaysia’s Proton, Lotus (a British sports-car firm), the maker of London taxis and significant stakes in both the Volvo lorry business (a separate firm since 1999) and Germany’s Daimler.

Geely has used Volvo’s expertise to improve its own cars. Owning the Swedish brand also brings scale to a small company that has to make big investments in the future of motoring. Lynk & Co, a joint venture set up in 2016 between the two, is manufacturing SUVs on the Swedish firm’s platform for less than a Volvo equivalent. These are mainly for use in a car-sharing service that may one day substitute for car ownership. The new headquarters of Polestar, another joint venture between the two that will make high-performance electric cars, is a shimmering cube of light at the firm’s otherwise grey concrete headquarters in Gothenburg.

Yet despite its readiness to embrace a world of electrification, mobility services

and autonomous driving, success is as uncertain for Volvo as it is for other carmakers. Volvo is setting the pace on electric vehicles (EVs), for example: it has promised that all its cars will be electrified by 2019. But the transition to EVs will be expensive, and Volvo is far smaller and less profitable than German rivals. Returns from selling mobility services are largely untested.

Volvo is at least trying to articulate a future for high-end autonomous cars. It recently unveiled a concept car with an interior that includes a seat that turns into a bed for overnight driving, which it thinks might challenge short flights or high-speed trains in a decade or so. Another idea is an office on wheels. If and when plans for an IPO are revived, ideas such as these will help determine whether Volvo is more deserving of a premium price tag. ■

## American television

# Final episode

NEW YORK

## The boss of CBS is out, which could clear the way for a merger with Viacom

**I**T SAYS something about the power Les Moonves wielded in the entertainment industry that one bombshell report of allegations by multiple women of sexual misconduct and harassment could not dislodge him as chairman and chief executive of CBS. Instead, it took two.

But fall he finally did. On September 9th Mr Moonves, long considered one of the most astute executives in the media business, was forced out hours after the *New Yorker* reported allegations that he sexually assaulted or harassed six women in incidents dating from the 1980s to the early 2000s. That followed another report in July, also in the *New Yorker*, of accusations from other women of misconduct.

Mr Moonves denies both sets of allegations, although in response to the earlier ones he said he “may have made some women uncomfortable by making advances”. He has surrendered \$60m of \$180m in severance pay that he would ordinarily be due, pending the outcome of an investigation by the CBS board. If the probe finds that he violated the firm’s sexual-harassment rules, he could be owed nothing. Joseph Ianniello, CBS’s chief operating officer and Mr Moonves’s deputy, is serving as interim chief executive while the board searches for a successor.

For years Mr Moonves impressed Wall Street by peppering up the business even as the industry of broadcast television declined around it. CBS became America’s most-watched network under his oversight (and he became one of the highest-▶



Less boxy, still safe



► paid CEOs of a public company). He programmed procedural law-and-order shows that were popular with viewers over 50, the only segment of the American public that has increased its viewing of conventional television this decade. He had a penchant for simple storylines of good versus evil. As one former associate put it: “He had a real feeling for who should be the hero, who should be the villain.” His own standing in the TV business will not recover soon, if ever.

Mr Moonves’s ousting is the most consequential for a public company since the #MeToo era began nearly a year ago. Early this year reports of alleged misconduct forced Steve Wynn, a casino magnate, to step down as boss of Wynn Resorts; the firm’s market capitalisation has fallen by a third, to less than \$15bn. But the shake-up at CBS, which is valued at \$21bn, will almost certainly alter the company’s trajectory.

Although it is publicly traded, CBS is controlled by the family of Sumner Redstone, an ailing media magnate, via his

daughter Shari. Ms Redstone had been feuding with Mr Moonves over her desire to recombine CBS with Viacom, a struggling sister firm that owns cable networks such as MTV and Comedy Central, and which is also controlled by the Redstones. (The two companies were combined from 2000 until 2005, at which point Mr Redstone split them up, putting Mr Moonves in charge of CBS.) In May Mr Moonves and allies on the CBS board filed a lawsuit seeking to dilute the Redstone family’s control.

Now Ms Redstone’s grip on CBS could scarcely be more secure. On September 9th the CBS board also named six new directors, tilting the majority in favour of Ms Redstone. The litigation was dropped. As part of the bargain Ms Redstone has agreed not to initiate a merger for two years. But nothing prevents the new bosses of CBS from initiating such a move. It is not at all clear that CBS would benefit from merging with Viacom, a group of networks in distress. But it is certain that Mr Moonves will not be around to call the shots. ■

## America’s housing market

# Fixer-uppers

ATLANTA

**Tech firms are buying and selling homes directly, cutting out estate agents**

**S**ELLING a home is stressful and time-consuming. You must first put up with estate agents’ admonishments about old carpets that need replacing, then with intrusions by prospective buyers who find more faults. A good offer can take months to materialise, only to fall through later. “It’s just not worth your sanity,” groans Anne Aviles, a schoolteacher in Atlanta.

To preserve her equanimity Ms Aviles turned to a firm called Opendoor. She entered her property details on its website and received an offer of \$298,500 in seconds. A few days later the company sent an inspector, who deducted \$4,000 for a faulty air-conditioning unit and a shabby paint job. It offered Ms Aviles \$278,000, after knocking a further 5.5% off for its own benefit. This price was a bit lower than listings for similar homes. But the hassle-free experience, which took about a week, made up for it. She accepted.

Although listings services such as Zillow, a property portal based in Seattle, began to supplant classified adverts in the mid-2000s, deeper disruption in the property market has been slower to emerge. Individuals sell homes infrequently, in what are the biggest transactions of their lives. They have little incentive to rush or seek greater efficiency. But like Ms Aviles, many would like to speed things along.

Enter “instant buyers” such as Opendoor. These companies, known by the abbreviation “i-buyers”, try to do to property sales what Billy Beane did to baseball. Just as the manager of the Oakland A’s substituted software for conventional talent scouts, i-buyers replace estate agents with algorithms that crunch data on everything from the number of bedrooms to local crime rates, to estimate what a property should sell for. They then buy it at a discount to the computed price (as Mr Beane did with players), spruce it up and offload it. Opendoor says its average fee is 6-6.5%, about the same cut as conventional estate agents take on a sale.

Zillow announced in April that it would launch its own i-buyer, which began operating in April in Phoenix, in June in Las Vegas, and this month in Atlanta. It will shortly expand to Denver. Some shareholders in the firm were unimpressed about its entry into a business which promised relatively low margins, high costs and extra risks to its balance-sheet; its share price fell by 9% when it outlined its plans. But venture capitalists see promise in the approach, valu- ►►

## Vaping

# Smoked out

**The FDA moves to harsh the mellow of the e-cigarette industry**

**F**OR some, e-cigarettes are nothing short of a miracle. Over time tobacco kills half of its users, according to statistics from the World Health Organisation. But when a solution of nicotine is heated up, the inhalable vapour that results both satisfies smokers and does away with most of the harmful effects of ordinary cigarettes. An array of enticing flavours, such as cherry, dessert, mint and mango, adds to the allure.

As the number of people who vape has risen, from around 7m in 2011 to 35m in 2016, fortunes have been made. The most popular brand in America is Juul, a San Francisco-based startup which has captured 71% of the e-cigarette market there. Part of its appeal comes from the fact that its discreet device, shaped like a USB flash drive, uses a proprietary blend of nicotine to deliver a more immediate hit, closer to that of a cigarette.

But success has brought scrutiny. The problem for Juul, and for firms that want to emulate it, is that e-cigarettes appeal to youngsters as well as to hardened smokers. Regulators are on the warpath. In August Israel banned Juul. And on September 12th Scott Gottlieb, head of the Food and Drug Administration (FDA) in America, put five e-cigarette firms on notice. Mr Gottlieb called teenagers’ use of e-cigarettes an “epidemic” and said that within 60 days the companies—Juul, Vuse, MarkTen, blu e-cigs and Logic—



**Genuine device addiction**

must come up with plans to reduce use of their products by minors. He noted that nicotine was not a benign substance. Shares in tobacco firms leapt.

Juul and others have no choice but to comply. The FDA can force them to take products off the market. It could also bring forward its plans to regulate e-cigarettes. The firms’ response will almost certainly involve tightening up the distribution of products to retailers who sell to children. Some flavoured products will probably have to go. E-cigarette firms have thrived. To keep doing so, they now have to cough up a decent plan.

ing Opendoor at above \$2bn.

To be sure, there is a way to go before the promise of i-buyers is fulfilled. Their algorithms are good at appraising identikit single-family units, but struggle with idiosyncratic properties—flats in city centres, say, or luxury villas. For its part, Opendoor plans to expand from 16 cities today to 50 by 2020, but not to large, complex urban markets such as New York, San Francisco or Los Angeles. Even for mid-range suburban homes, i-buyers still make up only a thin slice of transactions. In the past year, 7,640 such properties in Phoenix were bought and sold through i-buyers, accounting for 3.4% of transactions, according to Mike DelPrete, an independent consultant.

That share will need to rise a lot before i-buyers make real money. In Phoenix Opendoor earned 6% on average per

home, before repair costs and fees to buyers' agents (who are paid by the seller in America and whom i-buyers have not displaced). Zillow has told investors to expect a profit of only 1.4% per home. Because around 85% of i-buyers' purchases are financed with borrowed money, rising interest rates may squeeze margins further. Falling prices represent another risk. The potential market is massive, however. Spencer Rascoff, Zillow's boss, estimates it at 2.75m homes in the biggest 200 cities in America (about half of the country's 5.5m annual home sales). America has endless suburbs lined with millions of homes, and armies of estate agents who are often regarded with suspicion by buyers and sellers alike. If i-buyers can dispense with at least some of them, and speed up home sales in the process, few would grumble. ■

some collateral damage seems likely. The effects could reach into unexpected places. GitHub, for instance, is an online code repository. It worries that open-source computer code hosted on its site might fall foul of the new filters.

### Whose internet is it anyway?

The second fight was over Article 11, which pits tech firms against publishers. It requires social networks and aggregators such as Google's "News" search engine to obtain a licence from publishers before displaying snippets of news reports to their users. Firms such as Google and Twitter profit from the attention generated by news that is gathered by others, note Article 11's advocates, and should therefore share the revenues that result. But critics decry it as a "link tax" that would also radically limit the freedom of internet users.

Article 11 is a Europe-wide version of similar rules introduced in Germany and Spain in 2013 and 2014 respectively. Google's response in Spain was to pull the plug on its news service, to the detriment of publishers that relied on it for traffic. By making a similar law apply across the entire European market, the hope is that Google (and other companies) will be forced to keep services running and share some of their revenues.

Predicting the exact consequences of all these new rules is difficult, says Jim Killock of the Open Rights Group, a British organisation that opposed the changes. They must be approved by both the European Commission and the EU's 28 member states before they can be finalised. But the planned legislation is another example of rising European assertiveness when it comes to regulating the internet—in May the EU brought into force the General Data Protection Regulation (GDPR), a far-reaching privacy law. One result could be yet more "geo-fencing", whereby the internet becomes fragmented along geographical lines. After the GDPR came into force, some American websites decided to block Europe-based visitors rather than comply.

More regulation may be in the offing. The day before the parliamentary vote Google was at the European Court of Justice, in Luxembourg, to do legal battle with the CNIL, France's data-protection authority. The dispute concerned the "right to be forgotten", under which the EU requires search engines, in certain circumstances, to remove links to webpages with personal information about European citizens. Google's approach has been to remove links to the offending pages only for EU users. The CNIL says that, because the tech used to determine where a user is based can be circumvented, links should be removed for all users, anywhere in the world. A ruling is expected next year. Europe may not have its own internet giants, but it is having plenty of impact on America's. ■

## Internet regulation in Europe

# Screen grab

### A new copyright law and a court case are the latest examples of the EU's technological assertiveness

LUDWIG VAN BEETHOVEN has been dead for nearly 200 years. The copyright on his music is long expired. But when Ulrich Kaiser, an academic at the University of Music and Performing Arts Munich, recently tried to upload a public-domain recording of his Fifth Symphony to YouTube, he was thwarted by Content ID, an automated copyright filter. Mr Kaiser tried again with recordings of music by Schubert, Puccini and Wagner. Despite being in the public domain, all were flagged for copyright violations by the algorithm.

YouTube built Content ID a decade ago, under pressure from copyright-holders worried that users were uploading commercial music and videos without permission. Ever since users have complained that the algorithm is too aggressive. Now YouTube and other big internet firms may be obliged by European law to employ similar methods there. On September 12th members of the European Parliament approved, by 438 votes to 226, a draft of a new copyright law designed to update the EU's copyright legislation, which predates the rise of big internet gatekeepers such as Google and Facebook. The rules sparked death threats against MEPs and a million-signature petition against the proposals.

Two provisions are particularly contentious. The first is Article 13, which compels internet firms, whose users upload large quantities of video, music, text and the like, to work with copyright-holders to ensure that anything that breaches copyright can be detected as soon as it is posted. That

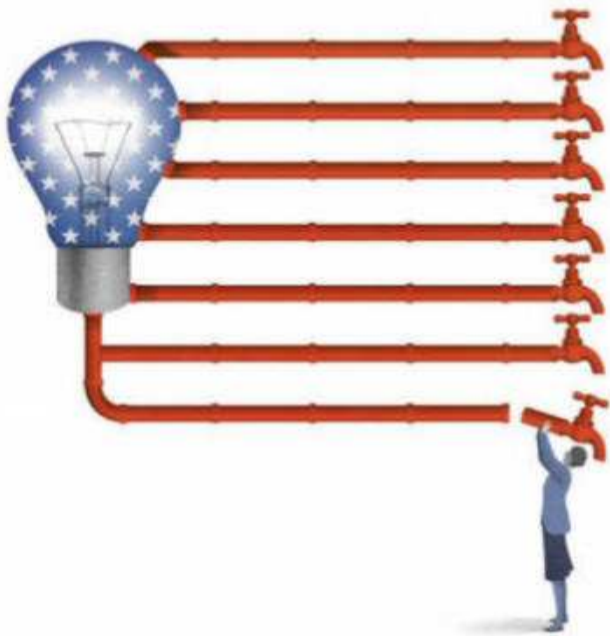
probably means they will have to deploy many more content filters like Content ID, which are worryingly imprecise.

Technology companies, and those who advocate an open internet, say the effect will be dire. In the quest to give more protection to copyrighted work, everything from political-protest videos to citizen journalism and viral memes, they argue, risks being squashed by overzealous enforcers. The freewheeling nature of the internet could change, they warn. That is a prospect often wheeled out by the internet lobby and is probably an exaggeration. But



# Schumpeter | An empire of the mind

American firms and security chiefs want tight control of the global flow of ideas. Good luck



ONE of the quirks of LinkedIn, a career-oriented networking site with over 562m users, is that strangers wish you a happy birthday even when your mum has forgotten. If this happens to you, don't respond: it could be a Chinese spy. According to Reuters, American counter-intelligence chiefs think that China is running a "super-aggressive" campaign on LinkedIn to recruit experts in health care, green energy and technology. Other agencies are nervous, too. The FBI complains of an "unparalleled" level of economic espionage. The National Security Agency says America is being "pummelled".

The spooks' warnings are part of a wave of anger in the West about ideas leaking across borders. On June 1st the European Union complained to the World Trade Organisation (WTO) that China prevents European firms from getting a fair price for their intellectual property (IP). A 215-page White House report on China's trading practices published in March was filled with accusations of IP violations, including outright theft and the forced transfer of IP to joint-venture partners in China. On August 1st Congress approved a law that gives the government sweeping powers to police cross-border deals involving "critical technologies".

For American firms the stakes are high. They derive 80% of their market value from intangible assets such as patents and brands, as opposed to physical ones. They own half of the world's IP. At the biggest 50 multinationals, 65% of foreign profits come from IP-intensive businesses such as tech and drugs. The latest star firms rely on selling intangibles across borders. Netflix has 73m users outside of Uncle Sam. NVIDIA, which designs artificial-intelligence (AI) chips, makes 87% of its sales abroad.

Yet in the eyes of many American bosses and security types the global IP regime is broken. The Economic Espionage Act of 1996 is intended to police IP theft by governments and firms but has led to few prosecutions; WTO rules on safeguarding IP abroad have little bite. What is required now, many believe, is tough, unilateral action by America to enforce its rights abroad. Companies want stronger control of IP, allowing them to maximise their profits. The IP Commission, a lobbying group in Washington, reckons that they are being robbed of up to \$600bn a year.

Politicians and the security establishment have a grander aim: regulating the flow of ideas to preserve American technological

supremacy. History is not encouraging. At any point in time an elite group of firms in a particular country are on the frontier of innovation. Businesses and governments in poorer places try to catch up, because that is the best way to get rich. According to the IMF, the absorption of foreign IP explains 40% of the growth in labour productivity in emerging economies between 2004 and 2014. The incentives for such countries are so powerful that hoarding ideas away from them is like clutching a wet bar of soap.

Thus in the Anglo-French wars of the 1700s France recruited British defectors to unlock the secrets of coal technologies. In the subsequent century America stole British designs for looms and trains. Japan mimicked the West during the Meiji Restoration. South Korea, Taiwan and Singapore industrialised by buying and stealing Western ideas on everything from ships to chips. Cries of foul play from the global hegemon are to be expected. In the case of Britain, it passed an act against economic espionage in 1719. In the 1980s Caspar Weinberger, America's defence secretary, fretted about the haemorrhaging of high-tech ideas to the Soviet Union, which had a wishlist for its spies called the Red Book.

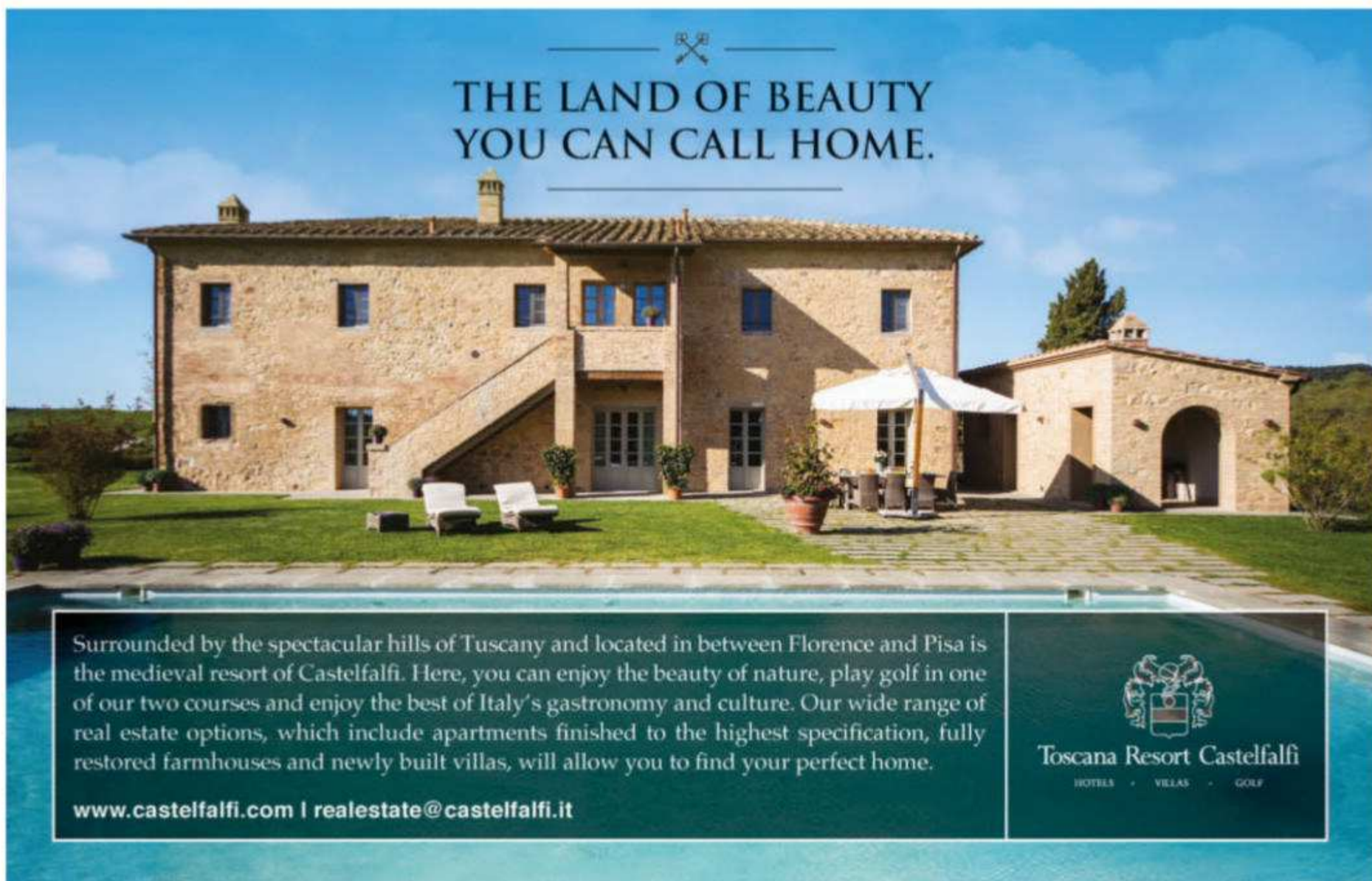
Despite this, the Soviets did less for computers than Steve Wozniak in the Jobs family's garage. To take off, after all, foreign ideas need to be absorbed and commercialised by firms and entrepreneurs. One channel is contractual relationships, such as foreign direct investment or licensing. Another is persistent theft. But often there is a grey area that includes reverse-engineering products, tips from suppliers and headhunting experts from rivals. Globalisation and the web have deepened all these channels. Companies' IP is more scattered owing to global production chains. A global jobs market exists for technical experts and armies of students learn abroad.

How might America control the flow of ideas? During the cold war it ran a Western embargo of the Soviet Union for military goods and some high-tech ones, through a secretive body known as COCOM. Today it would need an even more intrusive and coercive approach to assert its IP rights unilaterally. Establishing an extraterritorial deterrent would require crippling punishments for firms that violated IP, such as banning them from using the dollar-based banking system. A Big Brother regime would be needed at home. There are 67,000 AI experts working in America who are ethnic Chinese, according to an analysis of LinkedIn by Bernstein, a research firm. They can hardly all be suspects.

## Brain freeze

Even then, China and other countries might balk at paying a bigger tribute to America's IP supremacy. If USA Inc charged the world \$600bn more, and this hit was absorbed by all foreign companies, it would cut total profits outside America by about a tenth. The return on equity of American multinationals abroad (excluding financial firms) would soar from 8% to 14%. Europe and emerging countries are already uneasy about the large and lightly taxed rents that American firms extract abroad, from the drugs industry to the big tech companies.


America's economy is shifting further towards intangibles. The administration and bosses are right that China has misbehaved. But ideas are harder to police than gearboxes and coils of steel. The solution is a global regime that permits the flow of ideas, prohibits theft, offers a framework for pricing IP and sees that rules are enforced. A next-generation global trade treaty, in other words. Sadly, this is exactly the multilateral approach to trade that America has rejected. Not one of its best ideas. ■



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The Federal Reserve

# Feeling the heat

WASHINGTON, DC

## America is pushing the labour market to its limits

**B**Y MANY measures, America's economy is powering ahead. GDP is on track to grow at around 3% this year, and the unemployment rate is an impressively low 3.9%. For President Donald Trump, it is an unmissable opportunity to gloat. On September 10th he described the economy as "soooo good" and "perhaps the best in our country's history". But for others the very same figures present an economic puzzle.

The Federal Reserve has been raising its benchmark interest rate since December 2015, and will probably do so again this month, from a range of 1.75-2% to 2-2.25%. This is the central banker's version of twiddling the bath taps, but on a national scale. It requires a delicate touch. Too much cold water, in the form of higher rates, will choke off demand and hence jobs. Too much hot, and rising inflation will eat away at people's spending power. The aim is to find the perfect temperature, where employment is as high as it can be while inflation stays subdued.

But as Jerome Powell, the chairman of the Federal Reserve, reminded his listeners in a speech in Jackson Hole on August 24th, no one knows what that perfect temperature is. Policymakers must make their best guess of what "full employment" looks like, or when the "output gap" (the difference between where the economy is and its long-run potential) is zero. Inflation and employment are affected by temporary

shocks and structural shifts, as well as by economic policy. Errors take time to show up. It is as if the rate-setters must adjust the flow of hot and cold water not only without knowing what temperature is most comfortable, but also without knowing how hot the bath is to begin with—or when they will be getting in.

Over time, those best guesses have changed. Six years ago the central estimate among members of the Federal Open Markets Committee (FOMC), the body that sets interest rates, was that in the long run, unemployment would settle at 5.6%. Now their estimate is 4.5%. Weak productivity growth has led them to cut their estimate of America's long-run growth rate, too,

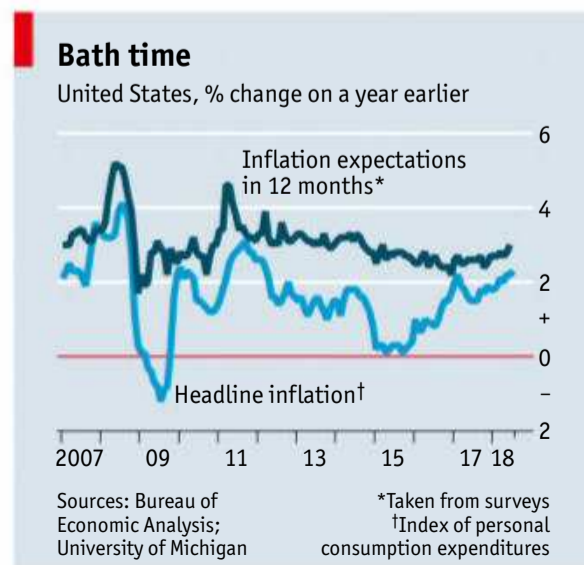
from 2.5% in 2012 to 1.9%.

Whether they were right to do so is the subject of much debate. Some economists think policymakers have been too quick to conclude that dismal growth after the financial crisis indicates a new normal. A recent paper suggests that the standard ways of estimating an economy's potential are overly influenced by blips in its performance. Others think that running the economy hot could spur productivity-enhancing innovation, as wage growth forces firms to economise on labour. Sceptics of that argument point out that the productivity slowdown started before the crisis, suggesting that it is unrelated to labour-market conditions.

As the Federal Reserve's mandate refers to employment, not output, members of the FOMC must consider a narrower question: what does full employment look like? Here, the puzzle of the past few years has been why, even as the unemployment rate has plunged, inflation has been so stubbornly low. Hawks think that hidden inflationary pressures are building; doves, that behind that headline unemployment rate there is still excess labour capacity.

Until very recently, the doves have had the best of the argument. The most obvious interpretation of such a low unemployment rate is that the labour market could not improve much without pressing prices upwards. However, it has been soaking up not only job-seekers, but also people who reported that they had not been looking for work, or who had been working fewer hours than they wanted.

But arguing that the labour market still has hidden slack is becoming harder. Data released on September 11th revealed that Americans are quitting their jobs at the highest rate since 2001. For each job opening, there are just 0.82 hires and 0.9 unem- ▶



►ployed people hunting for a slot. All of the main measures of labour underutilisation reported by the Bureau of Labour Statistics are at or below their pre-crisis trough, and near to where they were at the peak of the dotcom boom.

It is possible that still more people will be drawn into the labour market. The prime-age employment rate in August was 79.3%, a little below the pre-crisis peak of 80.3% and below the high of the past 70 years, of 81.9%. But those benchmarks may no longer be appropriate: male labour-force participation has been drifting downwards for decades.

Recent data have also favoured the hawks. Headline inflation has been above target for five months. Inflation excluding food and energy prices, generally regarded as more useful than the headline figure when it comes to predictions, is rising. It hit 2% for the first time since 2012 in July. According to a survey by the University of Michigan, inflation expectations appear to be rising gently, too. Even average hourly earnings seem to be accelerating, up by 2.9% in August compared with 12 months ago (though admittedly, that is not much more than inflation, and still below the pre-crisis norm).

Olivier Blanchard of the Peterson Institute for International Economics points out that over recent decades, inflation has become less influenced by the jobless rate, and is therefore less useful as a signal of whether the economy has hit full employment. Nevertheless, he sees enough evidence from the labour market to conclude that the economy is very close to full employment, and predicts an end to all the head-scratching.

One way to interpret the recent trends is as a vindication of the FOMC's approach to interest rates. As the economy seems to be heating up, they are twisting the bathtap to what they think is a neutral position. So far, they have managed not to overdo it. Some have called for faster action, fearing a repeat of the 1970s, during which inflation, and inflation expectations, rose in a mutually reinforcing spiral. But as Mr Powell pointed out in his speech, although inflation has recently moved up to near 2%, there are no clear signs of an acceleration above that.

Whether congratulations are warranted will depend on whether recent trends are sustained. If they are, the debate between hawks and doves will not end, but change. Central bankers have managed to train the general public to expect low inflation, meaning that, for now at least, any fears of spiralling prices seem unjustified. But that may imply that the risks of running the economy hot have fallen. In other words, the stronger central bankers' promises to control inflation, the more tempting it may be to break them. It's enough to make you want a long, hot bath. ■

## Turkish banks

# Offside

ISTANBUL

## What the slide in the lira and the economy mean for Turkey's lenders

THESE are glorious days at Recep Tayyip Erdogan Stadium, a tidy 14,000-seat football ground perched on a steep hillside in the Kasimpasa district of Istanbul—and named after a local lad who became president. Kasimpasa SK are top of the Super Lig, Turkey's top division, having won their first four games of the season.

The economy over which Mr Erdogan presides, by contrast, is embroiled in a battle for survival. This year the lira has fallen by 40% against the dollar, tumbling especially hard last month after a diplomatic row with America. Inflation is nearly 18%. The central bank, pressed by Mr Erdogan to keep interest rates down, has been slow to react, but on September 13th, even as the president urged a cut, it raised its policy rate by 6.25 percentage points, much more than markets had expected, to 24%. The lira leapt in response.

Turkey's economy is already slowing sharply. Year on year, growth fell from a breakneck 7.4% in the first quarter to 5.2% in the second. GDP may shrink in the closing months of 2018. The credit that fuelled the boom—much of it from abroad, pushing the current-account deficit to 6% of GDP—is drying up. Adjusted for inflation, bank lending is declining. Even big companies are being quoted borrowing rates of 35%.

Such a sudden halt often spells trouble for banks. Warning signs are flashing. Listed banks' share prices have fallen by more than 40% this year. Those of Western banks with stakes in Turkish ones, such as Spain's BBVA (which owns half of Garanti) and Italy's UniCredit (which has an indi-



rect 40% share of Yapi Kredi), have also wobbled. Last month Moody's, a rating agency, downgraded 18 Turkish lenders.

Against that, by the usual measures Turkey's banks meet the crisis in decent shape. Their ratios of equity to risk-weighted assets are well above regulatory floors, implying that they can absorb some blows. They have ample liquidity. They have hitherto enjoyed returns on equity in the mid-teens. Sam Goodacre of J.P. Morgan says that their net interest margins, at 4% or so, are thick enough to cope with higher funding costs.

How much trouble they will get into depends largely on two things. One is the willingness of foreign lenders to keep supplying them with funds. Turkish banks have borrowed lots from abroad. Some of that money has been lent to Turkish companies eager for cheap dollars and euros. ►►



Relegation battle

Some has been swapped into lira, to meet demand for lira loans, which far exceed lira deposits. Regulation obliges the banks to limit their own exposure to currency risk, but foreign lenders may fear that the ultimate borrowers will default. About \$100bn of the banks' foreign debt falls due within a year. A bit more than \$20bn in loans, including syndicated loans raised from dozens of banks, must be repaid or rolled over by the end of 2018 (see chart on previous page).

A banker involved in the market says that the cost of syndicated loans has doubled in the second half of the year, albeit from a low base. The banks are unlikely to be able to roll over all the maturing loans. But they have plenty of liquidity to make up the shortfall. And the foreign lenders they have dealt with for a long time are likely to keep supporting their core relationships. Mr Goodacre notes that Akbank, a leading bank with \$940m of debt maturing this month, has relationships with 300 foreign banks, of which nearly 40 lent to it in a syndicate this time last year.

### Slow motion

The other factor is how much of the debt owed to them by Turkish companies turns bad. For several years firms have been borrowing dollars and euros at ultra-low post-crisis interest rates. The lira's fall has made those debts much costlier. To be sure, some borrowers earn foreign currency. Others have hedges—some developers of shopping malls have obliged retailers to pay rent in dollars, for example. But plenty do not. And if shopkeepers cannot pay the rent, eventually their landlords suffer too.

For now, banks' bad-loan ratios are only about 3%, piddling by Greek or Italian standards. State banks report lower figures than private lenders, which may be misleading. State banks were keener to lend to small firms under the government's credit-guarantee fund, a scheme intended to keep the economy cooking. The ratios look sure to rise, but that will take a while.

Supervisors have bought the banks time. They have softened rules on potentially bad loans, and delayed the revaluation of foreign-currency loans in lira, which would have dented banks' capital ratios. But had it not been for Mr Erdogan, questions about Turkey's banks might not have arisen at all. Since America's Federal Reserve started to unwind quantitative easing in 2014, the days of ultra-cheap money in emerging markets have been numbered. Rather than accept that, and a gradual slowdown, Mr Erdogan has risked running Turkey into a wall.

By facing down a coup in 2016, and winning a subsequent election and referendum to tighten his grip on power, he has changed the rules of Turkish politics. But he cannot change the laws of economics, any more than those of football. ■

## Venezuela

# The half-life of a currency

**Hyperinflation is hard to grasp, harder still to tolerate**

**I**N 1946 Gyorgy Faludy, a Hungarian poet, received 300bn pengo for a new edition of his works. The sum would have been worth \$60bn before the second world war. But after the Nazis departed with Hungary's gold reserves and the Russians occupied its territory, the country's currency was not what it was—and becoming even less so. After collecting the money, Faludy rushed to the nearby market and spent it all on a chicken, two litres of cooking oil and a handful of vegetables.

For those not enduring it, hyperinflation can seem mind-bendingly abstract. The numbers are hard to fathom. In Venezuela's faltering economy, prices rose by 223.1% last month alone, according to Ángel Alvarado, an economist and opposition politician (the government has long ceased publishing official statistics). Each day throngs of Venezuelans rush across the 300m Simón Bolívar bridge joining their country to the economic sanity of Colombia, where they hope to obtain medicines, food and a better-preserved currency.

Venezuela's inflation could reach 1m percent for the full year, according to a (somewhat loose) forecast by the IMF. Such a figure is far from unprecedented, however. In the worst month of its post-war hyperinflation, Hungarian prices rose by 41,900,000,000,000,000%. The government had to print a 100 quintillion note (with 20 zeroes), the highest denomination ever produced. One elderly gentleman used one to line his hat, according to Victor Sebestyen, a historian.

If Venezuela's monthly inflation gets no worse, its hyperinflationary horror will rank only 23rd out of the 57 episodes identified by Steve Hanke of Johns Hopkins University and Nicholas Krus (see chart). To make the numbers easier to grasp, they have provided an alternative way to express them. They calculate how long it would take for prices to double, if inflation



Loose change

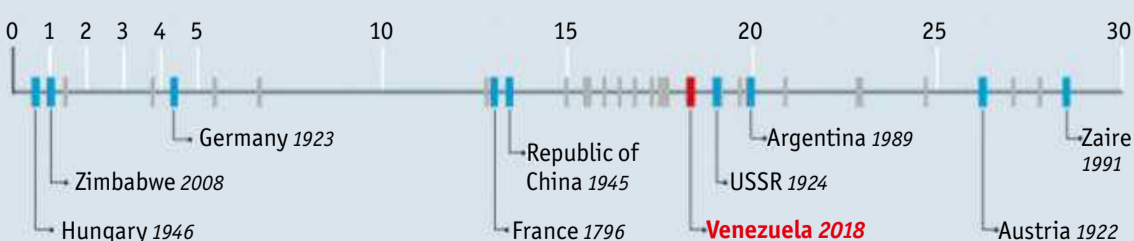
persists at its peak monthly pace. Their results provide a kind of "half-life" for a currency, showing how long it takes for it to lose 50% of its value (relative to the country's consumer goods and services).

This alternative calculation turns the astronomical percentages of hyperinflation into more mundane intervals of time: millions into days and quintillions into hours. In Venezuela's case it took less than 19 days in August for the currency to lose half its value. In the worst month of Hungary's hyperinflation, it took just 15 hours. "Soon the depreciation of the currency advanced so rapidly that it not only was felt from day to day, but even from hour to hour," notes one historian of the episode.

That ever-present feeling has one consolation: it can make hyperinflations quick to end. Of the 57 episodes identified by Messrs Hanke and Krus, many lasted less than a year. Because people are always thinking about prices, their inflation expectations are unusually fluid. If the government can convince them that it has stopped printing and spending money so recklessly, shops, businesses and workers will be quick to act on that conviction, raising their prices and wages more conservatively. In high but not hyperinflationary scenarios, by contrast, people become accustomed to rapid price increases and expect them to continue. That makes it more likely they will do so. Hyperinflation is so disruptive no one can get used to it. ■

### Runaway reaction

Hyperinflation, number of days for prices to double at peak monthly rate



Sources: "World Hyperinflations" by Steve Hanke and Nicholas Krus; *The Economist*



## Infrastructure in Colombia

# The highway, my way

## A national development bank with private-sector discipline

IT COSTS more to send a 40-foot container by road from Bogotá, Colombia's capital, to Buenaventura on its Pacific coast than to ship it on from Buenaventura to Shanghai. According to the World Economic Forum, Colombia's roads are among the worst in Latin America. For more than 20 years governments have tried to improve matters, with little success. Now Colombia is trying again.

Central to the latest attempt, called the Fourth Generation (4G) road-development programme, is the National Development Finance corporation (FDN), which was launched in 2013. Unlike most development banks elsewhere, it funds at most 25% of any project. It must seek out private investors, at home and abroad, and package projects to offer acceptable risks and returns. Colombia's needs are so great, says Clemente del Valle, the FDN's president, that it "can't just sit around and wait till those markets are developed."

That forces it to support only viable proposals, says Ramiro Lopez-Ghio of the Inter-American Development Bank (IDB). The result is that the FDN's involvement is a signal of quality. It gives investors comfort in other ways, too. The bank offers a peso credit line that helps foreign investors offset their exchange-rate risk. And it lobbied congress to make it easier for Colombian pension funds to invest in the infrastructure-debt funds it helped set up.

Another aim of the FDN is to help fight graft. This is common in government infrastructure projects the world over. Colombia has been no exception. In one recent scandal, dubbed the Merry-Go-Round, construction firms overpriced work and bribed politicians, including Bogotá's former mayor, who was sentenced to 24 years in jail. (He is appealing.) And it is one of at least ten Latin American countries where Odebrecht, a Brazilian construction giant, bribed politicians to win contracts.

Respected foreign institutions have been brought in to try to change all that. Though Colombia's government is the FDN's majority shareholder, the International Finance Corporation and the Andean Development Corporation each hold around 8-9%. The Sumitomo Mitsui Banking Corporation, a private Japanese bank, holds a similar share. They appoint three board members between them, matching the government's quota. A final three, also chosen by the government, must be from outside politics. For a 4G project to get FDN



Removing road blocks

financing, the board must sign it off. The hope is that the foreign and independent members will reject those that show signs of rigged bids or padded contracts.

So far the model appears to be working well. By the end of 2018 the FDN expects to have closed financing for 17 projects, worth \$8.4bn, of the 30 planned under the 4G banner. Of that, 24% will come from abroad. It is now branching out from roads to other investments, including Bogotá's Metro, which will be Colombia's priciest infrastructure project to date, at an estimated cost of \$4.6bn for 25km of elevated track.

The bank will soon need more capital. In 2016 the Colombian government sold its stake in Isagen, a power-generating company, to a Canadian investment fund for \$2bn, and used the money to buy FDN bonds, giving the institution the wherewithal to fund its endeavours. But to continue long-term infrastructure financing, says Mr Valle, an IPO will soon be needed.

A bigger problem, says Mario Dib, who manages one of the infrastructure-debt funds set up by the FDN, is that Colombians hate road tolls. Earlier this year tolls were suspended in Urabá, in the country's north, after protesters burnt toll-points and killed three people. The government has agreed to pay FDN concessionaires any money they are unable to collect.

That is supposed to give investors the certainty they need to keep coming. But it would weaken the rationale for the FDN if taxpayers are stuck with bills they were never supposed to pay. And it raises fears that a future government might sour on the institution. The next presidential election, in 2022, coincides with the expected completion of many 4G roads. If the tolls spark more protests, and someone less market-friendly than the centre-right incumbent, Iván Duque, wins, public-private partnerships might fall out of fashion. That would be rotten luck for those trying to fix Colombia's rotten infrastructure. ■

## Impact ETFs

# Opposites attract

## Money managers and charities are offering joint investment products

IMPACT investing, or investing according to your values, seems a nice idea. But it is hard to turn boutique products into mass-market ones without diluting their virtues. Impact Shares, a non-profit money manager, thinks it has a solution: exchange-traded funds (ETFs) developed with charities and non-profits. "Non-profits, with their long history of fighting for social causes, are much better equipped to determine good corporate citizenry than the asset managers who currently make those calls," says Ethan Powell, its founder.

Impact Shares hopes to ride two big trends: a shift over the past decade in investing from active (stock-picking) to passive (index-based), and investors' growing desire to put their money where their values are. Each of the new ETFs houses a basket of around 200 stocks that score well on criteria set by a non-profit in the relevant field. The first, which started trading in July, focuses on empowering minorities and was created with the National Association for the Advancement of Coloured People (NAACP), an American civil-rights group.

A second launched late last month, focusing on female empowerment and trading on the New York Stock Exchange under the ticker WOMN. It was developed with the YWCA, another non-profit. A third, which will invest in the world's least developed countries, is being created with the UN Capital Development Fund. More will follow.

These ETFs have more complex selection criteria than other funds. That makes ▶▶



▶ them more costly to produce. WOMN's annual fees of 0.75% of assets under management, compared with 0.2% for SHE, State Street's gender-diversity ETF, are partly because it has 19 selection criteria, some of which are hard to monitor, such as policies on parental leave. SHE uses just three, all relating to the number of women in leadership roles. The higher fees are also because the charities involved will receive whatever is left over after the money managers' costs. Impact Shares estimates that the YWCA will get up to 0.5% of money raised.

Investors may regard higher costs as a fair exchange for knowing that charities get

some of their money and that the ETFs are aligned with their values. They may also hope that higher returns will offset at least some of the costs. Good corporate citizenry can sometimes predict performance.

In July the founder of Papa John's, a pizza chain, stepped down after admitting to using a racist slur. The share price suffered. Impact Shares had already excluded the company from the index created with NAACP, since it had scored poorly on the non-profit's measures. By contrast, after an employee of Starbucks called police to remove two black customers from one of its coffee shops in April, the firm's CEO made

a speedy public apology and arranged staff training. Shares quickly recovered. It had made the index with flying colours.

For the non-profits, the benefits go beyond the extra cash. The products raise awareness of the social problems they focus on and may prod corporate America to act, says Dorri McWhorter of the YWCA. Non-profits working with Impact Shares have been approached by firms wanting to know how they can improve. The effect may be felt beyond public markets. Ms McWhorter says she has heard from a venture-capital fund keen to use the YWCA criteria to screen potential investments. ■

## Buttonwood | Leaning against the wind

### Why everything might turn out just fine

ASKIT in the 1979 film, "The Secret Policeman's Ball", features Peter Cook, a revered British comedian, as the leader of a cult whose members have gathered on a mountain to watch the end of the world. His followers are full of questions. How will the Earth perish? Will there be a mighty wind? What will happen to homes? "Well, naturally they will be swept away and consumed by the fire that dances on the Jeroboam," he replies. "Serve them bloody well right!"

The skit sends up the millenarian sects of medieval Europe whose adherents believed they were living in the "end times" or "last days". It could as fittingly be aimed at many investors today. A strain of millenarian thinking has been common since the bankruptcy of Lehman Brothers ten years ago this month. Its devotees, too, rail against a discredited priesthood and its vices—in this case, central bankers and quantitative easing (QE). They also maintain that a reckoning is due.

Perhaps it is. As the crisis that followed the collapse of Lehman brought home, it is a mistake to be complacent about what may happen next. Extreme economic and financial events are far more likely than investors had believed. But the real lesson of Lehman is not so much that very bad things can occur. It is that anything might. Investors should of course be mindful of the risk of further crises. But they should also keep in mind the possibility that things might turn out just fine.

Admittedly, this is hard. It is far easier to think of ways that things might soon go wrong. America's stockmarket is pricey. Its economy has enjoyed a long expansion. Perhaps the Federal Reserve will tip it into recession. The trouble in emerging markets may worsen. The euro zone is accident-prone. It still lacks a shared mechanism for propping up the economy by fis-



cal means. Meanwhile, China's economy has slowed. Its debt mountain looms large. President Donald Trump's numerous trade wars present another threat.

Moreover, the origins of a crisis can often be found in the response to the previous one. The Fed's interest-rate cuts following the East Asian and Russian crises helped blow up the dotcom bubble. When that burst, the Fed slashed interest rates and fuelled a housing boom and bust that did for Lehman Brothers. There is good reason to worry that the end of QE in Europe, and its reversal in America, will unsettle financial markets.

### Deliver us from salvation

The possibility that markets might be surprised by good news may seem absurd. It is natural to respond to trauma with caution. But this caution can be so extreme that it impairs people's judgment. In "The Pursuit of The Millennium", first published in 1957, Norman Cohn showed that outbreaks of millenarianism often followed a big disruption of some kind—a plague, a famine or even a sharp increase in prices. Prophets of doom tend to spring up after disasters.

When you have just lived through one trauma, another seems more plausible.

But disaster can breed so much caution that a crisis becomes less likely, says Eric Lonergan of M&G, a fund-management group. He cites the example of the East Asian crisis in 1997-98. The countries it affected went on to make sure they would not be at risk of another balance-of-payments crisis. Likewise, after a crisis as far-reaching as the most recent one, levels of watchfulness among rich-world policymakers militate against the risks of a global recession. "Your prior [assumption] should be for a very long expansion," says Mr Lonergan.

So how might it all go right? It is encouraging that a number of Fed governors seem anxious about the risk of tightening monetary policy too much. Emerging markets may be out of favour, but only a handful are plagued by the old evils of inflation and over-reliance on foreign financing. The chance of progress on fiscal risk-sharing in the euro zone is higher than is generally appreciated. Daniele Antonucci of Morgan Stanley notes the promising noises coming out of Germany. The threat of a trade war has reduced the likelihood of global recession, reckons Mr Lonergan. It has spurred the Chinese authorities to stimulate the economy sooner than they would have otherwise.

Optimists can seem naive. Looking on the bright side does not have the same intellectual cachet as forecasting calamity. Prophets of doom know they will eventually be proved right. It is the nature of business cycles that recessions happen. Good news is just bad news postponed. When the doomsayer played by Peter Cook is forced to recognise that the Earth has not been consumed by flames, he is phlegmatic. "Never mind, lads," he tells his followers. "Same time tomorrow?"

## Ant and Tencent

# And now for something completely different

SHANGHAI

As regulators circle, China's fintech giants put the emphasis on tech

FOR those still trying to work out what exactly “fintech” involves, we are sorry to bring you this update from China, a world leader in mixing finance with technology. Fintech is passé; the hot new thing is “techfn”. This ungainly portmanteau was coined by Jack Ma, the chairman of Alibaba, an e-commerce giant, who announced on September 10th that he plans to step down in a year's time (see Business section). It is not mere semantics, but indicative of the way that China's fintech upstarts—firms that have excited investors, frightened banks and attracted legions of users—are adjusting as their reach is limited by regulators.

The landscape of Chinese fintech is dominated by two players: Ant Financial, an affiliate of Alibaba, and Tencent, best known for WeChat, its social-media network. Ant is estimated to be worth \$150bn, only a little less than HSBC, putting it among the world's most valuable financial firms. Tencent's financial services are wrapped inside Tencent Holdings, which has a \$400bn market capitalisation. They will, if left unchecked, grow much bigger. China's government must now decide whether to try to slow their rise.

Both firms got their start in payments. Ant stems from Alipay, created in 2004 to make online shopping easier. Tenpay was launched in 2005 for QQ, Tencent's online-messaging platform, and was later grafted onto WeChat. Both have boomed by linking mobile apps with offline payments. Almost all merchants in China, from the humblest vegetable stall to cafés where customers can feed the pets and upwards, provide QR codes to be scanned by phone in order to pay. According to iResearch, a consultancy, mobile transactions in China reached nearly 120trn yuan (\$18.7trn) last year, 100 times more than in 2013—and more than all transactions handled worldwide by Visa and MasterCard combined.

At the moment Alipay has 54% of the mobile-payment market, to Tenpay's 40%. But Steven Zhu of Pacific Epoch, a research firm, predicts that within five years Tenpay will pull level. Its main advantage is that WeChat, the main entry point for people using Tenpay, has more than 1bn active users. Alipay, as of early 2017, had about 520m

active users in China. On Alipay's side are the fact that people spend more on it and its rapid expansion overseas. It already works with more than 250 financial firms abroad, so that Chinese tourists can use it.

But Ant and Tencent are more interested in hooking users on other financial services than in payments alone. Once a user is on one of their platforms, mutual funds, insurance products and virtual credit cards are accessible with a tap of a finger on a phone. Online banks specialising in small loans are just a few clicks away. The scale of these activities is breathtaking. Alipay launched Yu'e Bao (“leftover treasure”) in 2013 as a money-market fund to give customers a small return on their idle cash. By June it had some \$210bn in assets under management, making it the world's biggest money-market fund by a wide margin.

It is easy to see why big banks want to restrain the fintech dynamos. “If the banks don't change, we will change the banks,” Mr Ma said in 2008. Some bankers chortled; they are not laughing any more. Kapronasia, a research firm, estimates that fintech firms will take more than 40% of China's potential payment-card fees by 2020, an annual loss of about \$60bn for banks. The fintech firms' incipient move into retail banking is even more alarming. “This is the most profitable area for banks,” says Linda Sun-Mattison of Bernstein Research. “They don't want to just get stuck with lower-margin commercial clients.”

Regulators are more conflicted. By making spending easier, the fintech duo boost consumption, which has long been too low as a share of China's GDP. They bring

financial services to poorer people and force state-owned behemoths to up their game. But their popularity is also an economic risk. As Yu'e Bao shows, they can Hoover up savings. “Customers are leaving banks,” says Cliff Sheng of Oliver Wyman, a consultancy. A bigger exodus might destabilise the financial system.

So over the past year, regulators have put speed bumps in their way. Under pressure to deflate Yu'e Bao, Ant has capped the amount of cash users can invest or withdraw in a day. The online banks launched by Tencent and Ant—respectively, WeBank and MYBank—have also been hindered by deposit caps. And the central bank called off a trial in which Ant and Tencent were developing credit scores on individuals. Instead, they were given stakes in Baihang, a state-owned credit-rating system.

Potentially most significant is the launch in July of NetsUnion, a clearing house for online payments. Although it should make mobile payments safer, it will also stand between fintech firms and banks, making it more difficult for Ant and Tencent to drive a hard bargain over fees. Ms Sun-Mattison thinks it only a matter of time before it is used to limit mobile transactions, ostensibly to address concerns such as money-laundering but also protecting banks from competition.

All this is the backdrop for the decision by Ant and Tencent to play up technology offerings instead of financial services. It is remarkable how similar their executives can sound. Henry Ma, the vice-president of WeBank, talks of being the “infrastructure provider” to commercial banks. Leiming Chen, general counsel at Ant, talks of giving banks a platform to “connect with users”. The idea for both is that, with their vast user bases and data troves, they can help banks identify smaller borrowers and manage lending risks. Banks put up the capital; Ant and Tencent get “technology fees”. Techfn is not as attention-grabbing as an all-out assault on banks. But as a business model, it is more likely to succeed. ■



Kitty cash

**Correction:** In the article entitled “Cleaner than thou” in last week's issue we stated that civilian power plants were the only way to produce fissile material for nuclear-weapons programmes. They are not. Sorry

# Free exchange | Upsetting the Apple cart

The Trump administration's trade war is forcing hard choices on American companies



**Y**OU might think a company worth \$1trn would gain a sympathetic hearing in the White House. Not, it seems, when the subject is China. On September 7th, as President Donald Trump prepared a new salvo of tariffs on Chinese imports, Apple released a letter pleading with the administration to change tack lest it harm American consumers. “Make your products in the United States instead of China,” Mr Trump tweeted back. “Start building new plants now. Exciting!” The response reflects a view within his administration that in a trade showdown with China, America cannot lose.

Mr Trump’s officials are finalising a list of Chinese imports, of \$200bn in value, which will be subject to new tariffs. If and when they come, they would be in addition to tariffs previously levied on \$50bn of Chinese goods. The president has expressed himself willing to put tariffs on all Chinese imports. China, for its part, is unbowed. At a summit on September 11th Xi Jinping, the Chinese president, and Vladimir Putin, Russia’s leader, agreed to strengthen economic ties and resist American protectionism.

In a sense, America’s aggression is a less conventional, more belligerent version of a trade war many advanced economies have been itching to declare. Although China is a member of the World Trade Organisation (WTO), it engages in dubious growth-boosting measures that skirt the rules, such as pressing foreign manufacturers to share proprietary technologies as a condition of market access. Many countries would applaud if America got China to stop such practices. Tariffs of 25% on low-margin Chinese goods like clothing could hit sales in America, and can be seen as a way of cudgelling China into making concessions. But that is not the only light in which to view them. For the Trump administration may not even care whether China yields.

Apple, and firms like it, are the reason why. Stiff tariffs on high-end imported electronics are unlikely to reduce sales as much as those on cheaper items. Apple makes vast margins on its products. An analysis in 2011 concluded that it captured a staggering 58% of the iPhone’s retail price, which helps explain its towering market value. Although the planned tariffs will spare the iPhone, other Apple products that will be included, such as the Watch, are thought to enjoy similarly extravagant margins. Apple’s ability to charge so much above cost suggests that rival products are imper-

fect substitutes, and that it therefore enjoys pricing power in the market. Its bosses can choose whether to sacrifice sales or absorb the tariffs and accept thinner margins. Where high-end electronics are concerned, in other words, tariffs foist hard choices on domestic firms rather than China’s government.

That might be to Trump officials’ liking. Two decades ago, technology firms began outsourcing production. Asia became the dominant hub for electronics. Roughly 1.5bn smartphones were sold in 2016. At peak output, according to the IMF, smartphone components accounted for more than 33% of exports from Taiwan, and 15% of those from Singapore and South Korea. Finished smartphones accounted for 5% of Chinese exports. Although Asia captures only a modest share of the income generated by such sales, it takes much more of the associated employment—which Mr Trump covets. When Foxconn, which assembles Apple products in China, broke ground on a production plant for LCD screens in Wisconsin in June, he gleefully claimed credit.

But reclaiming portions of a supply chain is tricky. “Factory Asia” enjoys considerable efficiencies of scale. Because parts suppliers and final assembly are relatively close together, it is flexible and responsive; a trans-Pacific supply chain would be slower and less efficient. And China’s mammoth smartphone industry hooers up skilled workers and engineers, creating demand for labour that coaxes a corresponding supply into existence. Filling such jobs in America would be hard, at least in the short run.

But hard is not the same as impossible. Officials at Apple no doubt recognise the vulnerability created by their dependence on China. When tech executives complain about China’s abuses, China hawks sympathetic to Mr Trump respond that they have only themselves to blame. As difficult as reshoring large parts of the electronics supply chain would be, the prospect of a protracted trade war may persuade some American firms to opt for the costlier, but less uncertain, option of disentangling themselves from China. And though other parts of Asia may look appealing, they might decide that reshoring to America makes most sense, given Mr Trump’s protectionist bent.

To an economic nationalist, the tariffs are a win-win proposition. Either China abandons elements of its industrial policy deemed to be unfair, or America’s tech titans reshore production, reverse the dramatic shifts in global trade of the past two decades, and rebuild a top-to-bottom domestic high-tech industry.

## How do you like them apples?

The decline in manufacturing employment since 2000 has been felt keenly in many parts of America. But reshoring electronics production will not mean reshoring anything like the number of jobs that were lost in the first place, thanks to relatively high labour costs and better labour-saving technology. To the extent that firms with pricing power charge more, it will hurt consumers. And it will cause a potentially irreparable tear in the geopolitical fabric joining America and China. The norm that trade differences should be settled in a peaceful and orderly manner will have been sacrificed to no advantage for most Americans.

The harm may already have been done. Analyses of China’s accession to the WTO suggest that the reduction in uncertainty about tariff rates, rather than falling tariffs themselves, accounted for more than a third of subsequent growth in exports. Times are once more uncertain. Even if the Trump administration suddenly declares that the trade war is over, America’s tech titans will surely rethink their reliance on China. But to what purpose? ■




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**Recycling**

## On the plastic highway

### Roadmakers are using waste to create harder-wearing surfaces

**O**F ALL the plastic produced since the 1950s, less than 10% has been recycled. The vast majority ends up being dumped, most of it in landfill. Some is left to litter the natural environment, where it can get into rivers and wash out into the sea (see following story). The plastic-waste problem will worsen before it gets better: some 380m tonnes of the stuff are likely to be made this year. That is more than three times as much as the 120m tonnes of bitumen produced annually, most of which goes into building the world's roads.

There is a connection. Just as plastic is derived from petrochemicals, bitumen is produced as a by-product of refining oil. Both are polymers, which consist of long strands of molecules bound together firmly. It is this characteristic that makes plastic strong and contributes to its great longevity. Such features are also useful for road builders, who use hot bitumen to bind together aggregates made from broken rocks and stones, into what is commonly known as asphalt. All of which has got some people thinking: why not swap one polymer with another?

Recycled plastic is already used to make some products, such as guttering and sewage pipes. Now attention is turning to roads. On September 11th in Zwolle, a town in the Netherlands, a 30-metre bicycle track made from 70% recycled plastic and the rest from polypropylene was opened. It

will be used to test a product called PlasticRoad, which is being developed by two Dutch firms—kws, a road builder, and Wavin, a firm that makes plastic piping—in partnership with Total, a French oil-and-gas firm.

PlasticRoad is prefabricated in a factory as modular sections. The sections are then transported to the site and laid end to end on a suitable foundation, such as sand. Because these sections are hollow, internal channels can be incorporated into them for drainage, along with conduits for services such as gas and electricity. For the Zwolle project, sections that were 2.4 metres long and 3 metres wide were used. These were fitted with sensors to measure things such as temperature, flexing and the flow of water through the drainage channels. A second pilot cycleway is being built in the nearby town of Giethoorn.

### Smart roads, too

If all goes well, the inventors hope to develop the idea and make the sections entirely from recycled plastic. Paths, car parks and railway platforms could follow. Eventually, sections for use as actual roads are planned. These could contain sensors for traffic monitoring. In time, the circuits in the plastic roads might extend to assisting autonomous vehicles and recharging electric cars wirelessly.

Prefabricated plastic roads should last

two-to-three times longer than conventional roads and cost less, the companies claim, mainly because construction times would be reduced by almost two-thirds. Anti-slip surfaces could be incorporated, too, including crushed stones which are traditionally used to dress road surfaces. The sections, when replaced, can also be recycled. But engineers will be watching to see how the track stands up to wear and tear and if the hollow structure causes resonance, which would make such a road unduly noisy.

An alternative method of using recycled plastic is to mix the material into hot bitumen when making asphalt. A road is about to be built this way on the campus of the University of California, San Diego, to test a number of specialist roadmaking plastics developed by MacRebur, a British firm. Each mix is produced from plastic that is not easily or cheaply recycled and so typically ends up in landfill, says Toby McCartney, who founded the firm in 2015 with a group of colleagues.

MacRebur cleans and sorts the plastic and then grinds the waste into flakes or pellets. The plan is for this part of the process to be carried out in the localities where roads are being laid or repaired, so that local waste is used to produce local roads. Each mix can contain 20 or so different polymers for specific surfaces. One mix, for instance, might be suitable for a bus lane that carries heavy loads. Another would provide some flexibility in an area of turning traffic, such as a roundabout, where lateral forces from vehicles' wheels can stretch the surface causing it to tear. Extremes of heat and cold can also be adjusted for. And because the addition of plastic helps to seal up small holes, which allow water to get below the surface of a road and cause it to break up, the modified as- ▶▶

▶ phalt can help to prevent potholes.

The company's plastic mixes have already been used in roads, car parks and airport runways in various parts of the world. One of the oldest projects is a stretch of road in Cumbria, in north-west Britain, which is extensively used by heavy lorries. This used to need resurfacing every six months or so, but with the addition of plastic it is still going strong after two years, says Mr McCartney. When resurfacing is needed, the material can be recycled again.

Cleaning and sorting plastic made out of multiple polymers can be relatively expensive, especially if it is used to make low-value products such as packaging. But using such plastic as a replacement for bitumen is cost-effective, claims Mr McCartney. As an example, he says that a tonne of bitumen might cost around £400 (\$521) in Britain. A recycled-plastic additive for a standard road works out at £300-£350 a tonne. The additive would replace a proportion of the bitumen, so there are savings to be made. At present 5-10% of the bitumen is replaced by the additives, but this could be increased to 25%.

Mr McCartney decided to develop specialist recycled-plastic additives after watching a practice sometimes employed in India to repair potholes. Plastic waste collected by pickers is piled into the hole and then set alight with diesel to form a molten mass. It is crude and polluting, but it provides a fix of sorts. A number of roads in India are also made by mixing chopped-up plastic into bitumen.

Australia is another country that is starting to recycle plastic into roads. Earlier this year a 300-metre stretch was completed in Rayfield Avenue, Craigieburn, a suburb of Melbourne, using a substance called Plastiphalt. This consisted of recycled material from more than 200,000 plastic bags and packaging, 63,000 crushed glass bottles and toner from 4,500 printer cartridges. All this was blended into 50 tonnes of reclaimed asphalt to create a total of 250 tonnes of road-building material. The road will be monitored to see how it performs.

Stuart Billing of Downer, a firm involved in constructing the road, said that the cost of using the recycled materials was comparable with building a road in the usual way. But the road is expected to last a lot longer and prove better at coping with heavy traffic.

Officials in Craigieburn reckon that the amount of rubbish used to construct the road, all of which was diverted from landfill, is equivalent to what Rayfield Avenue's residents would have put into their recycling bins over the past ten years. One of the biggest complaints to local councils is about the state of the roads, especially potholes. Households in Australia and elsewhere might well do more sorting and recycling of plastic if they knew it could result in a smoother drive. ■

## Marine litter

# Sweeping the ocean

SAN FRANCISCO BAY

**A teenager's plan to trawl for plastic in the north Pacific becomes reality**

**F**EW things exercise green sensibilities more these days than marine plastic litter. The detritus looks unsightly when it washes up on beaches, and cruel when it chokes photogenic sea creatures. Scientists estimate that perhaps 8m tonnes of plastic waste enters the ocean each year, discharged by rivers or shed from ships. Plenty stays close to shore. Some, though, is carried by currents to mid-ocean gyres.

The biggest of these is located halfway between California and Hawaii—and so littered with flotsam that it has been nicknamed the Great Pacific Garbage Patch. A study published last March in *Scientific Reports* by Laurent LeBreton of the Ocean Cleanup, a Dutch charity, and colleagues, found that it contains between 45,000 and 129,000 tonnes of plastic debris spread over an area roughly the size of Alaska.

The idea of sweeping it all up might sound fanciful. To Boyan Slat it seemed merely ambitious. What if, he wondered in 2012 (then aged 18), you could build a massive bow-shaped floating barrier, anchor it to the seabed and let currents shuffle the litter into the scoop? Despite his youthful age and madcap scheme, Mr Slat set up the Ocean Cleanup to put it into practice. Six years, €20m (\$23m) and several prototypes later, the device set sail from San Francisco on September 8th, escorted by a Coast Guard vessel, a shipload of camera crews and a flotilla of curious boaters.

System 001, as the contraption has been christened, is a hollow cylinder 600 metres long and 1.2 metres in diameter, itself made of plastic (polyethylene). It was moulded together into a seamless whole from 12-me-

tre segments at a shipyard across the San Francisco Bay in Oakland. A three-metre-deep skirt (made of sturdy polyester) dangles beneath the boom to prevent litter from escaping under it; buoyant plastic tends to float within a metre of the water's surface. The device is even simpler than Mr Slat's original idea, having dispensed with the anchor. Instead, it relies on the observation that the boom, which is driven by the current as well as by waves and wind, always moves faster relative to the plastic, which is propelled by the current alone. It therefore scoops the litter up as it drifts.

A straight boom will first be towed 250 nautical miles off the coast of California for a fortnight of tests, before embarking on a three-week voyage to its final destination. There it will be turned into a U-shape, with its ends fastened in place using metal lines, and set adrift. Satellite tracking and other electronics will allow its progress to be monitored remotely. Light beacons will alert the two dozen ships which cross the gyre each week to its presence. Some time next year another vessel will be dispatched to fish out the collected rubbish, which the charity hopes to sell to recyclers.

If System 001 succeeds, Mr Slat wants to deploy another 60 booms, measuring 1km or more. Corporate sponsors would foot the bill of €5m apiece for construction and three years' operation, Mr Slat hopes. He already enjoys the backing of deep-pocketed endowments and of tycoons like Marc Benioff, founder of Salesforce, and Peter Thiel, a noted investor.

The system can do little about plastic that has fragmented into microscopic particles, but these make up just 8% of plastic in the gyre. Mr LeBreton reckons that a fleet of booms could, by 2040, sweep up virtually all the non-tiny detritus, but only if plastic leakage into the sea is stanchied. If it continues unabated, the incoming debris would outweigh the fleet's capacity to skim it within a few years. The ocean's plastic problem cannot really be solved without better waste management on land. ■



Sailing to the garbage patch

## Scientific publishing

## The S-Plan diet

## European countries demand that publicly funded research be set free

MANY scientists have championed the idea that publicly funded research should be available to all and not locked away in pricey journals. Although this “open access” ethos has become more popular in recent years, most researchers’ work remains fenced off by an online pay-wall. That may change with a radical European initiative unveiled earlier this month.

Eleven European countries, including Britain, France and the Netherlands, have signed up to what is called “Plan S”. This requires scientists who benefit from those countries’ national-research funding organisations to publish their work only in open-access journals on freely accessible websites by 2020. That would in turn prevent papers from appearing in around 85% of periodicals, including some of the most esteemed, such as *Nature* and *Science*.

Plan S was forged under the aegis of Science Europe, an umbrella group of European research funders. Marc Schiltz, its president, takes a muscular stance. “Monetising the access to new and existing research results is profoundly at odds with the ethos of science,” he has written.

Not surprisingly, publishers have given Plan S a frosty reception. The policy “potentially undermines the whole research publishing system,” said Springer Nature, which publishes more than 3,000 journals, including *Nature*. The American Association for the Advancement of Science (AAAS), which publishes *Science*, said it would “disrupt scholarly communications, be a disservice to researchers, and impinge academic freedom”.

That is not what Robert-Jan Smits thinks. He is the European Commission’s open-access envoy and is pushing Plan S hard (the “S” can stand for “science, speed, solution, shock”, he says). Shock is certainly right. Plan S would, after a short period, also prohibit publication in “hybrid” journals that make papers free online provided the authors pay a fee (a subscription is required for readers to access other papers). Publishers argue that this mixed model has helped to open up established subscription journals and is a useful stepping stone to full open access. Critics say hybrids have simply inflated publishers’ profits by allowing some journals both to charge scientists to publish and libraries to subscribe.

Another point of contention is that the publication fees which scientist pay to open-access journals would be capped across Europe. A figure has yet to be set, but

## Wildlife conservation

## Tending the flock

## Churches help to preserve bird biodiversity

CHRISTIANITY and conservation have not always gone hand in hand. Yet the structures raised by Christians to exercise their faith offer tangible sanctuary to some of God’s smaller creatures. Bats, famously, roost in belfries. And, according to a paper just published in *Biological Conservation*, churches are also good places for birds. They are complex structures, with lots of nooks, crannies, rafters, holes and towers to sleep and nest in. Churchyards also often host a diverse collection of greenery and ancient trees.

A team led by Piotr Skorka of the Polish Academy of Sciences set out to see just how good churches are as bird habitats. In villages dotted across the southern Polish countryside, Dr Skorka and his

colleagues visited 101 of them, as well as an equal number of nearby farmhouses (known to be ecologically beneficial, too), to compare the number of species the two types of buildings host.

Starting at daybreak on days of fair weather, the researchers walked slowly, carefully noting over 5,500 individual birds living in and around the buildings. They jotted down the physical dimensions of each building, together with other structural elements such as trees, shrubs and gardens. They then used a statistical analysis that included six measures of bird diversity to gauge the effects of different building configurations on the number of species, and the abundance of each.

Churches beat farmhouses in almost all respects. They supported more species, more varied types of species and more individual birds. Certain species were seen only in and around churches. The spotted flycatcher and the short-toed tree creeper, for example, both benefited from the surrounding trees. The older a church, the greater its levels of ornithological diversity. Stability is an important promoter of such diversity.

That these buildings were designed to be closer to God helped, too. The taller a building, the more species there were. Separate bell towers also boosted numbers. The team frequently observed birds in and around these lofty structures, well out of the reach of predators such as cats.

One of the most important concepts in ecology is that of the niche—the set of ecological criteria that a particular species is best adapted to. In light of Dr Skorka’s work it is worth remembering that the original meaning of the word was a recess to accommodate a statue in the wall of a building such as a church.



Coming home to roost

the International Association of Scientific, Technical, and Medical Publishers, which represents 145 publishers, believes this could reduce the level of peer review that journals could afford, and thus undermine quality. Backing up that view, the AAAS argues that a wholesale switch from subscriptions to open access would be “unsustainable” for the group.

Plan S is not yet a done deal. Agreements will be needed for how the terms of future grants will be changed. A middle way might be found. One possibility is that universities will be able to post peer-reviewed papers online as soon as they are accepted for publication, while libraries

would continue to pay for the final typeset versions. As it stands, this approach is often prohibited by the publishing agreements made with scientists.

In the meantime, momentum is on the side of the reformers. Horizon Europe, the European Union’s seven-year, multi-billion-euro research programme, which begins in 2021, may well have requirements akin to Plan S. Mr Smits is off to America in October to lobby funding agencies there to sign up to the plan. If he succeeds, then the era of the subscription journal, which began with the publication in 1665 of the Royal Society’s *Philosophical Transactions*, may come to an abrupt end. ■



### Truth and the president

## The Trump chronicles

### Rendering a convincing account of America's 45th president is almost as hard as embarrassing him

IN “MILES GLORIOSUS”, a comedy by Plautus from the second or third century BC, the main character is a soldier who has a thing for kidnapping women and constantly embellishes the truth. The audience know this because the soldier has a slave, Artotrogus, who flatters his master to his face but makes asides about what is really going on. When a liar is disparaged by someone who is himself only intermittently trustworthy, how can observers separate what is true from what is not?

Authors of books about the Trump White House are confronted by the same problem, as are their readers. In the words of his own lawyer, John Dowd—as cited by Bob Woodward in “Fear”—the president is “a fucking liar”. Like Artotrogus, his underlings praise him lavishly in public, then tell journalists that he is a “moron” (attributed to Rex Tillerson, his former secretary of state), an “idiot” (attributed to John Kelly, his chief of staff) and has the understanding of “a 5th or 6th grader” (attributed to James Mattis, the defence secretary).

There have already been four book-length attempts to solve this puzzle. Given the appetite for stories about what goes on in the room where it happens, there will be more. Two have been written by participants (James Comey and Omarosa Manigault Newman) and two by observers (Michael Wolff and, now, Mr Woodward). Mr Comey is reliable but only has a few en-

**Fear: Trump in the White House.** By Bob Woodward. *Simon & Schuster*; 448 pages; \$30 and £20

counters with the president to relate. Ms Manigault Newman has more access but is no Mark Twain. “I got many offers after leaving the White House, but I chose ‘Celebrity Big Brother’ because it has always been one of my favourite shows,” she writes in “Unhinged”. In “Fire and Fury” Mr Wolff gets some details wrong and includes things that were too good to check; still, he captures the absurd, terrifying early months of the administration.

Mr Woodward brings decades of Washington gravitas to the job. Together with his assistant, Evelyn Duffy, he interviews everyone he can, on tape if possible, and gathers documents. Then he reconstructs key moments of the presidency so far, told as if they were recorded on a bug under the Resolute desk. But even Mr Woodward puts in quotation marks dialogue that he got second-hand, so that it is impossible to distinguish between what someone actually said, what someone recalls saying and what someone else says someone said.

Set against the epistemological standards of the 45th president, pointing this out feels like nitpicking. Yet the technique, while making the book a better read, invites another set of questions about accu-

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racy. Meanwhile Mr Trump's indiscretion poses a different problem for the exposé form. Disagreements and conflicts that would normally count as insiderish gossip (the president does not agree with his secretary of state on North Korea, say) have already been tweeted by the subject himself.

Mr Woodward's style, employed in books about five other presidents, is to report debates between the commander-in-chief, his cabinet and advisers. The impression this gives in “Fear” is, initially, of a reasonably normal administration. Cabinet secretaries disagree with each other and plot to win Mr Trump round. Everyone is obsessed with getting access to him. He in turn asks sensible questions about why America still has troops in Afghanistan, eventually dispatching a few more.

But the veneer of normalcy peels off fast. Mr Woodward's Trump has no friends. Nobody who works with him seems to like him. The constant dissembling does not help (Mr Trump is “a professional liar”, in the view of Gary Cohn, formerly the director of the president's National Economic Council). Nor do the small acts of cruelty towards his staff.

One story Mr Woodward recounts captures this personality. On board Air Force One, Reince Priebus told Mr Trump that he would soon resign as chief of staff. They agreed to talk later about the timing of the announcement and who might replace him. After the plane landed, Mr Priebus got in a car and opened up Twitter, to find the president had broadcast his resignation and named a successor. “It made no sense, Priebus realised, unless you understood the way Trump makes decisions. ‘The president has zero psychological ability to recognise empathy or pity in any way.’”

In principle, a certain sort of ruthlessness could be an asset for a president, but ▶▶



▶ Mr Trump is too disorganised to profit from it. Memos must be kept to a single page, and even then often go unread. Attempts to brief him are futile. “It’s pointless to prepare a meaningful, substantive briefing for the president,” Mr Woodward quotes Mr Cohn as saying. “He’s going to get through the first ten minutes and then he’s going to want to start talking about some other topic.” Mr Trump “acted like doing too much advance preparation would diminish his skills in improvising,” according to an aide.

That distinctive approach is deployed in the service of two fixed ideas: that trade deficits are bad, and that foreigners should pay for American protection of their countries. When these two gripes come together, as in the case of South Korea—which has a trade surplus with America and an American missile-defence system on its soil—the president can become apoplectic. His desire to withdraw from a trade deal with South Korea is a recurring theme in “Fear”; the opening chapter has Mr Cohn swiping the paperwork to make it happen off Mr Trump’s desk.

### The last laugh

This story, coupled with an anonymous opinion piece in the *New York Times* describing internal resistance to the president, has set off a debate about whether a silent coup is unfolding at 1600 Pennsylvania Avenue. “Fear” does not suggest that is so. Mr Cohn and his allies do slow-walk paperwork when the president is planning to do something unwise. But, says Mr Woodward, this only works because Mr Trump “seemed not to remember his own decision because he did not ask about it. He had no list—in his mind or anywhere else—of tasks to complete.”

In this account, what matters most to Mr Trump is not governing, but avoiding the impression of weakness. After the “grab them by the pussy” tape emerged during the campaign, he was contrite for about a day, then went on the attack again. After his inept first response to the killing of a woman in Charlottesville by a white supremacist, he eventually delivered a speech to mollify those who said he had given racists the impression that he was on their side. He quickly regretted it. “That was the biggest fucking mistake I’ve made,” he told an aide. “You never make those concessions. You never apologise.”

Naturally, Mr Woodward’s bigwig sources have publicly denied saying the things he says they did. Mr Trump himself has denounced the author as a Democratic stooge. For all that, taken together the Trump chronicles throw up another quandary, beyond the issues of accuracy and novelty: whether these tell-alls actually do the president any harm. Plautus suggests otherwise. At the end of his play, the philandering soldier is humiliated—and turns to the audience for applause. ■

### New American fiction

## The other side of paradise

**Lake Success.** By Gary Shteyngart. *Random House*; 352 pages; \$28. *Hamish Hamilton*; £16.99

**B**ARRY COHEN’S hedge fund, This Side of Capital, takes its name from F. Scott Fitzgerald’s first novel, “This Side of Paradise”. Like Amory Blaine, Fitzgerald’s hero, Barry went to Princeton, where he studied writing while preparing to build his fortune. Unlike Blaine, Barry is a son of working-class Queens; his father scraped a living maintaining the swimming pools of the wealthy. Barry has since become a master of the universe, “with 2.4 billion dollars of assets under management”, as the first line of “Lake Success”, Gary Shteyngart’s new novel, declares. Yet the reader meets him as he staggers into the grime of Manhattan’s Port Authority Bus Terminal, drunk and bleeding at twenty past three in the morning. What went wrong?

Mr Shteyngart is a hilarious chronicler of the vicissitudes of the American Dream. Born in what was then still Leningrad, he emigrated to America as a boy, and his observations have an outsider’s acuity. In “Lake Success” Barry is a striver, a titan of finance grimly determined to make it to the very top. He is always aware of where he stands in the hierarchy of fantastic wealth. He and his wife Seema may own a swanky apartment in Midtown, but Barry is perpetually conscious that Rupert Murdoch owns the whole top three floors of the building.

Not all is as it seems, however. Barry’s three-year-old son, Shiva, has just been diagnosed with autism; and something is

deeply fishy about Valupro, a pharmaceutical firm with which This Side of Capital is enmeshed. The strain these pressures put on his marriage leads him to Port Authority in the small hours, determined to live out a hedge-funder version of “On The Road”. Half of this novel belongs to him, its other half to Seema, who was born plain-old middle class in Ohio to immigrants from Bombay. In Barry’s absence she cares for Shiva (with the help of a nanny, a chef and a huge team of therapists) and embarks on an affair with a neighbour, an ostensibly glamorous Guatemalan novelist.

Like Tom Wolfe’s “The Bonfire of the Vanities” or William Thackeray’s “Vanity Fair”, this is a novel that captures the raucous spirit of its age. Most of the story takes place in the run-up to the election of 2016, the prospect of Donald Trump’s presidency like a rumble of distant thunder. Barry’s adventures elicit a delicious *Schadenfreude* as he travels across the country by Greyhound bus, carrying a suitcase full of staggeringly expensive watches. Barry is a watch aficionado, as is Mr Shteyngart, who last year wrote passionately in the *New Yorker* of the elusive comfort offered by the perfect wristwatch: “If only watches could do what they so slyly promise. To record. To keep track. To bring order.”

If a kind of order is found by the novel’s end, it is not the kind Barry sought or the reader expects. With his sharp humour and gift for character, Mr Shteyngart makes the implausible seem credible. He might even make you want to take a Greyhound.



Tender is the night

## Economists abroad

## Wind and smoke

**John Law: A Scottish Adventurer of the Eighteenth Century.** By James Buchan. MacLehose Press; 528 pages; £30

**F**ORGET share prices, interest rates and GDP. A better measure of the severity of a financial crisis is who is paying attention. If only financiers are watching, it is probably a manageable blip. When politicians start to notice, it is time to be concerned. When artists become interested, panic.

As the 18th century dawned, the attention of one of France's greatest writers was held fast by the finances of its capital. "Have you all truly lost your heads in Paris?" exclaimed Voltaire in horror. "Nobody talks of anything but millions." Beggars were now rich, he wrote, and the rich were destitute. Daniel Defoe thought the French seemed to have converted "refined air" into profit. Voltaire offered a different suggestion: perhaps they had "found the philosopher's stone in the mills of paper".

He was eerily close to the mark. The mania was the work of John Law, a Scottish economist, who had indeed bragged that he had found the philosopher's stone—though in his view the trick was to "make gold out of paper". When Law took charge of France's finances, he promptly did just that, promoting paper money and a financial bubble that inevitably burst.

Law, as James Buchan explains in this exceptionally thorough biography, was a gambler in life as much as in finance. The son of an Edinburgh goldsmith, he matured first into a troublesome youth, then, by the age of 23, into an outlaw: having killed a man in a duel he was given leg fetters and a death sentence. In 1695 he escaped from prison and fled to Holland.

It was an exciting time to be an economist abroad. Ever since Caesar had marched across Gaul, money in France had meant metal, mainly silver (hence "argent"). But in the financial markets of Holland and Italy, money was evolving with astonishing speed. Behaving less like silver than quicksilver, it was mutating from hard metal to lines on paper or entries in a book. What mattered was not coinage but confidence. Dreaming of financial revolution, Law wrote a pamphlet titled "A Proposal for Supplying the Nation with Money".

He caught the eye of the French regent, the duc d'Orléans. France was desperate for cash. Costly wars and Louis XIV's profligacy meant that, as one soldier put it, the "Treasury is absolutely empty." A miracle was needed—and the alchemical Law was on hand to provide it. The regent hired him and, in 1720, made him controller general

## Reimagining Homer

## Achilles and the heels

**The Silence of the Girls.** By Pat Barker. Doubleday; 304 pages; \$27.95. Hamish Hamilton; £18.99

**B**RISEIS, an enslaved Trojan queen, speaks only once in the "Iliad". Yet she is crucial to Homer's epic: Agamemnon's seizure of her from Achilles enrages the Greeks' indispensable warrior, leading to his withdrawal from the battlefield. In "The Silence of the Girls", Pat Barker makes Briseis her central character. The result is a masterful and moving novel.

Ms Barker, a British writer best known for the "Regeneration" trilogy about the first world war, gives Briseis and the other Trojan slave-girls voices that feel refreshingly modern, steeped in history though they are. They are bawdy, motherly, angry and abused. They keep watch on the men who killed their relatives and now treat them as sexual objects. Domestic details are piercingly described, bringing the squalor of the camp to life:

Even from that distance I caught the stench of sweat, today's sweat, still fresh, but under that the stale sweat of other days and other nights, receding into the far distance, the darkness, all the way back to the first year of this interminable war.

The story flickers between Briseis's recollections and a third-person narration of the progress of the war. This combination allows Ms Barker to switch nimbly between the daily drudgery of the camp and the horrors of conflict, described in all their gut-spilling drama. It gives the novel the pace of a thriller, blood-soaked spears and shields suddenly glistening on the page, while also making the characters painfully real.

Through Briseis's eyes the relationship between Achilles and his manservant (and presumed lover) Patroclus is acutely observed. She glimpses them on the beach, leaning forehead to forehead,

of the king's finances. France watched in awe as paper money was printed and shares in its new joint-stock company, which administered the Louisiana colony, rocketed; the word "millionaire" appeared.

Then the bubble burst. Confidence in Law's paper money crumbled. There was a run on the bank; several investors were crushed to death while trying to have their paper turned back into silver. The Louisiana company's shares tanked.

Mr Buchan chronicles the collapse in gruesome detail. The French were aghast as money and shares were transformed yet



The slave-girl's tale

a moment of tenderness in a callous world. Later, she befriends Patroclus almost against her will. She even comes to half-love Achilles, her captor.

In this telling Achilles, notionally a demi-god, is a flawed, fleshy mortal. When Patroclus is killed in battle (disguised as Achilles), his devastation is visceral. Ms Barker zooms out to relay the isolating quality of mourning:

Nobody looks him in the face now, it's as if his grief frightens them. What are they afraid of? That one day they'll have to endure pain like this? Or that they never will, that they're incapable of it, because grief's only ever as deep as the love it's replaced.

Her use of similes is almost Homeric in its brilliance. When Nestor, a wily Greek leader, first suggests that Patroclus might fight in Achilles's place, he sees "possibilities work like maggots under the young man's skin". In the women's hut, "faces, clustering round the lights, shone like the pale wings of moths". In Ms Barker's hands, these venerable scenes and mythic names magically become new.

again, this time into what a Dutch cartoon called "wind and smoke". Montesquieu satirised money's reputation in a sketch in which a man moans about lending his friend some. His complaint wasn't that the loan vanished but that "the rat paid it back! What abominable perfidy!"

Law's system had failed. The "richest citizen there has ever been" was ruined. But he may have got his revolution, just not the one he wanted. Some historians think the French revolution itself was the indirect consequence of the state in which he left the country's finances. ■

Servicing the mega-rich

## Another country

**An urgent exposé of the industry that has grown up around the flow of cash from struggling nations to the West**

FROM the outside, 29 Harley Street looks like any other office block in central London. But it is an entry port to Moneyland, Oliver Bullough's term for a virtual country populated by the mega-rich and their hangers-on. The building came to prominence when Ukrainian anti-corruption campaigners investigated Mezhyhirya (pictured), the once-secret retreat of Viktor Yanukovich, Ukraine's disgraced former president. The ownership of the grotesquely luxurious palace passed through this respectable London address before ending up in anonymity in Liechtenstein.

Mr Bullough and others found that 29 Harley Street was the registered office for more than 2,000 other companies. An outfit based there that provides registrations has created 10m firms in the past 16 years, in jurisdictions ranging from Britain to the Seychelles. As Mr Bullough stresses, none of this is necessarily illegal. There are respectable reasons to incorporate abroad, and to use the shield of anonymity that companies and trusts provide. Rich people and celebrities may have legitimate fears about kidnapping, extortion or privacy breaches. Some of the money involved is what he calls "naughty" (deriving from clever tax planning) rather than crooked.

All the same, Moneyland has huge costs. It generates a climate of impunity for looters. Prosecutions for grafts are rare, restitution following convictions rarer. Information in public registries is scant. Mr Bullough followed one ownership trail that led via Harley Street to a woman who had been dead for five years.

The obvious villains are foreign plutocrats. But the real scandal is the way ritzy bankers, lawyers, accountants and PR people enable money stolen in poor, ill-run countries to be invested in rich, safe ones. There are limits to how much cash the pillagers can spend in their own misruled domains, but the ability to teleport money invisibly around the world means, as Mr Bullough puts it, that the rich can continue eating without ever feeling full.

Defining these flows, let alone tracing them, is hard. Weak legal systems mean that what looks like brazen theft to the outside world may not technically count as crime. In the worst-run countries power and wealth are so entwined that the owner-managers have no need to flout the law; if you write the rules yourself, you don't need to break them. Mr Bullough, a former Moscow correspondent, tells a grim story

**Moneyland.** By Oliver Bullough. *Profile Books*; 298 pages; £20. To be published in America by St. Martin's Press in May; \$28.99

of Ukraine's health system, in which officials ransacked the medicine and equipment budgets, leaving patients to suffer.

The invisible money trail goes through offshore jurisdictions such as Nevis, a Caribbean island where an official laughingly dismisses Mr Bullough's suggestion that its corporate secrecy and abundant scandals might be linked. But it also involves seemingly reputable locales such as the City of London and parts of the United States. Nevada, for instance, is creating ingenious corporate vehicles that add new layers of impenetrability—such as trusts that can be foreign in American law yet count as American under overseas regulations.

Clever lawyers devise Chinese puzzles of these structures. In another of Mr Bullough's examples, a trail ended in three anonymously run companies that owned each other. Even armed with warrants, investigators run into corporate-secrecy laws and daunting costs in time and money. For journalists or activists, life is even harder, especially in places like England that have costly and risky libel courts. Mr Bullough gives tantalising accounts of two investiga-



Viktor's spoils

tions into corrupt behaviour which never saw the light of day because of the mere threat of legal action.

This is just one way in which dark money—billions of dollars a year—corrodes both its source and its destination. Among those selling goods and services to the mega-rich, it encourages a pathological incuriosity about the origins of clients' fortunes. Prices, especially for high-end property, rocket. As the gravy train rolls on, halting it becomes harder: too many livelihoods depend on the ride. By tolerating it, and benefiting from it, the West undermines any efforts to complain about corruption, money-laundering and foreign interference in its politics.

Thus Moneyland is not just a financial community; its tentacles spread to other parts of life, too. A scintillating chapter deals with the market in citizenship: the mega-rich can, in effect, buy their way to a new and easier life through investing in countries such as St Kitts, gaining a passport (perhaps in a new name) that enables untroubled, visa-free travel. Best of all is a sinecure representing one of these countries abroad, bringing a diplomatic passport—and immunity from prosecution.

### Land of the free

Nobody voted for Moneyland. Mr Bullough explains how the designers of the post-war financial architecture tried to keep international financial flows under control, with a network of fixed exchange rates based on the dollar's convertibility to gold. The City of London disrupted this arrangement in the 1960s, first with the Euro-dollar market (trading America's currency outside the scrutiny of its authorities) and then the Eurobond market (enabling anonymous lenders to invest footloose money in reputable securities).


Moneyland is not a conspiracy, Mr Bullough notes. Rather it is a system, nurtured by incentives and disincentives stemming from loopholes in national legislation and gaps between jurisdictions. Curbing it is entirely possible—for example by insisting that those buying (or selling, or renting) high-end property must declare and verify their real identity. Jailing the money-launderers' pinstriped accomplices, when they do break laws, would help too.

The most contentious argument in this devastating exposé is that the right to decide where and how money can be spent and invested lies not only with its owners, but with its creators—governments, which, in Mr Bullough's view, should impose capital controls to jam the illicit flows. That is a controversial idea; the free movement of money has been a conduit not just of economic growth but of freedom itself. Nevertheless, as this urgent book makes clear, the tables have turned. Unchecked, invisible cash flows now promote not democracy and liberty, but kleptocracy and misery. ■

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The Receivers are now seeking expressions of interest for the acquisition of the Majority Shareholding with the Company being the intended seller. The Receivers and the Company will not provide any representations and warranties in relation to the Business and interested parties are expected to conduct and rely on their own due diligence.

Interested parties should note that there is an existing shareholders agreement ("**the SHA**") governing the management and operation of the Business pursuant to which the Minority Shareholder retains a certain level of control over the management and operation of the Business and is entitled to certain other benefits. Further, disposal of the Majority Shareholding will be subject to, among other things, prior written consent, pre-emption right and tag-along right of the Minority Shareholder, and the Minority Shareholder will have a put option to force sell its Minority Shareholding to the incoming majority shareholder, subject to the terms and conditions of the SHA.

Interested parties who wish to acquire full ownership of the Business are expected to conduct their own separate discussions with and seek representations and warranties from the Minority Shareholder as appropriate and the Receivers will provide reasonable assistance to facilitate such discussions to the extent possible. The disposal of the Majority Shareholding is not conditional on the disposal of the Minority Shareholding.

The deadline for submission of an expression of interest is 5 p.m. (Hong Kong time) on 21 September 2018. Interested parties who wish to submit an expression of interest or obtain further information, please contact Mr Edmund Lo on +852 3768 4648 (email: [edmund.lo@fticonsulting.com](mailto:edmund.lo@fticonsulting.com)) or Mr Stanley Law on +852 3768 4724 (email: [stanley.law@fticonsulting.com](mailto:stanley.law@fticonsulting.com)).

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## Economic data

% change on year ago

	Gross domestic product			Industrial production latest	Consumer prices		Unemployment rate, %	Current-account balance		Budget balance % of GDP 2018†	Interest rates, % 10-year gov't bonds, latest	Currency units, per \$	
	latest	qtr* 2018†	2018†		latest	2018†		latest 12 months, \$bn	% of GDP 2018†			% of GDP 2018†	Sep 12th
United States	+2.9 Q2	+4.2	+2.9	+4.2 Jul	+2.9 Jul	+2.5	3.9 Aug	-465.5 Q1	-2.7	-4.6	2.88	-	-
China	+6.7 Q2	+7.4	+6.6	+6.0 Jul	+2.3 Aug	+2.1	3.8 Q2§	+68.3 Q2	+0.6	-3.6	3.53§§	6.87	6.53
Japan	+1.3 Q2	+3.0	+1.1	+2.3 Jul	+0.9 Jul	+0.9	2.5 Jul	+198.9 Jul	+3.8	-3.8	0.08	111	110
Britain	+1.3 Q2	+1.5	+1.3	+1.0 Jul	+2.5 Jul	+2.4	4.0 Jun††	-106.3 Q1	-3.5	-1.7	1.45	0.77	0.75
Canada	+1.9 Q2	+2.9	+2.3	+2.5 Jun	+3.0 Jul	+2.2	6.0 Aug	-53.4 Q2	-2.5	-2.3	2.34	1.30	1.21
Euro area	+2.1 Q2	+1.5	+2.1	-0.1 Jul	+2.0 Aug	+1.7	8.2 Jul	+476.8 Jun	+3.4	-0.7	0.41	0.86	0.84
Austria	+2.3 Q2	-4.0	+2.9	+5.0 Jun	+2.1 Jul	+2.1	4.9 Jul	+9.5 Q1	+2.2	-0.3	0.57	0.86	0.84
Belgium	+1.4 Q2	+1.6	+1.6	-2.3 Jun	+2.2 Aug	+2.0	6.2 Jul	+0.2 Mar	-0.1	-1.1	0.76	0.86	0.84
France	+1.7 Q2	+0.6	+1.7	+1.8 Jul	+2.3 Aug	+2.0	9.2 Jul	-10.4 Jul	-1.1	-2.4	0.71	0.86	0.84
Germany	+1.9 Q2	+1.8	+2.0	+1.2 Jul	+2.0 Aug	+1.8	3.4 Jul‡	+320.6 Jul	+7.6	+1.3	0.41	0.86	0.84
Greece	+1.8 Q2	+0.9	+2.0	+1.9 Jul	+1.0 Aug	+0.8	19.1 Jun	-2.6 Jun	-1.2	-0.2	4.09	0.86	0.84
Italy	+1.2 Q2	+0.7	+1.2	-1.3 Jul	+1.7 Aug	+1.4	10.4 Jul	+57.3 Jun	+2.5	-2.0	2.79	0.86	0.84
Netherlands	+2.9 Q2	+2.8	+2.8	+1.9 Jul	+2.3 Aug	+1.6	4.7 Jul	+91.3 Q1	+9.7	+1.3	0.53	0.86	0.84
Spain	+2.7 Q2	+2.3	+2.7	+2.8 Jul	+2.2 Aug	+1.7	15.1 Jul	+19.0 Jun	+1.4	-2.7	1.32	0.86	0.84
Czech Republic	+2.7 Q2	+2.8	+3.0	+10.3 Jul	+2.5 Aug	+2.2	2.3 Jul‡	+0.9 Q1	+0.6	+1.0	2.16	22.0	21.8
Denmark	+1.4 Q2	+0.8	+1.6	+7.4 Jul	+1.0 Aug	+1.1	3.9 Jul	+19.7 Jul	+7.4	-0.7	0.37	6.42	6.22
Norway	+3.3 Q2	+1.5	+1.6	-2.3 Jul	+3.4 Aug	+2.3	3.9 Jun††	+28.0 Q2	+7.4	+5.4	1.88	8.25	7.83
Poland	+5.1 Q2	+4.1	+4.6	+10.3 Jul	+2.0 Aug	+1.8	5.8 Aug§	-0.1 Jun	-0.7	-2.0	3.23	3.71	3.57
Russia	+1.9 Q2	na	+1.7	+3.8 Jul	+3.1 Aug	+3.0	4.7 Jul§	+64.6 Q2	+4.3	+0.3	8.92	68.8	57.6
Sweden	+3.3 Q2	+4.2	+2.8	+2.3 Jul	+2.1 Jul	+2.0	6.0 Jul§	+13.4 Q2	+3.6	+1.1	0.57	8.98	7.97
Switzerland	+3.4 Q2	+2.9	+2.2	+8.7 Q2	+1.2 Aug	+0.8	2.6 Aug	+72.9 Q1	+9.7	+0.8	0.03	0.97	0.96
Turkey	+5.2 Q2	na	+4.0	+2.9 Jun	+17.9 Aug	+13.3	9.7 May§	-57.4 Jun	-6.1	-3.4	20.18	6.34	3.44
Australia	+3.4 Q2	+3.5	+2.9	+3.4 Q2	+2.1 Q2	+2.1	5.3 Aug	-41.8 Q2	-2.6	-1.0	2.59	1.40	1.24
Hong Kong	+3.5 Q2	-0.9	+3.4	+1.0 Q1	+2.4 Jul	+2.2	2.8 Jul††	+14.3 Q1	+4.3	+2.0	2.39	7.85	7.81
India	+8.2 Q2	+7.8	+7.3	+6.6 Jul	+3.7 Aug	+4.6	6.4 Aug	-49.5 Q2	-2.4	-3.6	8.13	72.2	64.0
Indonesia	+5.3 Q2	na	+5.2	+9.0 Jul	+3.2 Aug	+3.6	5.1 Q1§	-24.2 Q2	-2.5	-2.6	8.56	14,830	13,198
Malaysia	+4.5 Q2	na	+5.7	+2.5 Jul	+0.9 Jul	+0.8	3.4 Jun§	+11.2 Q2	+2.9	-3.3	4.17	4.14	4.21
Pakistan	+5.4 2018**	na	+5.4	+0.6 Jun	+5.8 Aug	+5.4	5.9 2015	-18.1 Q2	-5.8	-5.4	10.00†††	124	105
Philippines	+6.0 Q2	+5.3	+6.6	+11.8 Jul	+6.4 Aug	+5.0	5.4 Q3§	-1.9 Mar	-1.3	-2.8	7.55	54.1	50.9
Singapore	+3.9 Q2	+0.6	+3.2	+6.0 Jul	+0.6 Jul	+0.6	2.1 Q2	+64.6 Q2	+17.2	-0.7	2.44	1.38	1.35
South Korea	+2.8 Q2	+2.4	+2.8	+0.9 Jul	+1.4 Aug	+1.6	4.0 Aug§	+74.0 Jul	+4.6	+1.0	2.26	1,129	1,129
Taiwan	+3.3 Q2	+1.6	+2.6	+4.4 Jul	+1.5 Aug	+1.6	3.7 Jul	+84.5 Q2	+13.4	-0.9	0.85	30.8	30.0
Thailand	+4.6 Q2	+4.1	+4.1	+4.6 Jul	+1.6 Aug	+1.2	1.0 Jul§	+48.2 Q2	+9.3	-2.9	2.58	32.8	33.1
Argentina	+3.6 Q1	+4.7	+0.5	-5.6 Jul	+30.9 Jul	+27.3	9.1 Q1§	-33.8 Q1	-4.5	-5.6	11.15	37.9	17.1
Brazil	+1.0 Q2	+0.7	+1.6	+4.0 Jul	+4.2 Aug	+3.8	12.3 Jul§	-15.0 Jul	-1.0	-7.0	9.67	4.13	3.11
Chile	+5.3 Q2	+2.8	+1.9	-1.5 Jul	+2.6 Aug	+2.5	7.3 Jul§††	-3.6 Q2	-3.7	-2.1	4.50	690	624
Colombia	+2.5 Q2	+2.3	+2.7	+1.3 Jun	+3.1 Aug	+3.3	9.7 Jul§	-10.6 Q2	-2.8	-1.9	6.93	3,056	2,924
Mexico	+2.6 Q2	-0.6	+2.1	+1.3 Jul	+4.9 Aug	+4.5	3.4 Jul	-19.7 Q2	-1.7	-2.3	8.08	19.1	17.8
Peru	+5.4 Q2	+12.5	+3.7	+1.5 Jun	+1.1 Aug	+1.4	6.2 Jul§	-3.2 Q2	-1.5	-3.1	na	3.33	3.23
Egypt	+5.4 Q2	na	+5.4	+5.4 Jul	+14.2 Aug	+16.1	9.9 Q2§	-7.7 Q1	-2.4	-9.6	na	17.9	17.6
Israel	+3.8 Q2	+2.0	+3.7	+1.5 Jun	+1.4 Jul	+1.1	4.2 Jul	+9.7 Q1	+1.8	-2.4	2.04	3.58	3.54
Saudi Arabia	-0.9 2017	na	+1.0	na	+2.3 Jul	+2.6	6.1 Q1	+19.9 Q1	+7.4	-3.3	na	3.75	3.75
South Africa	+0.4 Q2	-0.7	+1.5	+1.8 Jul	+5.1 Jul	+4.8	27.2 Q2§	-12.2 Q1	-3.3	-3.6	9.20	15.0	13.0

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. §§5-year yield. ††††Dollar-denominated bonds.

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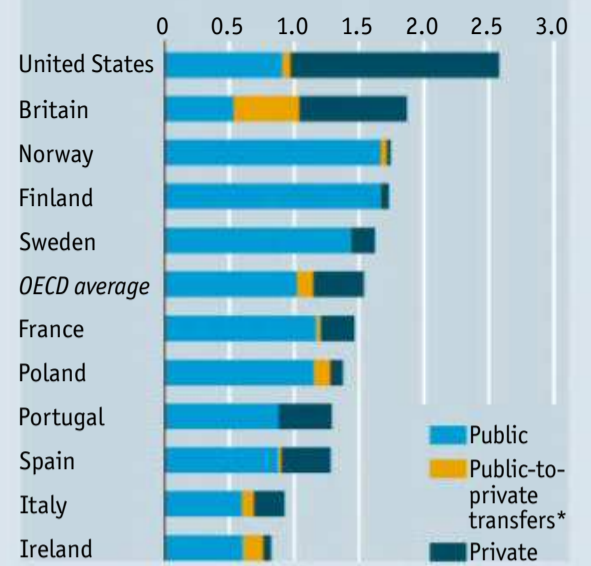
Markets

	Index Sep 12th	% change on one week	% change on Dec 29th 2017	
			in local currency	in \$ terms
United States (DJIA)	25,998.9	+0.1	+5.2	+5.2
China (Shanghai Comp)	2,656.1	-1.8	-19.7	-23.8
Japan (Nikkei 225)	22,604.6	+0.1	-0.7	+0.3
Britain (FTSE 100)	7,273.5	-1.5	-5.4	-9.1
Canada (S&P TSX)	16,049.0	-0.5	-1.0	-5.6
Euro area (FTSE Euro 100)	1,156.5	-0.1	-4.4	-7.8
Euro area (EURO STOXX 50)	3,311.7	-0.1	-5.5	-8.8
Austria (ATX)	3,280.9	nil	-4.1	-7.4
Belgium (Bel 20)	3,668.9	-0.1	-7.8	-11.0
France (CAC 40)	5,283.8	+0.4	-0.5	-4.0
Germany (DAX)*	11,970.3	-0.6	-7.3	-10.6
Greece (Athex Comp)	692.0	-0.6	-13.8	-16.8
Italy (FTSE/MIB)	20,853.8	+1.3	-4.6	-7.9
Netherlands (AEX)	539.8	-1.3	-0.9	-4.4
Spain (IBEX 35)	9,284.1	-0.2	-7.6	-10.8
Czech Republic (PX)	1,081.4	+1.5	+0.3	-3.7
Denmark (OMXC B)	911.1	-0.4	-1.7	-5.4
Hungary (BUX)	36,371.9	-2.1	-7.6	-14.9
Norway (OSEAX)	1,022.1	+0.5	+12.7	+10.4
Poland (WIG)	57,575.1	-2.0	-9.7	-15.7
Russia (RTS, \$ terms)	1,055.9	-1.2	-8.5	-8.5
Sweden (OMXS30)	1,620.4	-0.7	+2.8	-7.2
Switzerland (SMI)	8,914.9	+0.5	-5.0	-4.9
Turkey (BIST)	92,389.1	-0.4	-19.9	-53.0
Australia (All Ord.)	6,283.9	-0.9	+1.9	-7.0
Hong Kong (Hang Seng)	26,345.0	-3.3	-11.9	-12.3
India (BSE)	37,413.1	-1.6	+9.9	-3.5
Indonesia (IDX)	5,831.1	+2.6	-8.3	-16.2
Malaysia (KLSE)	1,785.3	-0.6	-0.6	-3.0
Pakistan (KSE)	40,759.5	-2.1	+0.7	-10.5
Singapore (STI)	3,109.9	-1.5	-8.6	-11.3
South Korea (KOSPI)	2,283.2	-0.4	-7.5	-12.0
Taiwan (TWI)	10,722.6	-2.5	+0.7	-2.7
Thailand (SET)	1,672.4	-0.8	-4.6	-5.3
Argentina (MERV)	29,766.9	+3.5	-1.0	-50.8
Brazil (BVSP)	75,124.8	nil	-1.7	-21.9
Chile (IGPA)	26,652.3	+2.4	-4.7	-16.3
Colombia (IGBC)	12,332.2	+1.8	+7.4	+3.8
Mexico (IPC)	49,224.3	+1.3	-0.3	+1.3
Peru (S&P/BVL)*	19,026.7	+0.4	-4.7	-7.5
Egypt (EGX 30)	15,628.4	-0.8	+4.1	+3.2
Israel (TA-125)	1,470.6	+0.2	+7.8	+4.5
Saudi Arabia (Tadawul)	7,693.1	-0.3	+6.5	+6.4
South Africa (JSE AS)	56,174.0	-1.6	-5.6	-22.9

Education spending

OECD countries spent an average of 5% of GDP on education in 2015. Between 2010 and 2015 total spending fell in more than two-thirds of countries surveyed, as belts tightened after the financial crisis. The private sector is playing an increasingly important role: its share of education spending rose by 11% across all OECD countries in that period. The private sector is particularly important to tertiary-level education—especially in America, where almost two-thirds of spending is accounted for by households and private institutions. Things are different in Scandinavia. In Norway, 1% of total tertiary-education spending, or under 0.1% of GDP, came from private sources.

Tertiary education, 2015, as % of GDP



Source: OECD \*Includes scholarships, loans and subsidies

Other markets

	Index Sep 12th	% change on one week	% change on Dec 29th 2017	
			in local currency	in \$ terms
United States (S&P 500)	2,888.9	nil	+8.1	+8.1
United States (NASComp)	7,954.2	-0.5	+15.2	+15.2
China (Shenzhen Comp)	1,403.6	-2.7	-26.1	-29.9
Japan (Topix)	1,691.3	-0.8	-6.9	-6.0
Europe (FTSEurofirst 300)	1,466.1	-0.1	-4.1	-7.5
World, dev'd (MSCI)	2,147.7	-0.2	+2.1	+2.1
Emerging markets (MSCI)	1,003.3	-1.8	-13.4	-13.4
World, all (MSCI)	514.0	-0.4	+0.2	+0.2
World bonds (Citigroup)	930.8	-0.2	-2.0	-2.0
EMBI+ (JPMorgan)	771.4	-0.1	-7.7	-7.7
Hedge funds (HFRX)	1,256.8 <sup>§</sup>	-0.5	-1.5	-1.5
Volatility, US (VIX)	13.2	+13.9	+11.0	(levels)
CDs, Eur (iTRAXX) <sup>†</sup>	61.5	-6.7	+36.2	+31.4
CDs, N Am (CDX) <sup>†</sup>	57.4	-4.4	+17.0	+17.0
Carbon trading (EU ETS) €	23.0	+12.8	+182.4	+172.5

Sources: IHS Markit; Thomson Reuters. \*Total return index. <sup>†</sup>Credit-default-swap spreads, basis points. <sup>§</sup>Sep 10th.

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The Economist commodity-price index

2005=100

	Sep 4th	Sep 11th*	% change on	
			one month	one year
<b>Dollar Index</b>				
All Items	137.9	137.4	-2.5	-5.7
Food	141.4	141.0	-3.0	-4.7
<b>Industrials</b>				
All	134.3	133.8	-2.0	-6.9
Nfat	133.9	133.9	+0.3	-2.6
Metals	134.4	133.7	-2.9	-8.6
<b>Sterling Index</b>				
All items	195.4	192.3	-4.4	-3.8
<b>Euro Index</b>				
All items	148.4	147.5	-4.3	-2.7
<b>Gold</b>				
\$ per oz	1,192.5	1,190.7	-0.6	-10.2
<b>West Texas Intermediate</b>				
\$ per barrel	69.9	69.3	+3.3	+43.6

Sources: Bloomberg; CME Group; Cotlook; Darmann & Curl; FT; ICCO; ICO; ISO; Live Rice Index; LME; NZ Wool Services; Thompson Lloyd & Ewart; Thomson Reuters; Urner Barry; WSJ. \*Provisional <sup>†</sup>Non-food agriculturals.

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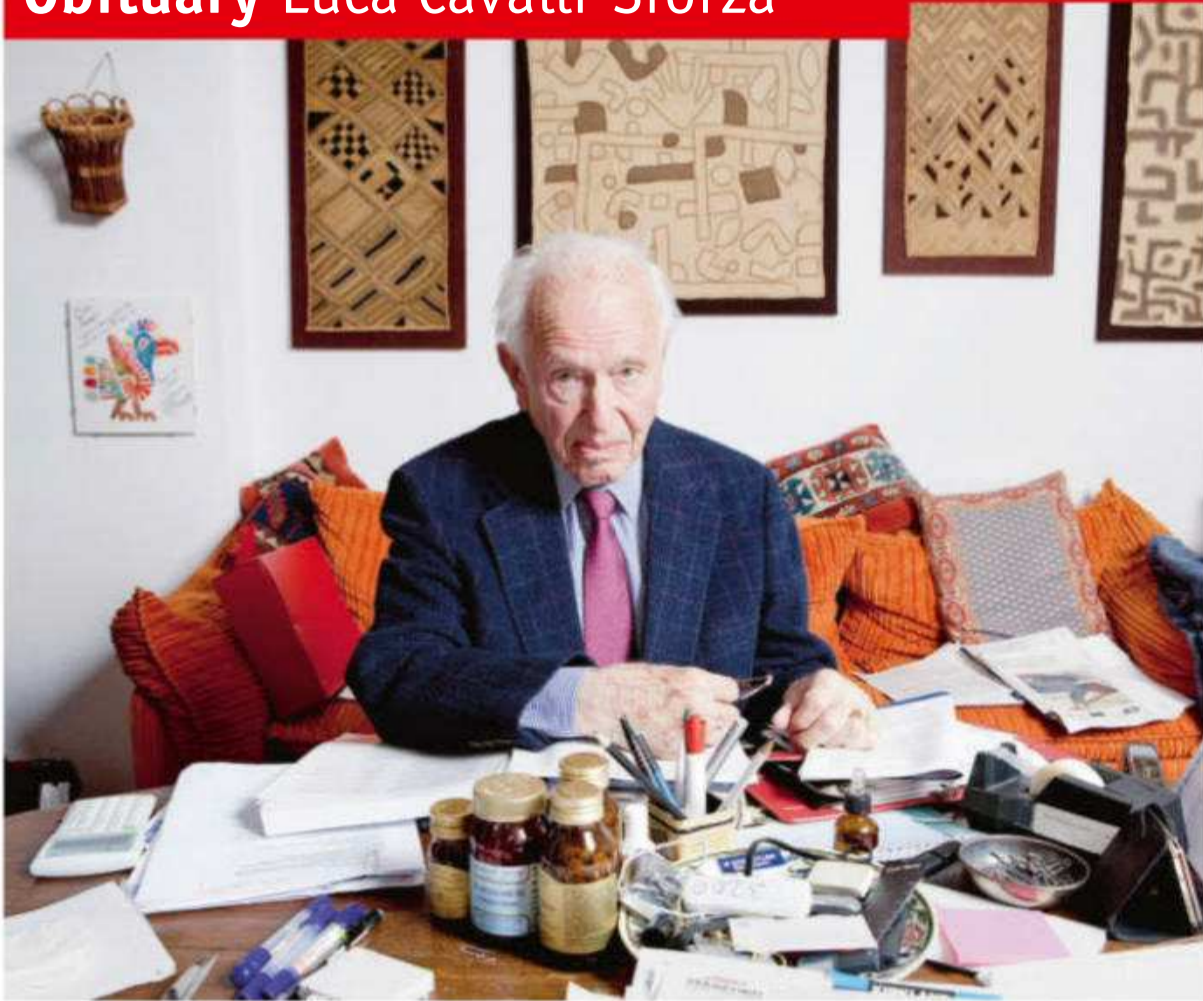
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## The drift of humankind

**Luigi Luca Cavalli-Sforza, population geneticist, died on August 31st, aged 96**

FOR a man who spent his career illuminating the vast, dim migrations of people in prehistory, Luca Cavalli-Sforza's life was remarkably circular. He first became interested in his major field, genetics, in the house of the geneticist Adriano Buzzati at Belluno, in the hills north of Venice. There he helped to collect thousands of flies in search of mutant Y chromosomes; and though he subsequently travelled the world to study the makeup of its tribes and populations, it was in Belluno that he died.

He had vaguely meant to be a doctor, but found his training useless in wartime hospitals. Instead, he took up the genetic study of *E. coli* bacteria, shutting himself away in the laboratory. But human beings still fascinated him: not least because he increasingly realised that the human genome contained not only the instructions for building future members of the species, but also its entire past. Migration, conquest and isolation had also left their traces in living populations. He set out to find them.

The technology available was rudimentary. He pored over names in parish registers and learned to do statistics, convinced that with enough patience he could measure anything. For one early paper he pulled surnames from Italian phone directories as proxies for father-son transmission. By plotting the distribution of names

in 91 provinces, he showed that the Apennines—the backbone of Italy—had formed a natural barrier to migration for millennia, resulting in genetically distinct populations on either side. And because he could also measure variation in blood proteins, such as that between A, B and O blood types, he also collected blood samples from townsfolk all over the Parma valley to show that marriage between related individuals had led to many of the genetic differences between those towns.

For two decades from 1970, when he took up a professorship at Stanford, he devoted himself to this subject. By the 1990s he was able to study variation in DNA itself. When he and his colleagues instructed a computer to sort around 1,000 people from across the globe into five clusters by similarity of DNA, the clusters matched the labels by which humans had long grouped themselves intuitively: West Eurasians, East Asians, Native Americans, New Guineans and Africans. He soon concluded, though, that race was not a scientifically valid way to classify them. Europeans, for example, were about two-thirds Asian and one-third African, but after millennia of mixing there was no such thing as pure Asian or pure African either. Skin colour, or the shape of a nose, were just superficial adaptations to climate and place.

He represented his genetic data as “trees” branching over time: simplistic diagrams, but beautiful in their simplicity. They often agreed, as he had hoped, with the findings of linguists and archaeologists: suggesting, for example, that humanity arose in Africa, where it stayed for a long time before moving outwards, somewhere between 100,000 and 50,000 years ago. The earliest African migrants probably reached Asia first, moving on to Oceania, Europe and America, in that order.

He particularly liked to tell his story of farmers. By checking variations between individuals based on their blood groups, he discerned a gradient in that variation that stretched south-east-to-north-west across Europe. This he saw as the genetic signature of farming after its invention around 9,000 years ago in the Fertile Crescent. As early farmers radiated out of the Near East, he argued, they bred with indigenous hunter-gatherers, until by the time they reached colder climates their genes were a good mix of both.

This theory stood until the 2000s, when new technology reversed it. He had often carped about the public's interest in fossils, so much less informative—to him—than genetic studies of the living. Once DNA could be extracted from ancient bones, however, it showed that although agriculture had indeed reached Europe from the Middle East, a wave of immigration from the north-east, starting about 5,000 years ago, had diluted those first farmers with tall herdsmen from the Pontic Steppe. People had moved and mixed in prehistory more than he thought; and not all ancient events, as he supposed, had left their mark in modern populations.

### Breaking down walls

Even more controversial was his Human Genome Diversity Project, which he set up in the 1990s. He wanted to study isolated populations in order to understand where all the others came from; to measure the background of drift, or genetic change, that takes place without marauding or migration. Some people thought this racist, and a more worldly man might have realised that. A few critics even brought up his membership of Benito Mussolini's fascist youth organisation, compulsory before the war. All this dismayed him, as he had done so much to strike down “scientific” studies based on race. The project died in its original form, though it was resurrected as the Genographic Project, which goes on.

From Belluno he witnessed the overturning of many other conclusions. Every evolutionary story he had touched became more complex by the day. Yet he could comfort himself that without his original vision for the study of human history through its genes, much of that great debate would not have happened at all. ■

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