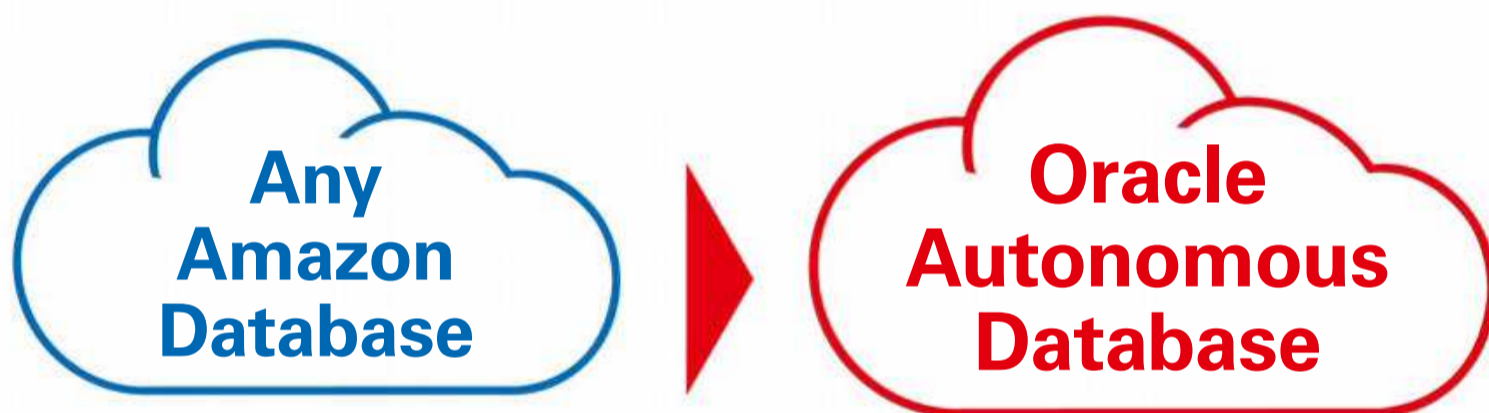


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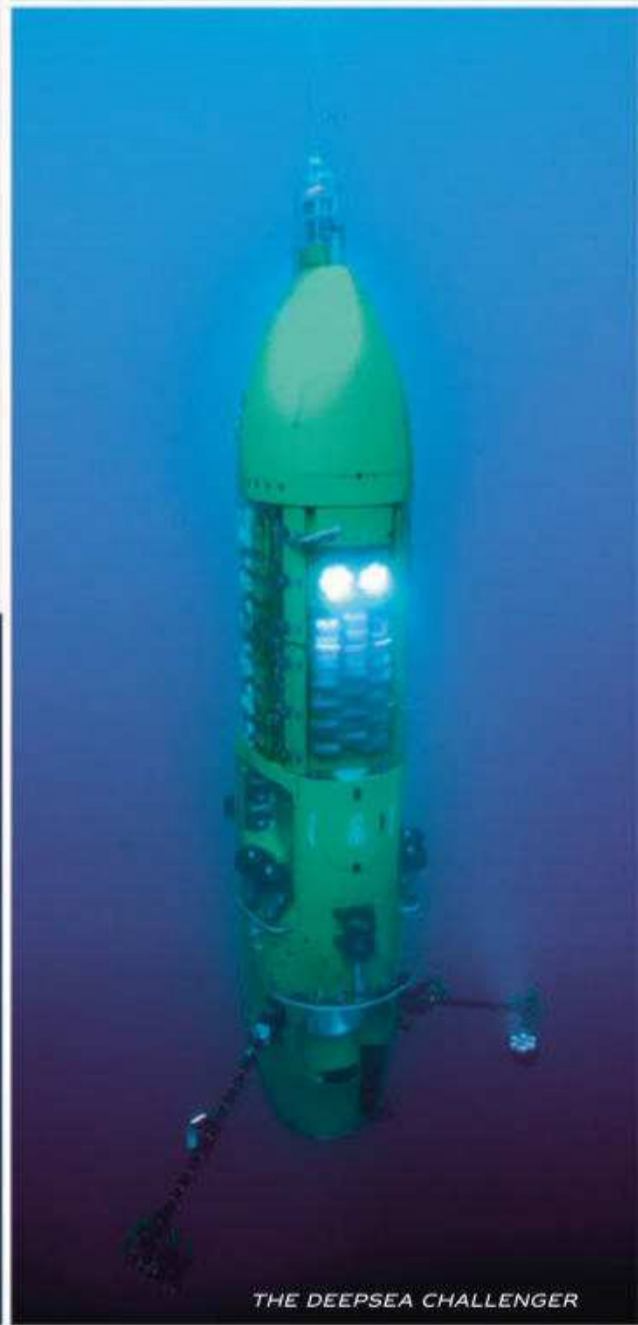
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# China's designs on Europe





RINGLOCK SYSTEM ARCHITECTURE



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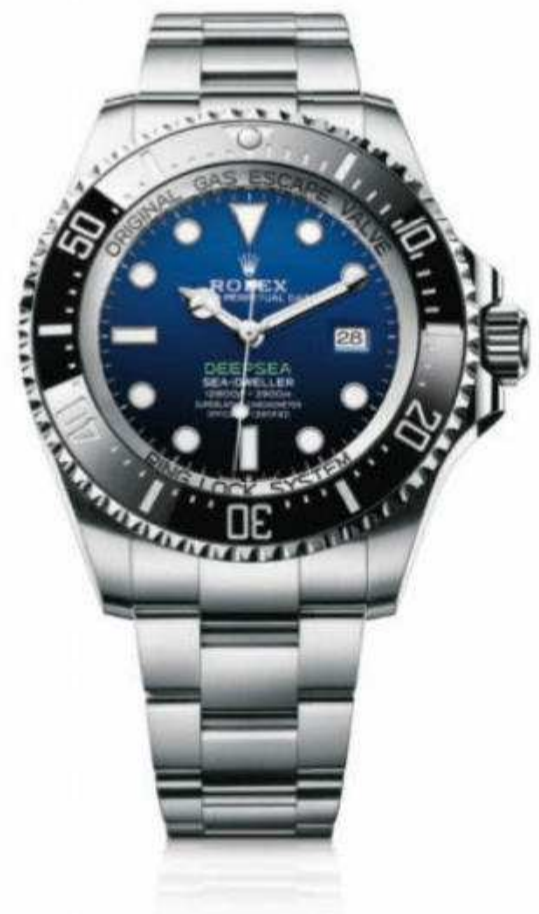


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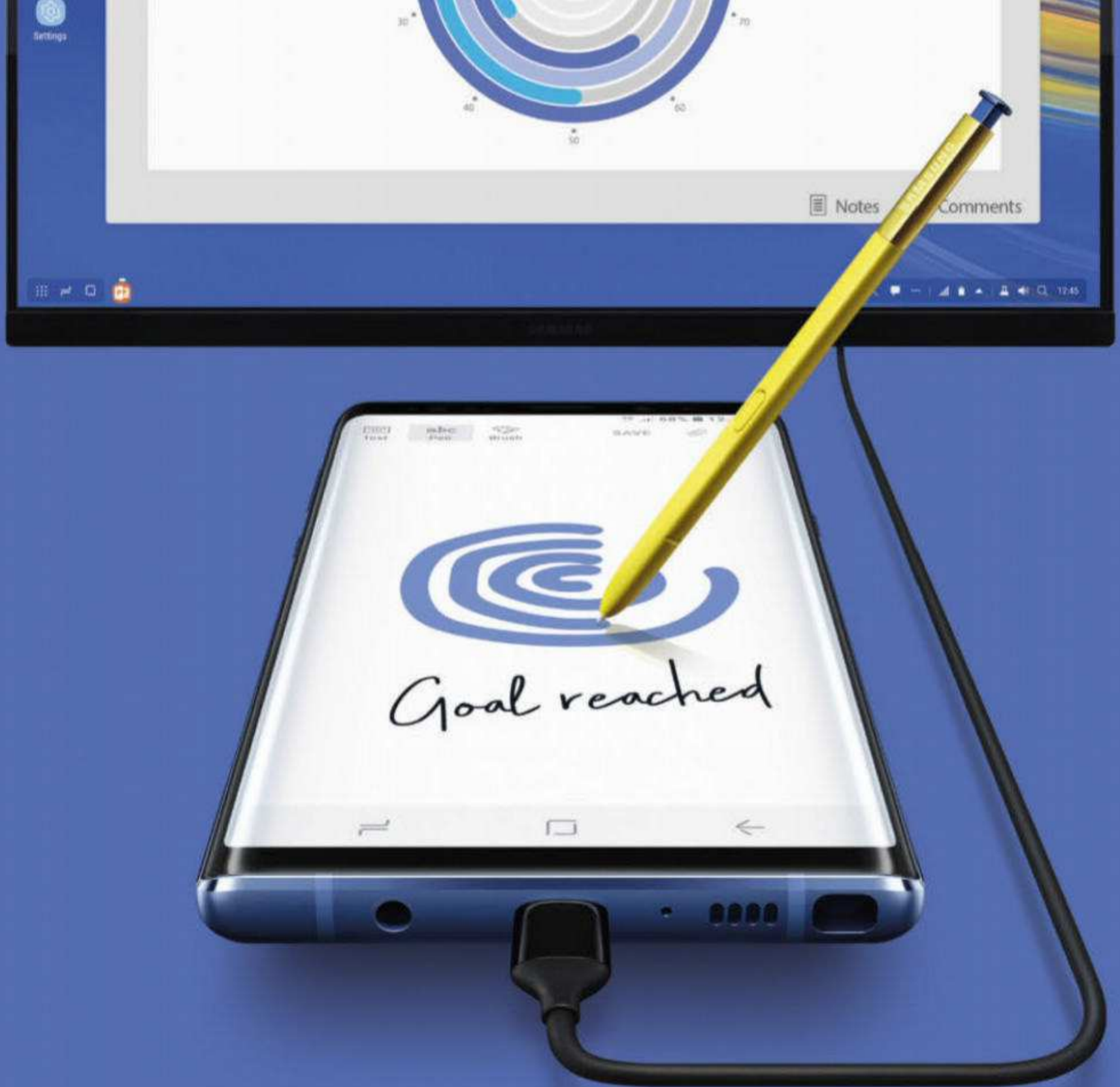
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Politics



An earthquake and tsunami struck the **Indonesian** island of Sulawesi, causing widespread destruction in and around the city of Palu. The death toll stands at more than 1,400 and rising. Damaged roads and bridges have hampered emergency crews. Some affected areas remain cut off.

Rosmah Mansor, the jewellery-loving wife of **Malaysia's** former prime minister, Najib Razak, was charged with money-laundering. She and Mr Najib are both being investigated in connection with the disappearance of billions of dollars from a government investment fund.

Denny Tamaki, the son of a Japanese woman and an American marine, was elected governor of the Japanese island of **Okinawa**. He wants an American air base on the island to be closed, instead of moved, as the central government proposes.

Osaka cut its 60-year sister-city relationship with San Francisco over a statue honouring “comfort women” in the Californian city’s Chinatown. Successive Japanese governments have minimised the scale of sex slavery in Japanese military brothels during the second world war, and offered half-hearted apologies for it.

A Chinese destroyer sailed within 40 metres of an American warship in a disputed area of the **South China Sea**. The American vessel was performing a “freedom of navigation” operation near reefs claimed by China. America’s navy said

the Chinese manoeuvre was “unsafe and unprofessional”.

A court in northern **China** sentenced a former deputy chief of the country’s securities regulator, Yao Gang, to 18 years in prison for taking bribes valued at 69m yuan (\$10m) and insider trading.

**Fan Bingbing**, a Chinese film star whose credits include “Iron Man 3” and “Despicable Me 3”, was fined 883m yuan (\$129m) for tax evasion. China is cracking down on celebrities for allegedly mis-stating their earnings. Ms Fan had been secretly detained since July.

May go-go

Theresa May, **Britain's** prime minister, danced to the lectern at the Conservative Party conference. She claimed that a decade of austerity could soon be over, took a swipe at the Labour Party and warned hardline Brexiteers that, if they vote against her “Chequers” Brexit plan, “we risk ending up with no Brexit at all.” Mrs May has been dogged by speculation of a leadership challenge. Boris Johnson, her biggest rival, urged the party to “chuck Chequers”.

**Italy** placed itself on a collision course with the European Commission by proposing a budget deficit of 2.4% for next year. Since economic growth is anaemic, this will result in a further increase in Italy’s already huge debt stock as a proportion of GDP.



People in **Macedonia** voted in a referendum to rename their country Northern Macedonia. Although more than 90% of those voting approved the change, the turnout was well under the required 50%. A deal

with Greece that would allow Macedonia to join NATO and the EU in return for the name-change is now in danger.

Is anywhere safe?

Jamal Khashoggi, a prominent **Saudi** journalist and government critic, vanished after visiting a Saudi consulate in Istanbul. Mr Khashoggi had been living in exile in Washington, DC. “We don’t know if he is being detained, questioned or when he will be released,” said the *Washington Post*, for which he wrote.

**Iraq's** parliament elected a new president, Barham Salih. Mr Salih quickly named Adel Abdul-Mahdi, a Shia politician, as prime minister-designate, ending a period of deadlock following an election in May. Mr Abdul-Mahdi was backed by the two largest blocs in parliament, averting a potential dispute between Shia politicians.

The World Bank raised concerns over a new law in **Tanzania** that would allow the government to jail people who question official statistics for up to three years. The law is the latest attempt by the government to suppress criticism of its policies, which have slowed economic growth.

The central bank of **Liberia** denied earlier claims by the government that it had lost more than \$100m-worth of cash, the equivalent of 5% of its GDP. The bank said it had found the notes in its vaults.

After NAFTA

Canada agreed to join America and Mexico in a deal to revise the North American Free Trade Agreement. Under its new name, the **United States-Mexico-Canada Agreement**, Canada will give American farmers a bit more access to its dairy market but the much larger car trade will become less free. America agreed to keep NAFTA’s dispute-settlement mechanism.

The International Court of Justice in The Hague rejected **Bolivia's** claim that **Chile** has

an “obligation to negotiate sovereign access to the sea” for Bolivia. Bolivia lost its coastline to Chile in a war in 1884. The court did say that a settlement of the dispute was a “matter of mutual interest”.

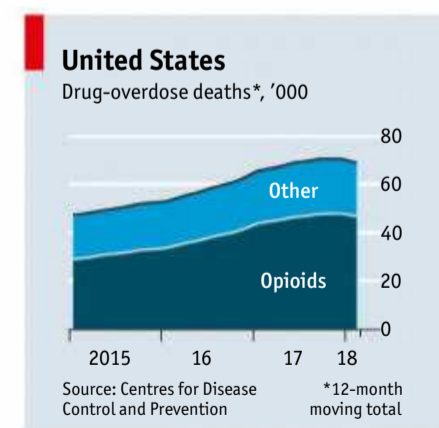
**Peru's** supreme court overturned the pardon given to Alberto Fujimori, a former president who had been jailed for the killing of 25 people by a government-backed death squad in the early 1990s. He was pardoned on health grounds in December 2017 by Pedro Pablo Kuczynski, the then-president.

Coalition Avenir Québec, a centre-right party, won an election in **Canada's** French-speaking province, defeating the Liberal Party. It is the first time that a party other than the Liberals or the separatist Parti Québécois will govern Quebec in nearly 50 years.

Not much margin for error

The Republican leadership in the Senate pressed to bring a vote to the floor on the confirmation of **Brett Kavanaugh** to the Supreme Court. The FBI was tasked with investigating claims of sexual misconduct made against Mr Kavanaugh.

Tax officials in New York state opened an inquiry into allegations that millions of dollars were transferred to **Donald Trump** in the 1990s from his father’s property business in questionable ways.



Congress passed a bipartisan bill to combat **opioid abuse**. The measures include more funding for the treatment of addicts and a crackdown on the use of fentanyl. An estimated 49,000 Americans died of opioid overdoses last year. ▶▶

## Business

Investors responded positively to **General Electric's** decision to oust John Flannery as chief executive. He had held the job for a year, a blink of an eye compared with his two predecessors, Jeff Immelt (16 years) and Jack Welch (20 years). During his abbreviated time in the job Mr Flannery announced a plan to refocus GE on three core areas—power, aerospace and health care—but investors weren't happy at the slow pace of the turnaround, nor at GE's lacklustre share price. The new CEO is Larry Culp, an outsider who joined the board this year.

### Thanks, but no thanks

**Danske Bank** removed Thomas Borgen as chief executive with immediate effect following the revelation that much of the €200bn (\$230bn) in foreign money, mostly Russian, that flowed through a branch of the Danish bank in Estonia had been laundered. Mr Borgen had resigned but offered to stay on until a replacement was named.

**Facebook** began an investigation into the source of a cyber-attack that compromised the accounts of up to 50m users, the biggest hack yet to hit the social network. It was another setback for the company, which has had to contend with privacy scandals and criticisms about the infiltration of its network by rogue groups.

**Tesla's** share price yo-yoed. It plunged by 15% after the Securities and Exchange Commission accused Elon Musk of making fraudulent statements when he tweeted in August that he planned to take the company private. It rebounded when Mr Musk reached a quick settlement with the regulator, relinquishing his role as chairman but remaining chief executive. The electric-carmaker is also to strengthen its oversight of Mr Musk's often mercurial communications. The imbroglio overshadowed Tesla hitting its production targets for the

Model 3 for the first time. It produced 53,239 Model 3s in the latest quarter, but is still struggling with deliveries.

Honda said it would invest \$2.75bn in General Motors' **autonomous-vehicle** development project. GM Cruise hopes to have its first cars on the road next year. **Toyota** and **SoftBank**, meanwhile, formed a strategic partnership to develop "new mobility services".

**Aston Martin's** share price fell sharply on its first day of trading on the stockmarket. The British maker of sports cars priced its IPO at £19 (\$24.70) a share, giving it a lower valuation than it had sought.

Volkswagen ended the contract of Rupert Stadler as CEO of its **Audi** unit, as a criminal investigation continues into his alleged role in VW's emissions-cheating scandal. Mr Stadler has not been charged with a crime, but he has been kept in custody since June at the request of prosecutors, who think he might attempt to interfere with their work.

**Deliveroo**, a food-delivery firm and one of the fastest-growing startups in Britain's gig economy, reported that although sales had more than

doubled last year, its pre-tax annual loss had widened to £185m (\$240m) as it forked out for new technology. Deliveroo is said to be discussing a partnership with Uber.

### A prime package



Amid political pressure about its pay practices in America and Britain, **Amazon** announced new minimum wages for its workers in both countries. In America its national hourly wage will be \$15, smoothing out differences among cities. In Britain Amazon will pay staff in London £10.50 (\$13.70) an hour. That is 30 pence above the minimum recommended by the Living Wage Foundation, an advisory body. Outside London it will pay £9.50.

Following pressure from activist investors, **thyssenkrupp** announced a plan to split itself in two. The German conglom-

erate will spin off its profitable elevator-technology business, car-parts unit and factory-construction assets into a separately listed company.

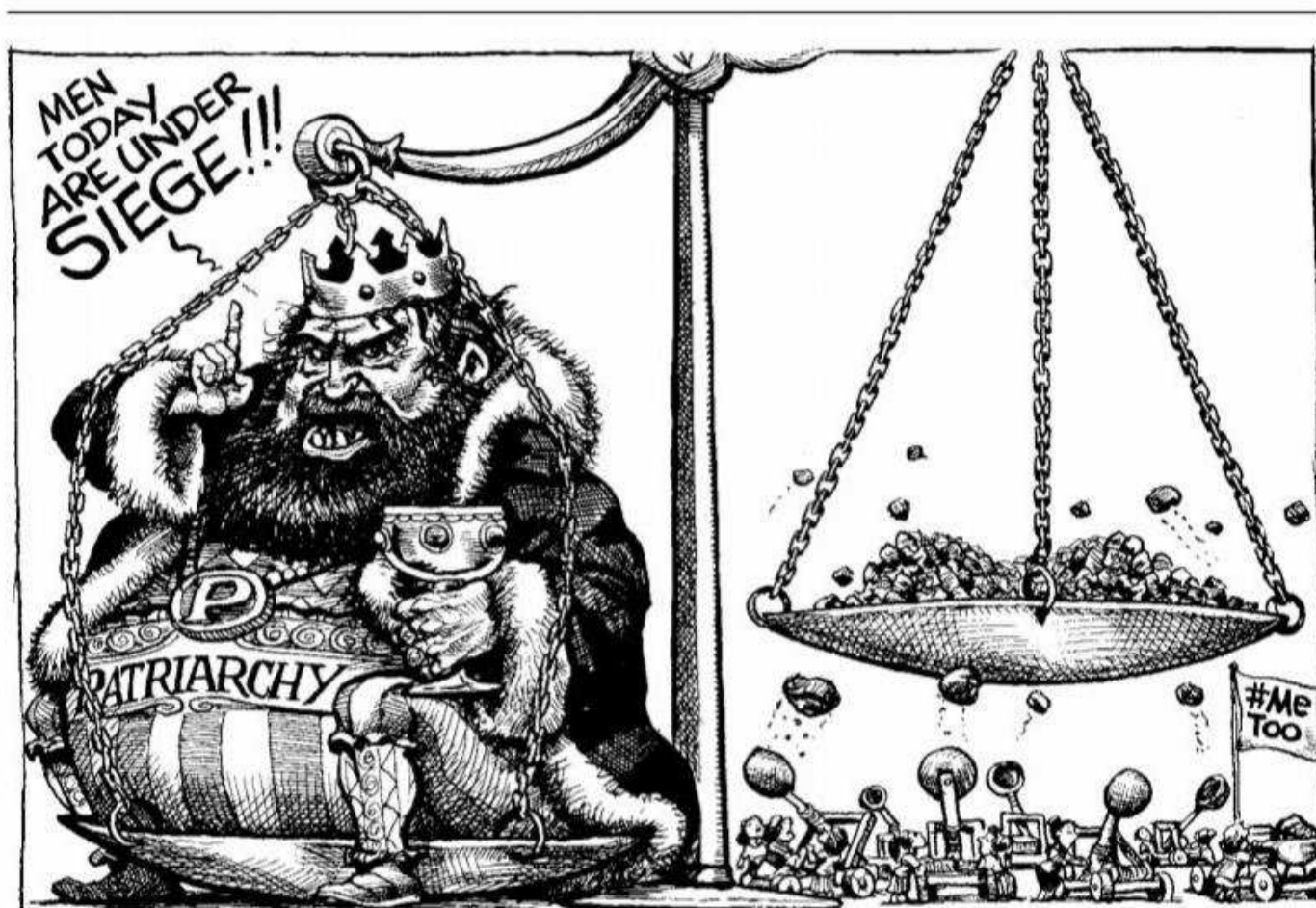
**Petrobras** was fined \$853m by America's Justice Department to settle allegations of corruption. Because Brazil's state oil company trades on American markets it was subject to investigation under the Foreign Corrupt Practices Act.

**Funding Circle's** highly anticipated IPO was a let-down. Shares in the peer-to-peer lender, a bellwether of London's fintech industry, closed 17% below the offer price on the first full day of trading.

### Harvard's loss

**Gita Gopinath** was named as the IMF's new chief economist, replacing Maurice Obstfeld, who is retiring. Ms Gopinath is a world authority on exchange rates, sovereign debt and capital flows and has written extensively about the dollar's continued supremacy in world trade. The strength of the greenback has exacerbated currency crises in places such as Argentina, which has turned to the IMF for a bail-out.

For other economic data and news see Indicators section



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# China's designs on Europe

## And how Europe should respond



EUROPE has caught China's eye. Chinese investments there have soared, to nearly €36bn (\$40bn) in 2016—almost double the previous years' total. Chinese FDI fell in 2017, but the share spent in Europe rose from a fifth to a quarter. For the most part, this money is welcome. Europe's trading relationship with China has made both sides richer.

However, China is also using its financial muscle to buy political influence (see Briefing). The Czech president, Milos Zeman, wants his country to be China's "unsinkable aircraft-carrier" in Europe. Last year Greece stopped the European Union from criticising China's human-rights record at a UN forum. Hungary and Greece prevented the EU from backing a court ruling against China's expansive territorial claims in the South China Sea. Faced with such behaviour, it is only prudent for Europeans to be nervous.

And not only Europeans. The terms on which the emerging undemocratic superpower invests in the outside world are of interest to all countries—particularly if other things, such as foreign policy, may be affected. Americans, increasingly consumed by fears that China poses a commercial and military threat, should be mindful of competition for the loyalties of its oldest ally. For everyone's sake, it matters that Europeans gauge their welcome to China wisely. Just now, they do not.

### A sense of perspective

Many of China's plans in Europe are just what you would expect of a rising economy. Some investments are private, profit-seeking and harmless. Acquiring technology by buying innovative firms, including in Germany's *Mittelstand*, is reasonable, too, so long as deals are scrutinised for national-security risks. There are also things that China, unlike Russia, does not want, such as to undermine the EU or sow chaos by furtively supporting populist, xenophobic parties. It would rather Europe remained stable and open for business. On issues such as climate change and trade, China has acted more responsibly than the Trump administration, seeking to uphold global accords rather than chuck grenades at them.

Some Europeans take this to suggest that China is a useful counterweight to an unpredictable Uncle Sam. That is misguided. Europe has far more in common with America than China, however much Europeans may dislike the occupant of the White House. Moreover, China has used the EU's need for unanimity in many of its decisions to pick off one or two member states in order to block statements or actions of which it disapproves—as with human rights.

Other Europeans seize on such examples to jump to the opposite conclusion. They fear that Chinese lucre will one day undermine Europe's military alliance with the United States. Fortunately, that is a long way off, as the French and British navies have shown by joining America and Japan to challenge China in the South China Sea (see Asia section). Until China itself becomes a democracy, of which there is no sign, Europe

will surely remain closer to its traditional allies.

Europe thus needs to take a path that avoids the extremes of naivety and hostility. It should avoid mimicking Chinese protectionism. It might sound "fair" to subject Chinese firms in Europe to the restrictions European firms face in China, but it would be a mistake. The permeability of European societies and economies to ideas and influences is a strength.

But such openness also makes them vulnerable. Hence, governments should vet investments case by case. Montenegro should not have allowed its debts to China to become so perilously vast. Hungary and Poland should have looked harder at certain Chinese infrastructure projects that offer poor value for money or were never properly completed.

Europeans could do more to substantiate their talk of "reciprocity", or the mantra that the EU and China should treat each other as each wishes to be treated. They could, for example, introduce new instruments to make it clearer who is buying stakes in firms and thus whether they are doing so fairly. They should also increase funding for impartial China research. Transparency should be demanded from political parties, universities, think-tanks and lobbyists. Sometimes Chinese cash buys unsubtle happy talk. More often, it leads to self-censorship and punch-pulling from even prestigious academies.

And Europe should aim to speak as one. None of its states alone can face down China but, acting together, they could do so for decades to come. The EU could, for example, use qualified-majority voting (QMV) rather than unanimous votes on some subjects sensitive to China, such as human rights. This would not work for everything—most EU nations would balk at giving Brussels a veto over how they deploy their military forces. But QMV would make it harder for China to paralyse the EU by picking off one small member at a time. The EU could also co-ordinate investment-screening processes by member states. And it could take better care of those southern and eastern countries particularly vulnerable to China's influence and provide alternative sources of investment for the projects they deem important. A little more intra-European solidarity would go a long way.

### What money can't buy

America has a role to play, too. Ideally the Trump administration would stop treating Europeans as free-riders on American power who deserve a good kicking. On trade, especially, the EU is a powerful potential ally in getting China to abide by global norms. America should also work more closely with European governments to set up common standards of transparency, graft-busting and the prevention of influence-peddling—which would make it harder for China to impose its own rules on small countries. At a time when standards for IT and artificial intelligence risk splitting into a Chinese camp and an American one, Europe can help find a middle path.

As China rises, the benefits for the world of an independent, open and free Europe will only increase. Conversely, a Europe weakened and divided by the world's most powerful authoritarian regime would exacerbate problems far beyond the EU's borders. Europe must not let that happen. ■

## The Supreme Court

## Kava-no

Whatever the FBI finds, Brett Kavanaugh's own testimony should disqualify him from America's highest court



IT MAY never be possible to know what really happened in the suburban Maryland home where Christine Blasey Ford recalls being sexually assaulted by Brett Kavanaugh in the summer of 1982. Mr Kavanaugh vehemently denies the accusation. Given the difficulty of litigating a 36-year-old case, the risk of destroying the reputation of a man who may be innocent, and the partisan nature of the opposition—Democrats were against Mr Kavanaugh long before he faced allegations of sexual assault—should Republican senators confirm the president's nominee when the Senate votes?

They should not. Even if an FBI investigation fails to turn up new evidence about what happened in a bedroom 36 years ago, there is no disputing what Mr Kavanaugh said in his confirmation hearings last week. And it was damning.

## Over his skis

Mr Kavanaugh was evasive and disingenuous. Under oath, he depicted himself as a typical teenage drinker and in control. A number of contemporaries at school and college dispute that. He claimed that he could legally drink in Maryland in his senior year—hence the “100 Kegs or Bust” boast in his yearbook. In fact, by the time he turned 18, the drinking age was 21. Lots of American teenagers drink before they are legally allowed to. They do not mislead the Senate about it three decades later.

Mr Kavanaugh told other small fibs under oath. He said that references by him and his friends to a girl called Renate, which contemporaries say were boasts of sexual conquest, real or pretended, were “intended to show affection, and that she was one of us”. He changed the meanings of slang from his yearbook: the “Devil's Triangle” (sex between one woman and two

men) became a drinking game nobody has heard of; “boofing” (anal sex or infusion of drugs or alcohol) became farting. The real meanings might be awkward for Mr Kavanaugh, but a judge should not redefine words to avoid embarrassment.

Nor should a judge give the impression of being consumed by hatred for one of the main political parties. Mr Kavanaugh described the allegations against him as “a political hit”, “revenge on behalf of the Clintons” and the fruit of “millions of dollars in money from outside left-wing opposition groups”.

Defenders of Mr Kavanaugh, worried about an open season on powerful men, point out that any innocent person in his position would rage against his accusers. Yet Mr Kavanaugh was not just angry, but conspiratorial. He chose to direct his fury at the Democrats personally, as if he were a signed-up member of the other side.

As it happens, that is precisely what Democrats have always alleged—and how Republicans are now honouring him. Before he became a judge, Mr Kavanaugh worked for Ken Starr on the impeachment of Bill Clinton. He was part of George W. Bush's legal team, which opposed a recount in Florida in 2000, and later worked in the Bush White House. This explains why hostility to Mr Kavanaugh has eclipsed that faced by Neil Gorsuch, who joined the Supreme Court last year. Mr Kavanaugh says he put party allegiance aside on becoming a judge. After last week, that claim looks misleading, too.

It is hard to see how someone who harbours such feelings can decide cases on gerrymandering, say, in a credibly non-partisan way. Mr Kavanaugh's conservative judicial philosophy is not a problem. His visible loathing of Democrats is. That is not just our opinion. In 2015 a prominent jurist told the Catholic University of America: “A good judge, like a good umpire, cannot act as a partisan...If you are playing the Yankees, you don't want the umpires to show up wearing pinstripes.” The jurist's name was Brett Kavanaugh. ■

## The gig economy

## Workers on tap

How governments should deal with the rise of the gig economy



THE Archbishop of Canterbury sees it as “the reincarnation of an ancient evil”. Elizabeth Warren, a senator from Massachusetts, says that, for many workers, it is the “next step in a losing effort to build some economic security in a world where all the benefits are floating to the top 10%”. Luigi Di Maio, Italy's deputy prime minister, is going after it as part of his “war on precarious work”.

For many, the “gig economy”, in which short-term jobs are assigned via online platforms, is a potent symbol of how mod-

ern capitalism has failed. Critics rail that it allows firms to rid themselves of well-paid employees, replacing them with cheap freelancers. Workers who once relied on an employer to pay into their pension, or to cover their health care when they fell ill, must instead save for the future themselves. On this reading, the gig economy turbocharges insecurity and the erosion of workers' hard-won rights. There is a grain of truth to this. But it misses the bigger picture.

For one thing, despite city streets clogged with Uber drivers and Deliveroo cyclists, gigging is not about to take over the world (see Finance section). Across the OECD club of mostly rich countries, the share of workers in full-time positions, which dropped after the financial crisis of 2008-09, has been ▶▶

rising. In America the average job tenure has barely changed in the past 30 years. Depending on whom you ask, 1-5% of Americans gig—but many of those have salaried jobs as well.

However, the fact that it is smaller than you might think is not the gig economy's strongest defence. That rests on how gig-gigging brings important benefits to the economy. The advantages for consumers are clear. With a swipe or a click, almost anyone can get Rover walked in the park or a vital document copy-edited within hours.

Crucially, benefits also accrue to workers. The algorithms that underpin gig-economy platforms improve the "matching" between giggers and jobs, leading to less dead time. The evidence that gig workers face a pay penalty compared with conventional employees is patchy; many say they value the extra autonomy they enjoy compared with salaried workers. Gig platforms are a useful way of topping up income or smoothing out earnings if other sources of work dry up. They can also break open closed industries. Research shows that the arrival of Uber in American cities leads on average to a 50% surge in the number of self-employed taxi-drivers.

But the gig economy is not perfect. Platforms argue they are no more than neutral marketplaces in which workers and customers meet. By this logic, workers ought to count as self-employed. But the standards to which some platforms hold workers tell a different story. Food-delivery riders are often told to wear a uniform; drivers for ride-hailing apps need to maintain a good rating or can be kicked off the platform. Platforms have a legitimate interest in maintaining their quality of service. But it cannot be right that some firms specify how workers must submit to the duties of acting like employees even as they reject the responsibilities of acting like employers.

One proposal, being floated in America, is to create a third

category of worker, sitting somewhere between self-employed and employed. Yet the boundaries between classifications will always be fuzzy. Britain already has such a third category. It is also the place where arguments about the legal status of gig workers are most vigorous.

Better to rely on two other mechanisms. The first is the market. Unemployment is low and pay is starting to rise—Amazon this week announced big bumps in the minimum wages it pays American and British workers. The platforms will need to respond. Some gig-economy firms are voluntarily offering their workers health insurance. Competition between gig firms also helps. Italian food-delivery riders boast of how they play platforms off against each other in their efforts to get better pay and benefits. Innovations such as Australia's GigSuper, a fund which makes it easier for gig workers to save for a pension, are also welcome.

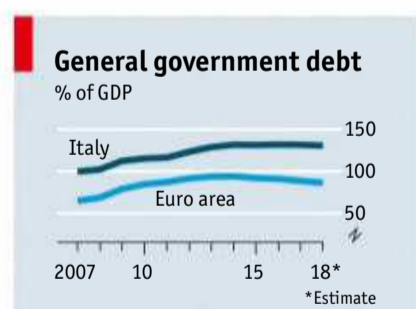
### A helping hand

The other mechanism is to help workers claim their existing rights. One option is to make it simpler for disgruntled gig workers to use the judicial system. Precedent-setting rulings on the status of gig workers may be piling up, but the barriers to going to court in the first place are often too high. Another option is to help giggers organise, in order to mitigate the low bargaining power the self-employed often face compared with employees. A third option is to boost the credibility of the system for detecting and prosecuting deliberate infractions of employment law. America has just one labour inspector for every 100,000 employed people, the world's joint-lowest ratio. Simply insisting that firms follow the rules would give workers greater protection while ensuring that the gig economy lives up to its enormous promise. ■

## Italy's budget plans

# Nearer the brink

The Italian government has sent a worrying signal. It will not enact reforms—and will undo old ones



ITALIANS are frustrated—and they are right to be. Because of the financial crisis and chronically low growth they are on average no richer, in real terms, than they were at the turn of the century. Some 10% are out of work; 20% live on less than

€10,000 (\$11,500) a year. In an election in March they voted for change by choosing political outsiders in the form of the Northern League and the Five Star Movement (M5S).

On September 27th a coalition of the two parties unveiled its plan to start the job of lifting the country out of its funk—in the form of their first budget. It is both disappointing and worrying. The government makes no attempt to correct Italy's low productivity growth, without which both the country's living standards and its ability to pay down debt cannot sustainably improve. Under previous governments, a lack of reform has held Italy back. This lot go one further by setting out to unpick pensions law—a rare example of a reform that was successfully legislated. The coalition came into office promising a new way of governing. It has fluffed its chance.

The budget proposes a fiscal deficit of 2.4% of GDP next year (see Europe section). It includes goodies for both governing parties. Luigi Di Maio, leader of M5S, hopes that funding for a basic minimum income, his key pledge, will stem his party's fall in opinion polls. The Northern League, led by Matteo Salvini, seems likely to make progress towards its flat tax.

This plan has a number of problems. True, the deficit is narrower than election promises had suggested. Much-needed public investment will grow. But it still breaks euro-zone fiscal rules. It is also higher than Giovanni Tria, the technocratic finance minister, had led investors to expect. That carried an immediate price. By October 2nd the most closely watched government bond yield was 3.4%, its highest since 2014.

### Stopping at Eboli

Even before the budget, Italy's borrowing costs, relative to Germany's, were over a percentage point higher than at the election. It will take time for the rise in yields to raise the government's cost of borrowing, which rises only as debt is rolled over. But higher government-bond yields are already translating into higher interest rates for the wider economy. That will counter much of the impact from stimulus, which makes the ▶▶



▶ government's expectations of robust growth next year even more unlikely—and could swell the deficit still further.

The plan is even more striking for the issues that it ducks. Productivity growth is dismal. Money earmarked for public investment often remains unspent, because of a risk-averse bureaucracy. Cumbersome rules and long court cases stifle business. The trade surplus shows that firms exposed to competition are thriving. But the services sector is sheltered. Opening closed professions would help, as would speeding the sale of public assets. Too few Italians work. Italian women are less likely to do so than most of their sisters in the OECD. Employers are loth to hire people because it is so hard to fire them. This is doubly so in the poorer south, where firms pay high wages negotiated at the national level.

The prize to the government that could seize the agenda for reform would be vast. The IMF reckons that simply shifting to company-level, rather than national, wage bargaining could

lower unemployment by nearly four percentage points. But that would mean taking on unions, a challenge that successive governments have avoided. Far from showing courage, this government will use the budget to reverse reforms won under a previous administration that raised the retirement age, but which were deeply unpopular.

Without reform, Italy's exorbitant debt burden of about 130% of GDP will fall slowly at best. Politics could yet push the country nearer default. The budget is a slap in the face for the European Commission. Yet Italy's politicians, with an eye on next year's European parliamentary elections, may relish the prospect of a Brussels bust-up. Keen to shore up his popularity, Mr Di Maio could call for more spending next year. Investors may not yet be ready to dump Italy's bonds—not least because the European Central Bank will do what it takes to save the euro. But with its extravagance and its refusal to face reality, the government is testing their patience. ■

## Trade

# Marginal revolution

The renegotiation of NAFTA is a relief. But it is not a success



NOT long ago President Donald Trump nearly withdrew from the North American Free Trade Agreement (NAFTA). Now he has replaced it. On October 1st the administration announced that Canada would join a pact it has already negoti-

ated with Mexico. The resulting United States-Mexico-Canada Agreement (USMCA) keeps its predecessor's most vital feature: tariff-free trade in most goods. These economies should now avoid one source of chaotic disruption.

Having solved a crisis of his own making, the president is taking a victory lap, hailing “an amazing deal for a lot of people”. That is accurate only according to Mr Trump's misguided protectionism (see Americas section). Although the new pact does contain improvements to NAFTA, taken as a whole it is a step backwards for free trade. As a result, it will harm America.

### Why USMCA?

The president is pleased with himself mainly because the agreement should shift carmaking jobs from Mexico to America. When it is fully implemented, cars will escape tariffs only if as much as two-fifths of their content is made by workers earning at least \$16 an hour—seven times today's average manufacturing wage in Mexico. Three-quarters of a vehicle's value must originate inside the free-trade zone, up from about two-thirds. And because the USMCA must be re-authorised at least every 16 years, firms may well be discouraged from big investments in cross-border supply chains. America imports more light vehicles than are sold in Canada and Mexico combined. With a sunset clause—not to mention the risk that Mr Trump may renege on his promises—firms may prefer to produce in America. Access to Uncle Sam's vast market is what matters.

There are further reasons for Mr Trump's boasting. The USMCA marginally opens up Canada's dairy market and lengthens some pharmaceutical patents—longtime American

goals. It also raises the threshold under which goods can enter Canada or Mexico without incurring taxes or duties, or too much paperwork. This will benefit American exporters.

Yet even for mercantilists like Mr Trump, the agreement has downsides. As carmaking costs rise, manufacturers in all three countries will find it harder to compete with producers in Asia and Europe. When, say, Mexican carmakers lose market share, American parts-makers, who contribute over a quarter of the content of Mexican vehicles, will suffer too.

In any case, trade deals should not be judged by how well they protect domestic industries, but by whether they serve the public as a whole. Against this yardstick, the USMCA is clearly worse than the deal it is replacing. A marginal liberalisation of the Canadian dairy industry is welcome but is not worth higher costs and lower productivity in carmaking. Canadians spent \$11bn on dairy products in 2017; Americans spent \$498bn on cars and parts. The strong-arming was unnecessary, too. The Trans-Pacific Partnership, a pact from which Mr Trump withdrew in 2017, modernised rules for trade in digital industries and financial services without retreating on cars.

Free traders might take solace from the fact that, to seal the USMCA, America has proved willing to compromise—by, say, acquiescing to Canada's insistence that it drop Mr Trump's demand to scrap one of NAFTA's dispute-resolution mechanisms. The president struck a deal rather than prolong the fight.

Should this raise hopes that he will pull off a deal in his trade war with China? Not so fast. Western complaints about Chinese trade practices run deep. Persuading the Chinese to rip up their economic model is a far tougher job than renegotiating NAFTA. And in the short term China depends much less than either Canada or Mexico on selling to America. As a result, Mr Trump has less leverage, even if the USMCA clears the way for the West to take a united stand against China.

About all that can be said in favour of the USMCA is that the uncertainty cast by Mr Trump over North American trade has eased. However, America would be better off had he never raised any doubts in the first place. ■

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### Out of the left field

Bagehot seemed determined to reach the eventual and comforting conclusion that we should discount the avowed radicalism of Jeremy Corbyn's Labour Party, as "the British establishment is forever changing—and yet somehow forever remains the same" (September 29th). Comforting but, in this instance, profoundly wrong. It is not Labour's policies: a 50% marginal tax rate, renationalising utilities, workers' stakes in large companies. All of these, or varieties thereof, could be found in various centre-left manifestos over the past decade. It is not even the occasional preening that Labour has somehow, uniquely, caught the zeitgeist. Rather, it is that the party's alternative worldview is so at odds with the post-war, post-colonial, Western, liberal-democratic consensus that I doubt it can be contained within "the establishment".

Historical analogies are problematic, but we should perhaps look to the eruption of Protestantism into Western Christianity in the 16th century for a similar disruptive perspective. The Corbynista version of the Horrible History of The West is fundamentally flawed, a kind of "1789, 1917 and All That" for our age. But reality is almost irrelevant. People are prepared to believe it; heretics are hunted down with a passion that would not have disgraced the Inquisition. They are clearly not interested in gradual change.

There is nothing cosy, comforting or conventional in that at all. The new establishment? I don't think so.

SIMON DIGGINS

*Rickmansworth, Hertfordshire*

### Turkish origins

It was incorrect to say that, of the 3m people of Turkish origin in Germany, "almost two-thirds" voted in favour of Recep Tayyip Erdogan's constitutional reform in 2017 ("Hello to Berlin", September 22nd). Rather, it was two-thirds of eligible Turkish citizens in Germany who voted in favour.

Not all German residents of Turkish origin are Turkish citizens and able to vote in Turkish elections. A large number of people with a Turkish background have become, and are exclusively, German citizens. Moreover, half of those who were eligible to vote did not do so. In short, the number of Turkish citizens who voted in favour of the reform was some 450,000.

ARNDT LEININGER

Research fellow at the chair for German political sociology  
Free University Berlin

### Europe's privacy advantage

You painted quite a dire picture of Europe's position when it comes to expertise and technology in artificial intelligence ("Big data, small politics", September 22nd). You gave much credence to the fact that large firms in America and China have the king's ransom of access to data and, therefore, expertise in this field. As an American entrepreneur, based in Cardiff working at the sharp end of the AI industry, I have seen that it is not governance, but the resolve, expertise and public-sector support within this area that will provide a seat at the top table for Europe.

Large institutions enthusiastically look outside established hubs to find AI practitioners who can give them a strategic or competitive edge. Europe is playing its hand cleverly on this front. The aforementioned access to data isn't necessarily a benefit, either, as privacy is a significant concern. The stranglehold that large firms such as Google or Microsoft have on data is becoming a worry for many and, in some cases, potentially a barrier to commerce. Traders, investors, big banks and other global organisations need to be sure that AI is using their data responsibly and securely. This is the next big hurdle for companies developing AI, and it is an area in which Europe is already a world leader.

CHRIS GANJE

Chief executive

AMPLYFI

*Cardiff*

### Politics in Singapore

Banyan suggested that the government of Singapore wins elections because it hounds critics and denies public-housing upgrades to opposition districts, and wondered why the ruling People's Action Party "holds on so tenaciously" to power (September 22nd). The PAP has been repeatedly re-elected because it has been honest with the voters, delivers on its promises, and provides long-term stability and progress. When it has not fully met voters' expectations, and so lost votes, it has responded with appropriate policy adjustments. It has also consciously renewed its leadership, with a fourth generation since independence readying itself to take on the responsibility.

The alternative—a constant merry-go-round of contending parties—does not necessarily produce better outcomes. Politicians fail to keep the promises they make, the people become disillusioned, and eventually lose faith in democracy. Witness the low voter-turnouts in many Western democracies.

FOO CHI HSIA

High commissioner for Singapore

*London*

### The meat of Brexit

Since Britain voted to leave the European Union there has been a great deal of misinformation about the potential for regulatory checks to be imposed on meat moving between the United Kingdom and the EU ("Chequers, the unlikely survivor", September 15th). There are presently no veterinary checks on meat products moving across any border within the EU single market, including on ferries crossing the Irish Sea. Moving meat from Aberdeen to London is the same as moving it from Aberdeen to Austria or from Northern Ireland to the British mainland.

Veterinary checks do apply to non-EU imports of meat, where the consignment must enter through a Border

Inspection Post. If however, these checks were to be imposed on UK-to-EU meat they would threaten the just-in-time supply of products, such as chilled chicken breast, with a shelf life of around ten days. Half of the poultry imports from outside the EU are physically checked. Cartons are opened and inspected by a vet. This can also involve a sample being sent to a laboratory and the consignment being detained until a clear test result comes back. For beef, lamb and pork, 20% of shipments are physically inspected. After Brexit, such checks would pose a challenge to supply chains, particularly where chilled products are involved.

KATIE DOHERTY

Policy director

International Meat Trade

Association

*London*

### Resistance is futile



I enjoyed your book review of Yuval Noah Harari's latest forecast of our shared future ("In the kingdom of cyborgs", September 1st). But I was perplexed by your prescription for avoiding the pitfalls of the coming cyborg symbiosis. If human brains are reconditioned by being melded with digital ones, do you really think we can enshrine free will in "the code"? The very nature of coding is determinism.

ALEJANDRO EMMANUEL MORENO

*San Diego* ■

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**Managing Director, UCLB**  
**London, UK**

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## Gaining wisdom, marching forward

BEIJING, BRUSSELS AND PRAGUE

**Chinese investment, and influence, in Europe is growing. The EU is at last beginning to take notice**

**U**NDER the Renaissance ceiling of the Ball Games Hall in Prague Castle, Zhang Jianmin, the newly arrived Chinese ambassador to the Czech Republic, is quoting Xi Jinping, his president. “History always gives people the opportunity to gain wisdom and the power to march forward in some special years,” he says, declaring 2018 “just such a year”. It is four decades since China started its economic reforms, five years since it launched its Belt and Road Initiative (BRI) to knit together Eurasian economies, and thus a fine moment to accelerate the co-operation between his home and host countries.

The conference—billed as an educational event for Chinese investors—was co-hosted by the New Silk Road Institute Prague, a think-tank that describes its “fundamental mission” as “spreading the awareness about the concepts of New Silk Road in the Czech Republic and other European countries”. It is run by Jan Kohout, a former Czech foreign minister and an adviser to the Czech president, who used the event to extol the assets available for sale in his country. The mostly Chinese audience included influential Czechs, a former prime minister and a former industry minister among them. The tableau captured

the essence of the blending of politics and commerce that marks China’s growing presence in the Czech Republic.

And also in the rest of Europe. In 2016 Chinese investment in the European Union jumped to nearly €36bn (\$40bn), up from €20bn the previous year, according to Rhodium Group, an American research firm (see chart on next page). Much of this is state-backed and speaks of the Communist Party’s ambitions to keep Europe from helping America to contain China’s rise. Until that boom year, Europe’s leaders—most notably in Germany—had largely welcomed Chinese investment without thinking too hard about it. But the huge influx of money prompted leaders in Berlin, Brussels and elsewhere to worry about the power and influence China was gaining in the process, especially in the EU’s smaller countries. They have since tightened the screening of Chinese investment and are trying to create a more united European response. Still, those efforts are barely keeping up with the rate at which the cash is flowing in. Inward investment dropped to €30bn last year, reflecting a global slowdown in China’s foreign direct investment (FDI). Yet Europe increased its share from a fifth to a quarter.

As with so much involving China, the details are hard to pin down. But some facts are clear. Chinese actors in Europe are usually state-backed firms and investment funds, which, according to an analysis by Bloomberg, represented 63% of deals by value in the decade to 2018. Particular focuses have been energy, chemicals and infrastructure. Chinese outfits now own most or all of Syngenta, a big Swiss pesticide producer; the Port of Piraeus, Greece’s biggest; and Hinkley Point C, a British nuclear power station. Airports like London’s Heathrow, Frankfurt Hahn and Toulouse have sizeable Chinese ownership. So do PSA Group, maker of Peugeot and Citroën cars, and Pirelli, an Italian tyre maker.

### Road to riches

The investment is marked by regional trends. In eastern Europe, the focus is on infrastructure that can solidify links between the old continent and BRI projects farther east. In southern Europe Chinese buyers participated in the wave of privatisations during and after the euro-zone crisis. In Portugal they snapped up stakes in ports, airlines, hotels and much of Energias de Portugal, the country’s main electricity operator. In Greece China provided valuable capital during the crisis.

The largest sums of Chinese cash have flowed into western Europe. In Britain it accelerated after a push by George Osborne, then chancellor of the exchequer, to make his country China’s “best partner in the West”. Even France, long sceptical of foreign investment, has seen Chinese buyers hoover up Bordeaux vineyards. ▶

China's focus in Germany is on high-tech firms with the specialised knowledge it needs as part of Mr Xi's "Made in China 2025" strategy to make his country more industrially and technologically self-sufficient. German authorities were alarmed by the purchase of almost 10% of Daimler, the owner of Mercedes-Benz, in February. The Chinese media's portrayal of the deal as a triumph for its domestic industry did not help. Another big worry is that Chinese companies are gobbling up small, specialised *Mittelstand* firms, a cornerstone of German industrial success, whose founders are growing old and lack heirs eager to run the family firm.

### Path dependency

What does China want, ultimately? It would be a mistake to attribute too much grand strategy to its actions. It is not, like Russia, interested in precipitating the collapse of the EU. Quite the opposite: it sees in Europe's openness and wealth advantages for itself. China, it is true, used to wonder whether Europe might become a partner in a multi-polar world. It watched with glee as Franco-German resistance to the American-led invasion of Iraq in 2003 splintered Western unity. It sought to learn from European capitalism, especially the Nordics' social-market model. But the enthusiasm for Europe as an equal did not last. Today Chinese leaders enjoy lecturing ambassadors and visiting European leaders about the West's failures.

Some Europeans see China playing four-dimensional chess to divide and conquer their continent. But most European envoys in Beijing think the reality is less dramatic than that, and more opportunistic. In foreign policy, as in all things, China is the distilled essence of self-interest. Europe is a means to an end.

The supreme goal, of which its leadership never loses sight, is for China to become an advanced, modern superpower that others dare not gainsay. Its idea of Eu-

rope is as a wealthy, innovative region that could help it reach that goal. In contrast it is obsessed with America, seeing an ageing, vengeful hegemon that could stop it from achieving its aims. So where China once considered the EU a prospective partner and even a model in some areas, now it approaches Europe with less respect—as a sort of supermarket of opportunities to extract benefits that can help it rise, neutralise opposition to its foreign policy and keep the West from acting as one against it.

What this process looks like in practice is evident in the Czech Republic. Take CEFC China Energy, a well-connected privately held (now state-backed) energy giant with links to Chinese military intelligence. It arrived in Prague in 2015 with an open chequebook and went on a shopping spree, buying stakes in J&T, a big financial group; Travel Service, the country's largest airline; Empresa, a media conglomerate; even SK Slavia Prague, the capital's second football team—and its stadium to boot. CEFC hired various influential Czechs: Jaroslav Tvrdik, a former defence minister, became vice-chairman of its European operations; Stefan Fule, previously a European commissioner, joined its supervisory board; Jakub Kulhanek, a one-time deputy minister in the foreign ministry, joined as a consultant.

Almost immediately, this bought China influence. Milos Zeman, the Czech president, appointed Ye Jianming, CEFC's chairman, as an adviser within months of the company's arrival. (Mr Ye was detained earlier this year in China in murky circumstances.) Mr Zeman, an erratic figure who seems genuinely to admire Mr Xi's strongman style, says one European diplomat in Beijing, hopes his country becomes the "unsinkable aircraft-carrier of Chinese investment expansion" in Europe. TV Barandov, a television channel owned by Empresa, now features a weekly interview with the president conducted by Jaromir Soukup, the channel's chief executive, in which the president frequently airs pro-

China views.

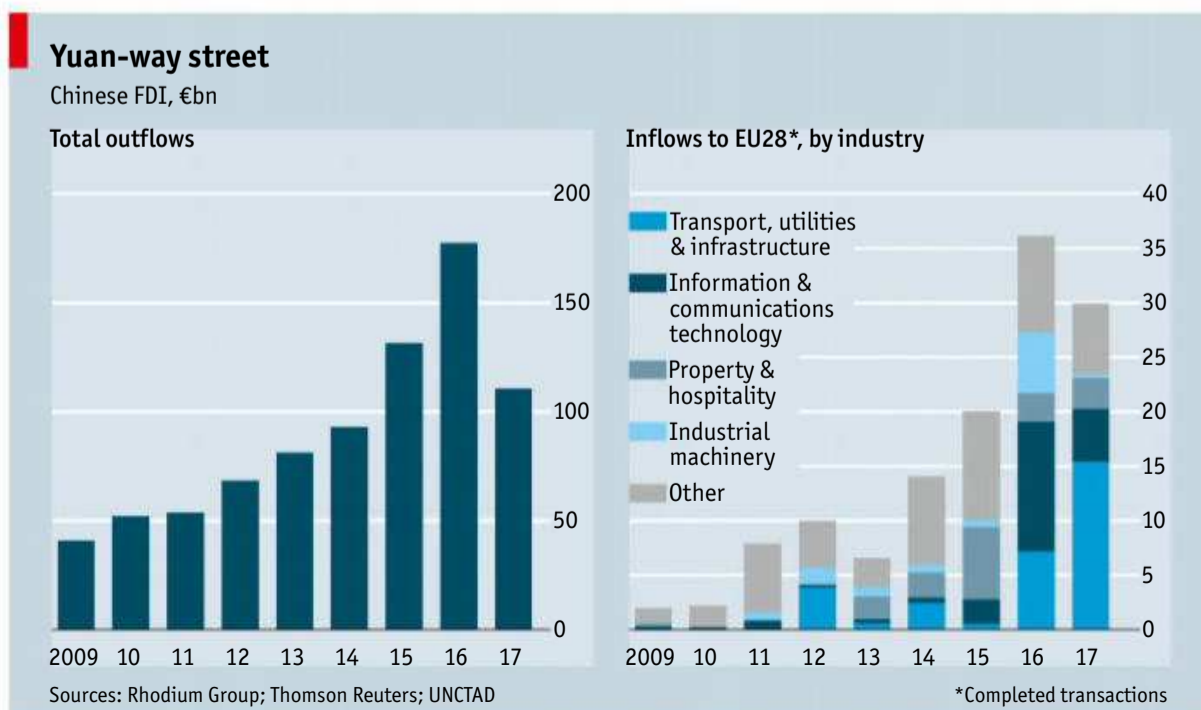
This is paying diplomatic dividends. A long-standing Czech commitment to human rights, rooted in the 1968 uprising against the Soviet Union and Vaclav Havel's years as president in the 1990s, had made it the most acidic European voice on Chinese human-rights abuses. That has vanished. When Mr Xi visited Prague in 2016 to upgrade the Chinese-Czech relationship to a "strategic partnership" police cracked down on pro-Tibet protests. When the Dalai Lama, once warmly welcomed in Prague, visited that same year several senior figures, including the prime minister, distanced themselves from his trip. And when that year the European Council tried to agree on new screening rules for investments, the Czech Republic was one of the countries that watered down the measure.

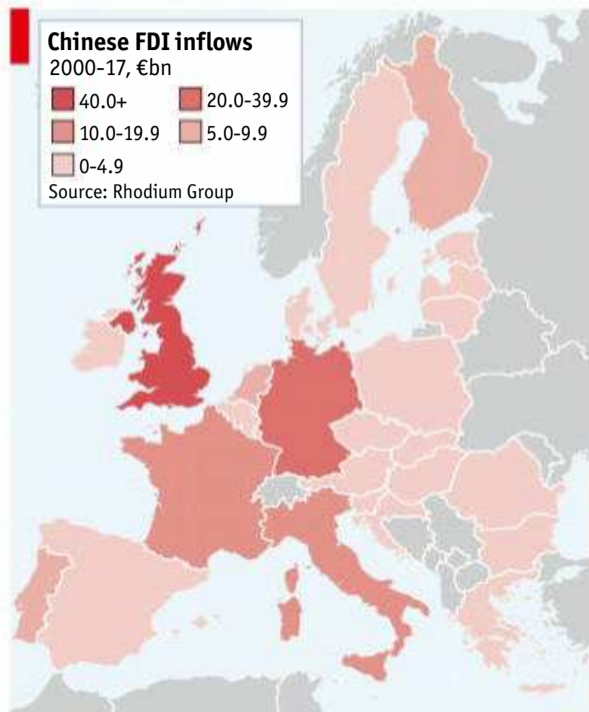
The influence is generally more explicit the farther east and south you get. In 2016 Hungary and Greece prevented the EU from joining America and Australia in backing the Permanent Court of Arbitration's ruling in favour of the Philippines over China in a dispute over maritime borders in the South China Sea. In fact, the EU's statement did not even mention the Chinese government. "It was shameful," admits one EU diplomat in Beijing. Last year, for the first time, the EU did not issue a statement at the UN Human Rights Council after it was blocked by Greece for its "unconstructive criticism of China".

### The main drag

These examples typify an important trait of China's dealings in Europe: bilateralism. It much prefers to deal with states one-on-one, where its size advantage is greater. Its annual "16+1" summits with central and eastern European states, are really 16 one-plus-one summits, where each government deals with China on its own terms. For some of these states, the sense of having been overlooked or disrespected by countries in western Europe makes China seem more attractive: "Central Europe has serious handicaps to overcome in terms of infrastructure," Viktor Orban, Hungary's autocratic prime minister, told German business leaders in January. "If the EU cannot provide financial support, we will turn to China."

China is skilled at using protocol to appear magnanimous. It goes out of its way to treat smaller countries to the same red carpets and ministerial meetings that are lavished upon larger ones. Though meetings can be formulaic and involve Chinese ministers reading from a script, one diplomat says that Beijing is a less humiliating place, at least formally, than Washington, where smaller countries trying to secure a meeting must expend tremendous effort befriending congressmen with ancestral ties to their country or an interest in it. Even small states enjoy visits by and with top





► leaders, notes the ambassador of Iceland, Gunnar Snorri Gunnarsson. “They are a realistic global power, so they know the difference between big and small countries. But on paper and in principle they say they want to respect smaller countries,” he says. Besides, he notes, “from China’s perspective, all countries are small.”

The influence is less flagrant in Europe’s bigger economies, but it exists. It is growing especially fast in Italy, says Mikko Huotari of the Mercator Institute for China Studies, a think-tank. Meanwhile, Chinese firms and foundations are securing access to Europe’s elites by hiring the likes of David Cameron, a former British prime minister (who advises an investment fund), Jean-Pierre Raffarin, a former prime minister of France (director of a manufacturing firm), and Philipp Rösler, Germany’s former vice-chancellor (who is the boss of the charitable wing of a large Chinese conglomerate).

One of the continent’s greatest vulnerabilities is its naivety. For a long time, America and Australia were notably tougher than Europeans, who still believed that China would open up and liberalise as it became integrated with the West. The Germans called it “*Wandel durch Handel*” (change through trade), until they realised that the *Wandel* in question would make China a competitor and that *Handel* was no guarantee of Chinese co-operation.

Poking at Europe’s belly and finding it soft, China is testing how far it can push. It recently tried to ban a pro-Taiwan British MP from a parliamentary-committee trip to China. It obtained an apology from Daimler for including a quote from the Dalai Lama on an Instagram advertisement.

Such soft-core humiliation is not the only danger of Chinese money in Europe. Another is that the political, and thus unreliable, nature of the investments means that they often do not succeed. A recent run of fiascoes—along with China’s continuing reluctance to open up its markets to EU investment—have made European govern-

ments increasingly dubious about all that cash flowing in. CEFC almost collapsed when its boss was detained and was only saved when CITIC, an investment body directly owned by the Chinese state, stepped in. The construction of a Budapest-Belgrade railway has stalled (the route will skip several important Hungarian industrial towns). A Chinese-financed motorway from Warsaw to the German border was never completed. Promised cash for developments in Liverpool never materialised.

It is notable that this scepticism has spread to more traditionally China-friendly economies. Britain, leaving the EU and desperate for investment and trade deals, is more susceptible to Chinese entreaties than its continental neighbours, but even it has tightened up its policies in recent years. The last 16+1 summit saw central and eastern European states, led by a Poland fed up with being bossed around, challenge China about the effectiveness of its investments in their countries.

Germany has introduced and tightened its national laws for screening investments. Along with France it has called on the EU to establish a common framework to do the same thing on a European level.

### Changing lanes

The resulting legislation should make it onto the statute books before the European Parliament elections next year. Though it will leave ultimate control over screening in national governments’ hands, it aims to spread information and norms across member states. “There has been a surprising degree of consensus on the proposal,” says a European official. “The directive would have been unthinkable a few years ago,” adds another.

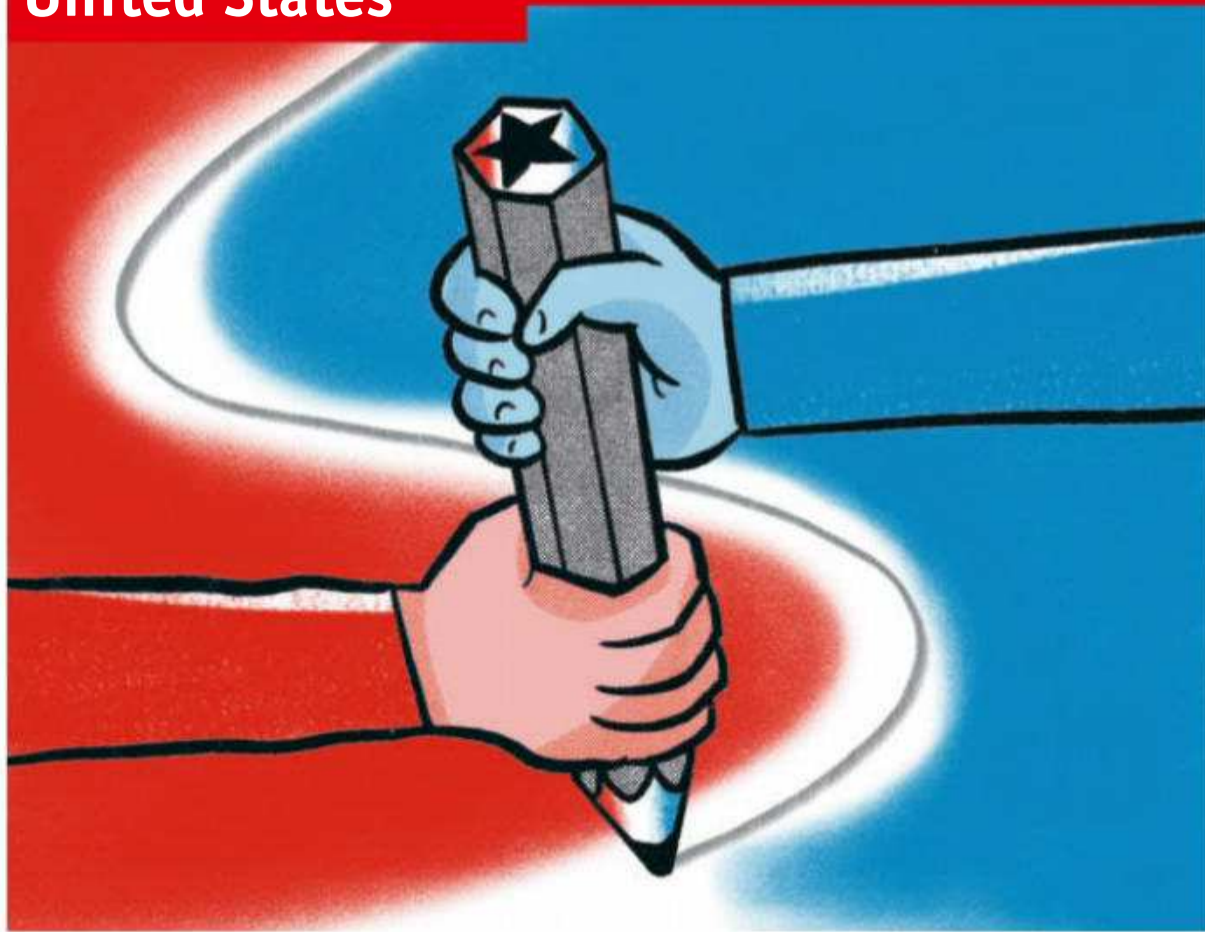
A big part of the shift among states involves doing more at a European level. The EU adopted a new China strategy in 2016 envisaging greater co-operation between

member states. It is working more closely with the 16+1 states to co-ordinate their positions. In his State of the Union speech in September, Jean-Claude Juncker, the European Commission’s president, admitted that “it is not right that Europe silenced itself at the United Nations Human Rights Council when it came to condemning human-rights abuses by China because one member state opposed it. I give this one example—I could give many others.” He proposes shifting from unanimity to qualified-majority voting on certain foreign-policy subjects, including human rights. Getting that past member states like the Czech Republic and Greece will be difficult. But the direction is clear: Europe is wising up.

There is more to do. “Why do we only look at state aid from within the EU but not China?” asks one European official. Mr Huotari, the think-tanker, advocates better checks on state-subsidised purchases of assets by Chinese firms and tougher accountability standards. For Thorsten Benner of the Global Public Policy Institute in Berlin, a think-tank, it is about something more fundamental: “We Europeans need to be less defensive. The most powerful answer we can give China is to improve our own competitiveness and project our own model: openness.”

This is Europe’s challenge. Its countries and institutions are among the most open in the world. Prague, with its history of standing up to Soviet oppression, is a symbol of that openness, but the city is increasingly also an example of how China is taking advantage of it to pursue its national interest. To compete, Europe must stay open while also calling out and if necessary blocking outside powers that abuse its open-door policies. In this special year, Europe would be foolish not to heed the Chinese president’s wise words, and grab “the opportunity to gain wisdom and the power to march forward”. ■





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### The other mid-terms

## States of play

WASHINGTON, DC

### A hollowed-out Democratic Party tries to regain control of state legislatures

**T**O CHILL the spine of any Democratic politico, simply mention 2010. Most of them remember the catastrophic losses in the House of Representatives in the year of the Tea Party. Democrats lost 63 seats, their majority and their chance to enact meaningful policy after just two of Barack Obama's eight years in office.

Many forget the carnage in the states, where Democrats lost 568 seats in state Houses, 136 seats in state Senates and six governorships (see chart 1). Before the 2010 elections, Republican "trifectas"—control over the governorship and both chambers of the state legislature—were present in just nine states. Afterwards the party had complete control in 21 states. Republicans now have trifectas in 25 states.

As a result, Democrats were shut out of the redistricting process in 2011, leading to gerrymandered boundaries that would reinforce Republican control for the next decade. To avoid another decade of wilderness-wandering, Democrats need to do well in state elections in a month's time. Nearly 800 of the state legislators who will decide on redistricting after the 2020 census will be elected on November 6th. Thirty-six states will also choose a governor.

Democrats are spending considerable energy on humble state elections. Several new progressive groups focused on state elections have sprung up since 2016. Rita

Bosworth left her job after 12 years as a public defender to found Sister District, which helps activists in safe Democratic districts to volunteer in battleground ones. Catherine Vaughan, a former consultant at McKinsey, co-founded Flippable, which channels cash and volunteers to state races that are, well, flippable. Heather Stewart, a former television writer, led the New York division of Indivisible to topple six Democratic state senators who had caucused with Republicans, in effect granting them control of the chamber.

This enthusiasm has already brought results. "The last Sunday before my elec-

tion in November, it was a rainy, drizzly, dreary day," recalls Kathy Tran, a Democrat elected to the Virginia House of Delegates in 2017. "We had a parking lot that was overflowing with volunteers—we knocked over 10,000 doors in one shift at 9am," she says. Democratic gains in Virginia elections last year (the House remained in Republican hands only because a tied race was decided by drawing of lots) are looked to hopefully. Since November 2016 Democrats have flipped 44 state seats, whereas Republicans have flipped only seven. "Right now, Democrats control 32 state legislative chambers. By the end, we could have between 40 and 42 chambers," says Jessica Post, the executive director of the Democratic Legislative Campaign Committee, which is more than doubling its spending on state contests.

That sounds too optimistic. Chaz Nuttycombe, an independent handicapper, reckons that Democrats are on track to flip five chambers. To sense-check the forecasts, *The Economist* built a statistical model for state legislative control, then looked at the relation between the generic congressional polls and state elections. Despite its simplicity, the method explains 90% of the variation in election results. Applying it to current polls suggests that Democrats will pick up a modest 173 legislative seats. By comparison, the Republican wave in 2010 was three times that size. The state Senates in Colorado, Connecticut, Maine and New York are the most likely to change hands.

Democrats are also likely to improve on the paltry 16 governorships they currently hold. Republicans are quite likely to lose power in Illinois, Michigan and New Mexico. Polls also put Democrats narrowly ahead in Republican-held states like Florida, Iowa, Nevada and Wisconsin. Maine ▶▶

### Long way up

United States, state legislative seats held by Democrats, % of total



Sources: National Conference of State Legislatures; *The Economist*

\*Forecast



▶ and Georgia could succumb if the Democratic wave is really strong. A basic simulation using historical polling errors suggests that Democrats will hold the keys to 23 governors' mansions when the dust settles on November 7th (see chart 2). That would give them significantly more control over line-drawing in 2021.

Both parties gerrymander, of course. Masterful Democratic gerrymanders in Maryland ensured that Republicans took only one of eight House seats in 2016, despite winning 37% of the two-party vote. A tax form filed by the National Democratic Redistricting Committee, an establishmentarian group led by Eric Holder, a former attorney-general, says the organisation's purpose is to "favourably position Democrats for the redistricting process". It would be a shame if a movement organised around electoral fairness resulted in egregious gerrymanders to favour Democrats.

Some progressive groups say they want to take redistricting powers away from partisan legislators altogether and give them to independent, non-partisan commissions. Matt Walter, president of the Republican State Leadership Committee, the party arm devoted to state elections, says these efforts are mere pretence. Democrats, he says, favour independent commissions in states they have little chance of winning, but are not urging change on states they comfortably control. "The fairness of those lines is in the eyes of the beholders. If it works out that it favours your people, you love the process. And if you don't, you go the other way. It's a classic class of motivated reasoning," says Mr Walter.

States do more than just draw lines every decade, however. Republicans have used their decade of power in the states to reduce union power, tighten voting requirements and deter liberal policies in cities. Democrats—keen to expand Medicaid and protect abortion as a hedge against a conservative Supreme Court—are newly aware of the importance of the states. The fact that a backlash against the president's party once again coincides with the next cycle of redistricting is a bonus for them. ■

### Amazon's minimum wage

## One-click socialism!

WASHINGTON, DC

### Is Amazon's welcome wage rise the upside of monopsony?

FOR a brief, beautiful moment in time Jeff Bezos and Bernie Sanders were at peace. On October 2nd Mr Bezos, the boss of Amazon and the world's richest man, announced that he would raise starting wages for American employees to \$15 an hour. That thrilled Mr Sanders, a curmudgeonly socialist senator who just last month introduced a "Stop BEZOS Act" which would tax the company for the public benefits received by low-paid workers. "It could well be a shot heard round the world," he gushed. The billionaire returned the kind words, thanking his gadfly and urging other companies to join him in raising wages. Amazon also announced that its phalanx of lobbyists would start calling for a higher federal minimum wage, which has not increased since 2009.

There are two possible explanations for Amazon's move: capitulation to political pressure, which is how the firm is presenting it, or self-interest. Lefty critics, Mr Sanders chief among them, had badgered the company repeatedly about its stressful warehouse working conditions. His office circulated a financial report showing that global median annual pay for Amazon's employees was just \$28,466. The company's retort that median wage for all its full-time American employees (including highly paid software engineers) was \$34,123 attracted comparatively less attention. A detail provided by James Bloodworth, a British journalist who went undercover in an Amazon facility and says he encountered bottles of urine from employees too scared to take bathroom breaks, has proven particularly difficult for the company to shake. No matter how uncommon such episodes actually are, the Dickensian juxtaposition of modern history's wealthiest man atop an empire of terrified workers is politically compelling.

An alternative theory is that the company is simply spinning a sound business decision. Amazon's new minimum wage, which come into effect on November 1st, will also apply to temporary workers. Heading into the holiday season, the firm will hire 100,000 seasonal workers. Given how tight the labour market is, that might have been difficult to accomplish without a wage rise. Fatter paycheques could also forestall efforts to unionise which are under way at Whole Foods, a grocery chain purchased by Amazon in 2017. Other analysts see Amazon's lobbying for a higher minimum wage as shrewd business prac-



Fifteen bucks and a high-vis vest

tice disguised as progressive policy. Amazon, whose remarkable growth has more to do with its highly profitable cloud-computing service than its dominant position in online retailing, can probably stomach the extra labour costs better than most firms. Analysts detect a pattern. After Amazon began collecting online sales taxes, it also began a lobbying campaign to require all online retailers to collect sales tax.

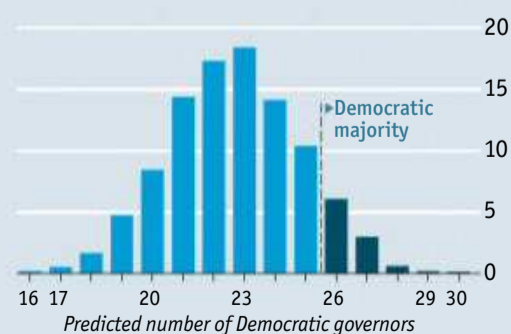
Amazon's politics are not always so flexible. In May the city council in Seattle, where Amazon is headquartered, decided to impose a head tax of \$275 per employee to fund services for the homeless. Because the company has an estimated 45,000 employees, its costs would have been \$12.4m—or 0.5% of last quarter's profits. Amazon fought the proposal, pausing construction on one office building and suggesting that it would ditch another. The tax was repealed less than a month later.

Determining whether Amazon's wage rises were the product of market forces or political ones is important. Economists have been puzzling over sluggish wage growth despite the low unemployment rate. One explanation with a growing number of adherents is monopsony, or the power firms exert over wages. That could be the result of a single, large employer dominating a town, but it could also result from "no-poach contracts", which several fast-food chains used until recently.

Amazon's market position may allow the firm to be more generous than other employers. Overall, though, monopsony exercises a downward pressure on wages that exacerbates income inequality, argues Kate Bahn of the Washington Centre for Equitable Growth, a think-tank. If wages are remaining stuck because of monopsony rather than competitive markets, that bolsters the argument for regulating anti-competitive behaviour, easing labour organising and bumping up minimum wages a bit. Even Mr Sanders might endorse that. ■

### Bell weather

United States, probability distribution of the number of Democratic governorships  
After 2018 mid-terms\*, %



Sources: RealClearPolitics;  
Sabato's Crystal Ball;  
The Economist

\*Democrats currently hold 16 governorships

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Donald Trump's wealth

# Thanks, Pop

**Does the president owe it all to his father, and a lot to the taxman?**

**D**ONALD TRUMP has always said he is a self-made billionaire. The president insists that the only financial help he got from his father Fred, a New York City developer, was a \$1m loan, which he repaid. An investigation by the *New York Times* (NYT), published this week, concludes that he actually received fifty times that amount, that it was not repaid, and that many of the transfers were dodgy.

The newspaper examined more than 100,000 pages of documents, including financial-disclosure reports and bank statements (but not the president's tax returns, which he refuses to make public). In the 1990s, it says, Mr Trump took part in "dubious" tax schemes which included instances of "outright fraud". It concludes that he "appropriated his father's entire empire as his own".

The NYT counted 295 revenue streams from Fred to Donald and his siblings, which began flowing when they were children. It estimates that Donald received at least \$413m in today's money from his father's empire, mostly from property transfers and a "flood" of loans, many never repaid. Had the money gone straight into a fund tracking the S&P 500 when received, it would now be worth almost \$2bn.

Some of the financial contortions described look like the exploitation of loopholes: sneaky but legal. Others appeared to cross the line into tax fraud, the NYT alleges. Experts it consulted saw a "pattern of deception and obfuscation", particularly in relation to how buildings were valued. The Trumps became masters of undervaluing property to dodge taxes on gifts and inheritance.

Documents show that Fred's children took over ownership of most of his empire in 1997, 19 months before he died. The value put on the properties at the time was \$41.4m. The buildings were sold over the next decade for more than 16 times as much. The transfer and subsequent sales may have allowed the younger Trumps to avoid hundreds of millions in taxes.

A particularly egregious example of deception, the investigation alleges, was a company called All County Building Supply & Maintenance, established by the family in 1992. Its ostensible purpose was to buy equipment and supplies for Fred's buildings. In reality, the NYT reports, it was a vehicle for transferring more wealth to his children by "marking up purchases already made by his employees".

The president has dismissed the allegations as "a boring and often told hit piece". A lawyer for Mr Trump called them "100% false and highly defamatory", also saying that Mr Trump had "virtually no involvement" in shaping the family's past tax strategies. Allies of the president say that the transactions in question were signed off by tax authorities long ago.

New York state's tax department says it is investigating. Even if some of the transactions were illegal, criminal prosecutions are unlikely given the statute of limitations for such cases. There is, however, no time limit for civil tax-fraud cases. ■

**Ending gerrymandering**

## Map scrap

GRAND RAPIDS, MICHIGAN

**Four more states could stop politicians from choosing their voters next month**

**A**MERICAN democracy suffers from a Catch-22. When voters delegate power over government policies to their elected representatives, they also delegate control over the rules of the elections in which those representatives are chosen. Unsurprisingly, political parties have done their best to rig those elections in their own favour, by gerrymandering the borders of legislative districts. For voters unhappy with such shenanigans, the only recourse is to support a different political party. However, in most cases, the gerrymander-

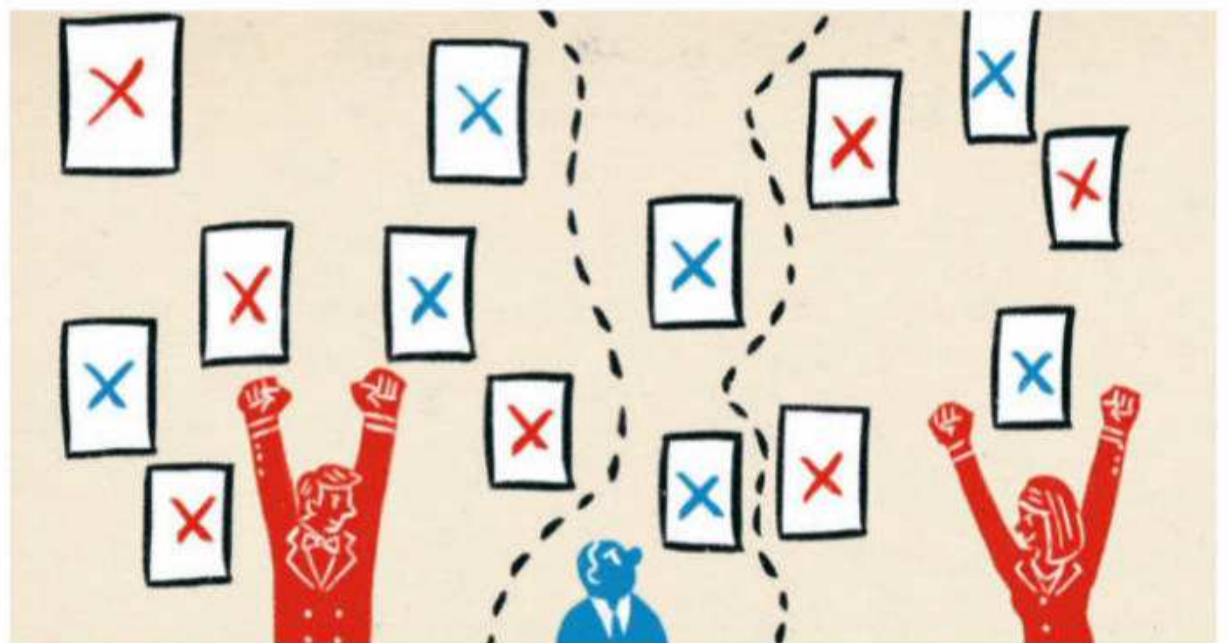
ing successfully prevents reformist candidates from winning elections, ensuring that the system remains in place.

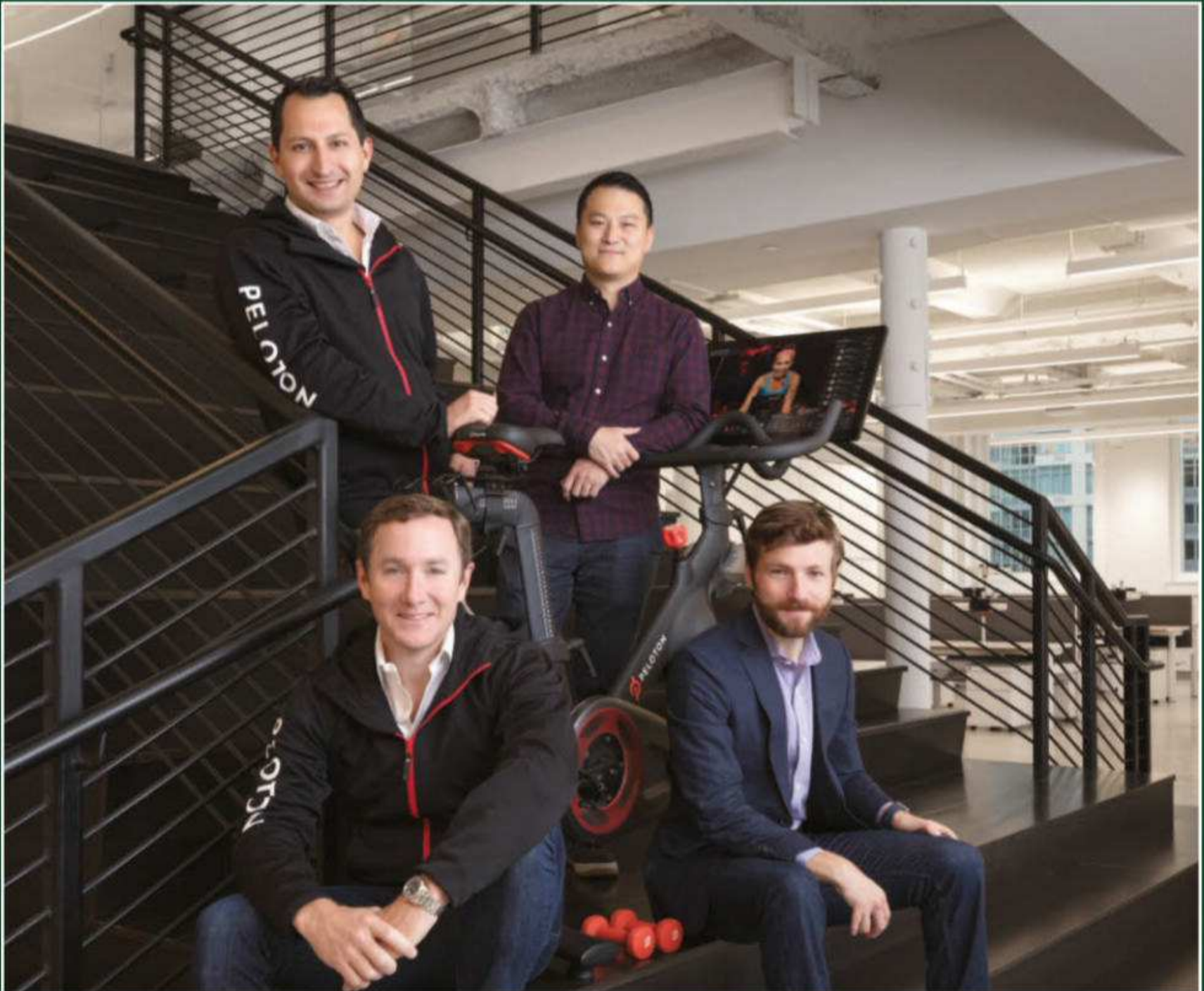
Campaigners for fair redistricting long hoped for some help from the Supreme Court. Anthony Kennedy's retirement from the court makes that less likely, so their attention has turned to direct democracy. They can already claim one modest victory this year. One of America's most effective gerrymanders can be found in Ohio, where Republicans won 58% of votes for the House of Representatives in 2016 and 75% of the seats.

In 2012 Republicans spent heavily in a successful effort to defeat a ballot initiative that would have outsourced the drawing of districts to a non-partisan commission. The state's Republicans feared that a renewed anti-gerrymandering referendum campaign might succeed in a political environment that looks much more favourable for Democrats. As a result, Ohio's Republican party gave its assent to a modest reform, which requires numerous steps to secure bipartisan support for legislative maps, and shortens the lifespan of those passed by a one-party majority from ten years to four. Voters approved the initiative in May by a three-to-one margin.

The success of the referendum in Ohio has inspired campaigners elsewhere to push for more ambitious changes. Next month electorates in Colorado, Missouri, Utah and Michigan will all have the opportunity to wrest control of district-drawing away from their representatives. Opponents in both Missouri and Michigan filed lawsuits to keep the initiatives off the ballot, but lost in court. Of the quartet, Michigan is the most populous, and a victory there would be the most politically consequential. An email sent by a Republican mapmaker and later made public admitted the party sought to "cram all of the Dem garbage" into a small number of districts near Detroit.

The current campaign there was launched not by Democratic operatives but by Katie Fahey, a 28-year-old who used ▶▶





“First Republic really helped us  
navigate the financial waters of a new business.”

PELOTON

*John Foley, Co-Founder and CEO (seated left); Graham Stanton, Co-Founder (seated right);  
Tom Cortese, Co-Founder (standing left); Yony Feng, Co-Founder (standing right)*



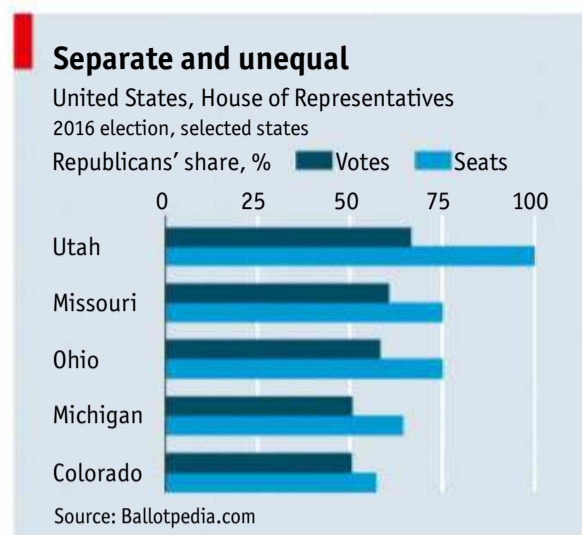
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▶ to work for a pro-recycling campaign, and founded the advocacy group Voters Not Politicians after receiving positive feedback to a Facebook post. It collected enough signatures to put a question on this year's ballot that would appoint a citizens' commission to draw borders, which requires only a simple majority to pass. Ms Fahey has reason to be optimistic: a poll conducted in September for the *Detroit Free Press* found that voters supported it by a margin of 48% to 32%, though a plurality of Republicans were opposed.

That should come as little surprise, given that gerrymandering currently benefits Republicans in Michigan—as it does in all but a handful of states nationwide. Nonetheless, the group is eager to stress its bipartisan credentials. At one gathering of volunteers, around a dozen of those attending enthusiastically proclaimed support for both parties.

Even if all four initiatives succeed, the ceiling for sweeping change using this ap-



proach alone is fairly low. There are only ten more states that allow ballot initiatives and have multiple congressional districts drawn by their legislatures. Nonetheless, a number of movements in recent history that began with state-level ballot initiatives have wound up gaining widespread acceptance. ■



## Wisconsin

# Schooling Walker

JANESVILLE

## A once-dominant Republican governor stumbles

SCOTT WALKER'S easy polling days are over. Republicans admire his ability to win elections in a finely-balanced state and then, in office, deliver radical Republican reforms. Polls now suggest that Governor Walker may lose to a man who once scraped mould from cheese for a living.

Wisconsin tends to pick a governor from the party that does not control the White House. "The mood is bad," reckons Barry Burden of the University of Wisconsin-Madison. No poll has put Mr Walker ahead for months. Democrats are energised by a national anti-Trump mood and because of their victories in state special elections. Mr Walker has said repeatedly

that he is "at risk", "an underdog" and that his party could face a "blue wave". Wisconsin's Republicans are wary. Polls suggest Tammy Baldwin, a progressive, openly gay senator who was once a Republican target, will be re-elected. A spirited contest is going on in a once super-safe Republican congressional seat vacated by Paul Ryan.

Mr Walker does have a story to tell. Wisconsin's economy is humming. Unemployment has been under 3% for many months. Employers grumble most about finding workers. Foxconn Technology Group last year agreed to build a whopping factory that will, supposedly, create another 13,000 jobs in the state.

In Tomahawk, in the forested north, tourist sites do brisk trade. Farther north there is a boom in mining fine sand used for fracking. In Janesville, a once down-in-the-dumps town, the revival is visible. A decade after General Motors closed a big car plant, a developer is renovating the site for investors. Flourishing firms nearby include a maker of medical isotopes, big warehouses for retailers, and popular cafés such as the Bodacious Brew. One measure of renewed local bustle is that next month, for the first time in a decade, the town will issue parking tickets.

Yet more economic zip does not solve Mr Walker's trickiest problem, which is that voters in a habitually swingy state seem bored with him. Not all object that he "cut the legs out from strong teachers' unions", says Frank Schultz, a veteran journalist in Janesville. But many say funding has been far too low since 2011, when the governor cut the education budget by about \$1bn. Strain and low morale are evident. The mother of a pupil in Madison complains that her daughter's high-school class has ballooned to 40 children. Inequity is stark: white pupils hugely outperform black ones in reading and maths. The gap is worse than in almost any other state.

Education is also in focus because the governor's opponent, Tony Evers—who scraped mouldy cheese as a teenager—until recently ran the state's schools. Voters like his vows to reverse the cuts, spend \$600m more on special-needs pupils and extend kindergarten. Mr Walker has tried calling himself a "pro-education governor" and last year restored \$650m to the schools budget. But holding back for so long put him out of step with voters. Jason Stein of the Wisconsin Policy Forum, a think-tank, points to lots of ballot initiatives for emergency spending on schools. Next month voters in 61 school districts (of 421) will weigh spending an extra \$1.4bn. This may well be the busiest year since 2001 for such initiatives; many will pass.

Mr Evers has problems too. He lacks charisma. A sympathetic local writer, John Nichols, sums him up as "dry, diligent and drenched in old Wisconsin...ideal as a candidate in 1938". Mr Evers also risks being overshadowed by his livelier young running mate, the candidate for lieutenant-general, Mandela Barnes, an Instagram enthusiast from a tough corner of Milwaukee.

Democrats expect Mr Walker to outspend them heavily as the race tightens before polling day. The outcome will be significant either way. Democrats will not control the state Assembly, so Mr Evers talks of co-operating with moderate Republican legislators, notably on education and roads. Mr Nichols says that would rekindle an "old Wisconsin" spirit. It is a nice idea, though Mr Walker might just grind out one more victory with the promise of yet more tax cuts. ■

## Texas

## Beto together

DALLAS AND DESOTO

## The Texas Senate race is the most interesting contest of 2018

SIZE matters in Texas, especially when the stakes are so high. President Donald Trump has said he is looking for the “biggest stadium we can find” to hold a rally for Ted Cruz as he tries to win re-election to the Senate. The fact that Mr Cruz is enlisting the help of the president, who once called him “Lyn’ Ted”, shows how vulnerable he is. Robert “Beto” O’Rourke, a Democratic congressman, has run a strong campaign and edged close to Mr Cruz, according to polls. The Cook Political Report, an electoral-analysis firm, considers the Texan race a toss-up for the first time in memory. Texans have not elected a Democrat to statewide office since 1994.

Mr O’Rourke has served in Congress since 2013 and before that sat on the city council of El Paso, a city in west Texas close to the Mexican border. He started his scrappy Senate campaign with long odds. He has travelled to each of Texas’s 254 counties, including plenty of Republican strongholds, which no other candidate for Senate in the state has done. Like the former Democratic candidate for president, Bernie Sanders, he has refused to take money from political action committees, relying instead on individual donors. Before the end of June individuals had given him around \$23.5m, nearly two-and-a-half times what they have handed Mr Cruz. The latest fundraising total, which will be announced soon, is expected to tilt even more heavily in Mr O’Rourke’s favour.

Mr O’Rourke is a progressive with the political savvy to present himself as a centrist. He supports background checks for gun owners, universal health care and legal marijuana, but never sounds strident: his views are personal opinions which he is willing to discuss with anyone. His events feel not unlike church meetings that are open to all denominations. “Republicans, Democrats and independents, you’re in the right place,” he told a packed high-school auditorium in DeSoto, a suburb of Dallas, in August.

He is not without liabilities. In his 20s Mr O’Rourke was involved in a drunk-driving accident, although he disputes whether he tried to flee the scene as the police report suggests. But his quiet affability and good looks have helped him to win over plenty of habitual Republican voters. One Republican housewife in Fort Worth proudly shows off a photo taken with him at her country club. In some conservative neighbourhoods in Dallas the lawn-signs

supporting “Beto” easily outnumber those for Mr Cruz. His rapid ascent and optimistic rhetoric have inevitably prompted comparisons with Barack Obama. “Obama was a centrist too,” points out Cappy McGarr, an investor and O’Rourke enthusiast based in Dallas.

Mr Cruz is an experienced campaigner and strong debater. But even his supporters are not eager to spend time with him, explains a Republican operative and Cruz backer. Moderate Texans dislike how Mr Cruz played a key role in the federal government’s brief shutdown in 2013, flip-flopped on whether Mr Trump should be loathed or loved and has done little to champion Texan interests in the Senate. Mr Trump, while running for the Republican nomination for president against Mr Cruz, made that argument for them: “Why would the people of Texas support Ted Cruz when he has done absolutely nothing for them?” he tweeted.

Digital savviness has played a part in Mr O’Rourke’s rise. He has used Facebook’s live-video service to stream his campaign, including scenes of him skateboarding, doing laundry, eating at Whataburger and playing rhythm guitar for Willie Nelson, who is to Texas as ABBA is to Sweden. His online streams have garnered plenty of free attention, but he has also spent more than Mr Cruz on digital adverts, which can be tailored and targeted at

supporters. From June until September Mr O’Rourke’s campaign spent around ten times more than Mr Cruz’s did with Facebook and Google, according to a study by Wesleyan University.

Texas is already “a purple [toss-up] state if the people who could vote voted. They just don’t,” says Laura Moser, an activist who ran unsuccessfully to represent Houston’s Harris County in the Democratic primary. According to the Centre for American Progress, a think-tank, Latino voters made up 32% of the state’s eligible voters in 2016, but just 21% of its actual voters. Though the state’s population is majority-minority, that is not true of its voters. According to the Centre’s projections, Latinos will make up a larger share of the state’s eligible voters than whites by 2036. In politics, 20 years may as well be a century. Mr O’Rourke needs Latino votes today if he hopes to win an easy victory.

## Pancho and Lefty

If Hispanics do not provide the support Mr O’Rourke needs, he will have to rely on college-educated whites and moderate Republicans. In that case, what happens in suburban Houston, Austin and Dallas will be key. Extrapolating from polls in these areas, Mr Cruz is on track for a narrow win on November 6th.

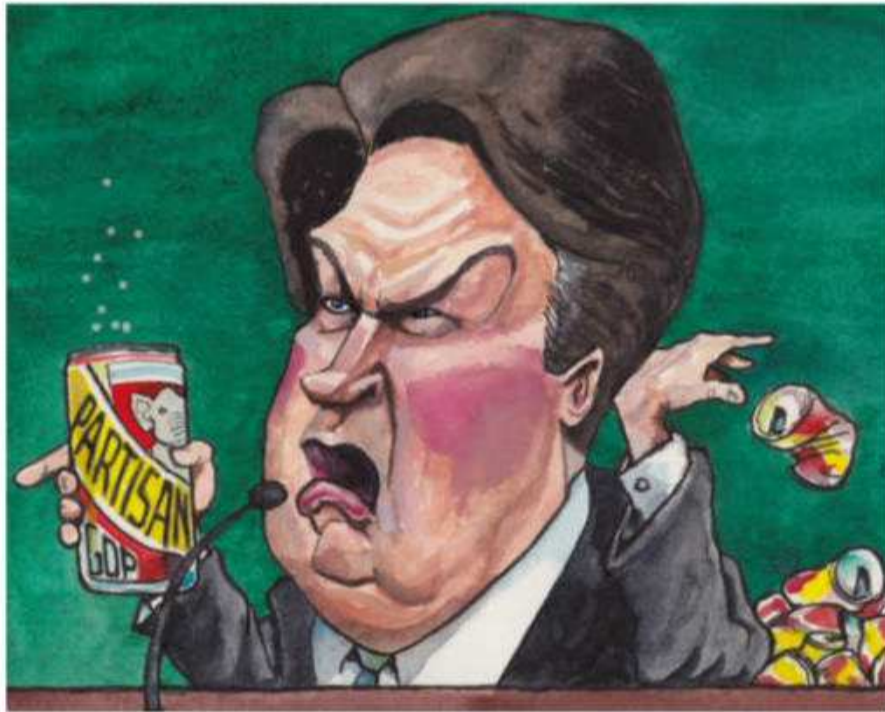
The Texas race will test whether hope can be as powerful a draw as outrage. Mr O’Rourke has run a campaign that is all sunshine and little fear-mongering. Mr Cruz’s advertisements, by contrast, are mostly attacks on Mr O’Rourke in which he tries to portray his opponent, who once ran a small business, as a radical socialist. So far, Mr O’Rourke has been correct in his bet that being polite and positive could help set him apart. Whether it can get him elected is a different question. ■



Willie, won't he?

# Lexington | From #MeToo to #ScrewYou

Inspired by Brett Kavanaugh, Donald Trump elects to take on American women



UNTIL Brett Kavanaugh sat bristling before the Senate Judiciary Committee last week the most prominent objects of #MeToo vilification were not easy for conservative men to rally behind. They included Hollywood moguls, liberal journalists and comedians—plus President Donald Trump, whose self-confessed pussy-grabbing is not something most conservatives admire him for. This presented an obvious vacancy. For what could Mr Trump’s followers desire more than to stand athwart history yelling “stop!” at a crowd of finger-jabbing women? Mr Kavanaugh has now filled the opening. Whether or not he makes it onto the Supreme Court bench, the 53-year-old judge already symbolises the patriarchal riposte to #MeToo.

His testimony, in response to Christine Blasey Ford’s allegation that he had sexually assaulted her 36 years ago, might almost have been designed with that intent. In her earlier performance Ms Blasey Ford had seemed modest and almost painfully obliging. By contrast Mr Kavanaugh, who was flushed from the start and dripping with sweat and tears by the end, trembled with righteous anger. While claiming to bear Ms Blasey Ford no ill-will, he fulminated against his Democratic interrogators, whom he accused of bad faith, slander, vengefulness and “totally and permanently” destroying his family. When the senators suggested that, to the contrary, they were only interested in hearing his response to Ms Blasey Ford’s specific allegations, including that he had drunk much more in his youth than he had previously admitted to under oath, Mr Kavanaugh got even angrier.

The senators were not really interested in what he had done (which was nothing bad), he suggested. They hated him for the privileges he had earned through hard work. Asked about a reference to vomiting in his high-school yearbook, he shot back: “Senator, I was at the top of my class academically, busted my butt...got into Yale Law School.” He also suggested the killjoy lefties hated him for the simple pleasures he enjoyed as a free American man. “If every American who drinks beer or every American who drank beer in high school is suddenly presumed guilty of sexual assault, [it] will be an ugly new place in this country,” he fumed. Mr Kavanaugh has been heavily criticised for the partisan bias he showed. But that was the least of his politicking. He met almost every concrete allegation with a culturally rooted defence

both impassioned and evasive. If he was guilty, so was every man who liked the odd beer! Thereby he managed to avoid answering question after question, about his teenage chauvinism, boozing and puking, even as he rallied fellow partisans to his side.

They did not hear Mr Kavanaugh’s complaints as self-righteous whining. (Even after it emerged that he was a legacy student at Yale, where his grandfather studied.) Rather, Republican senators, having previously looked stricken by the force of Ms Blasey Ford’s testimony, seized on the judge’s cultural grievances with relish. “I know I’m a single white male from South Carolina and I’m told I should shut up, but I will not shut up,” said Lindsey Graham, whose victim complex was perhaps surprising after 23 years in Congress. Mr Trump’s subsequent attacks on Ms Blasey Ford’s account, though cruder, continued this tactical ploy. “Where’s the house? I don’t know. Upstairs, downstairs—where was it? I don’t know,” the president jeered at a rally in Mississippi, mocking her testimony to hoots of laughter. (Four days earlier he had described Ms Blasey Ford as a “very credible witness.”)

Riling half of America is risky. But you can see why Mr Trump is having a go at it. The growing insecurity many men feel about their diminished gender role is equivalent to the anxiety many whites feel about their dwindling racial privileges. In fact they are often the same Americans: millions of white men, mostly but not all working class, who prefer the comforting past to the present and are the engine of Mr Trump’s base. Lambasting Hillary Clinton, for her womanhood as well as her alleged corruption, was a big part of Mr Trump’s opening pitch to them. And though she is not around now, the riposte to #MeToo should keep some of that spirit alive. Conservative controversialists such as Jordan Peterson and Ben Shapiro have been predicting a backlash from “emasculated” males almost since the movement began. At Mr Trump’s rallies it takes a familiar form. After he finished attacking Ms Blasey Ford, the crowd started chanting: “Lock Her Up!”

With the mid-terms coming, Mr Trump must think he can rally more people with this bile than he will repel. That could only be possible if he has already discounted the large numbers of women he and his party have already driven away since the last election. Recent polls suggest the Democrats could be on course to capture over 60% of college-educated women, a group that used to be evenly split between the Republicans and Democrats. Having an alleged sex pest in the White House, who endorsed an alleged ephebophile in Alabama’s Senate race, who now mocks a woman who claims to have been sexually assaulted as a teenager by his own Supreme Court nominee will do that. Yet working-class women, who seem less politically motivated by #MeToo, have left the Republicans in smaller numbers. If Mr Trump’s latest burst of misogyny delights more working-class men than it repels their wives, it could pay off.

## Lux et veritas

The electoral impact is uncertain. But the continued degradation of conservatism under Mr Trump is not. The president’s political strategy has long rested on a combination of divisiveness and shoving conservative judges onto the Supreme Court bench to fight the culture wars. The Kavanaugh debacle has connected these two prongs for the first time. In effect, Mr Trump has found inspiration for his latest effort to divide America in a partisan judge, whom he is at the same time trying to ram onto the court, in a bid to prevent his party from relinquishing its hold on power. Not even he could have made that up. ■



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## North American trade

## NEWFTA

OTTAWA AND WASHINGTON, DC

**A new agreement does not eliminate all the uncertainties that Donald Trump has brought to the region's trade relations**

**N**ORTH AMERICA is “a much more stable place than it was yesterday”, declared Justin Trudeau, Canada’s prime minister, on October 1st. That is because on the day before, after months of negotiations, Canada joined an agreement between Mexico and the United States that largely preserves a 24-year-old free-trade accord among the three countries. President Donald Trump, who took office threatening to tear up the North American Free Trade Agreement (NAFTA), has settled for a modest revision of it. Of course, he gave it a new America-first name: the United States-Mexico-Canada Agreement (USMCA). He may think the name’s ugliness is a virtue. It is “too long and unpronounceable to fit in a 30-second attack ad”, noted one analyst.

Failure to join the deal struck on August 27th by Mr Trump and Mexico’s president, Enrique Peña Nieto, would have been a disaster for Canada. Two-thirds of its trade in goods, the equivalent of a third of GDP, is with its southern neighbour. Especially vulnerable to a rupture would have been 130,000 workers in Canada’s vehicles industry, almost all of them employed in Ontario. Without a regional deal, the auto-parts sector, which depends on cross-border supply chains, might have collapsed, says Kristin Dziczek of the Centre for Automotive Research in Michigan. That risk has now diminished. The Canadian dollar reached a four-month high of 78 cents on

news of the deal (see chart).

But Mr Trudeau was expressing relief rather than enthusiasm. The agreement came after a breakdown in his relations with Mr Trump. It does not end the tariffs that the United States has slapped on steel and aluminium exports from Canada, Mexico and other countries. Nor does it end the threat that the United States will impose more tariffs on national-security grounds. Unlike NAFTA, the USMCA will be subject to review by its three signatories every six years, and can expire a decade after each review if any party wants it to. That puts the USMCA’s long-term survival at the mercy of politics. If free-trade agreements are a form of commercial disarmament, the USMCA introduces something

like concealed carry.

Such uncertainties will reinforce the determination of Canada and Mexico to diversify their trade relationships. But the USMCA makes that more difficult. It warns that if signatories make free-trade deals with “non-market” economies the agreement could be terminated. That is designed to discourage them from making agreements above all with China.

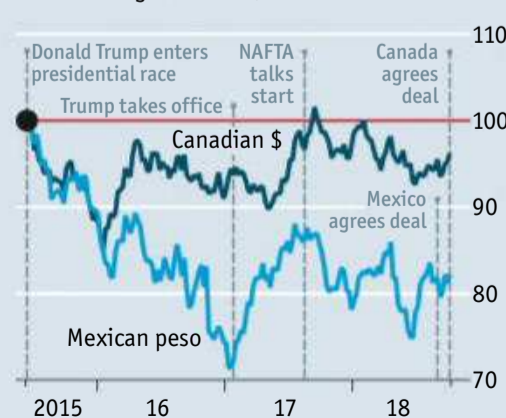
The biggest changes in the new accord are to rules governing trade in vehicles, which were agreed on in advance by Mexico and the United States. These are double-edged. When the USMCA’s new rules are fully phased in, as soon as 2023, cars will have to have 75% of their value created within North America to cross its borders duty-free. In addition, up to 40% will have to come from workers earning at least \$16 an hour on average, which will mainly affect low-wage Mexico. Mr Trump hopes that these measures will nudge carmakers in North America to buy more parts from within the region, and to assemble more of them in the United States. But some of the “cash and jobs” that Mr Trump predicts will come from the new deal could also go to Canadian carmakers.

That will happen only if investors feel secure. But there is plenty to unnerve them. A side letter to the agreement shields Canada and Mexico at current levels of production from restrictions on cars that the United States might impose on national-security grounds. Another gives the Mexicans and Canadians each 60 days to negotiate an exemption from any other tariffs threatened on the same grounds. But these assurances depend on Mr Trump’s word. Few company bosses have much trust in that. Greater protection and burdensome rules for carmakers mean that American consumers will pay more.

In the nail-biting negotiations Canada ▶▶

## Trade and trouble

Currencies against the \$, June 16th 2015=100



Source: Thomson Reuters



► succeeded in reducing one sort of uncertainty. The new accord keeps NAFTA's "Chapter 19" mechanism, which allows companies hurt by tariffs from a signatory government to appeal to a five-member panel. Robert Lighthizer, the US Trade Representative, dislikes this mechanism, which he sees as undermining American sovereignty. Canada was determined to keep it as a shield against arbitrary American action. That was Canada's main success in the negotiation. But the dispute-settlement regime does not apply to tariffs levied on grounds of national security.

In most other respects, USMCA is a con-

ventional modern trade agreement. Mr Trump prised open Canada's protected dairy market a bit. American farmers will gain access to 3.6% of it, a thin slice more than the 3.25% they would have received under the Trans-Pacific Partnership (TPP), a trade deal that Mr Trump rejected. This ought to please Canadian cheese eaters, but it will hurt people working on 11,000 Canadian farms.

Like the TPP, to which all three countries would have belonged had Mr Trump not pulled out of it, the new deal seeks to bring rules up to date. It sets out new ones for trade in digital products like music and

e-books; protects the intellectual property of drugs firms, film studios and others; and includes commitments to liberalise financial services. The USMCA mandates more protection for workers, for example by making it easier for them to join trade unions in Mexico. Unlike NAFTA, it makes such rules enforceable. But Celeste Drake of the AFL-CIO, the federation of American unions that has long opposed America's trade deals, says that the current text has no mechanism for keeping that promise.

The trade gains from such rule changes are hard to forecast. The United States' economy is too big to feel much effect. For ►►

## Bello | Venezuela's new export

Two million refugees are spilling across a region ill-equipped to cope

WITH its forbidding bulk and high walls, the former hostel for immigrants stands out amid the abandoned factories and jumble of railway lines of Brás, in the heart of São Paulo. Now a museum, between 1887 and 1978 it received 2.5m foreigners of 70 nationalities. After delousing and registration, most were swiftly hired to work on coffee plantations or other farms.

Like the United States, Latin America was once a region of immigration, forced and free. African slaves were sent in large numbers to Brazil and the Caribbean rim. Italians, Spaniards, Germans, east Europeans, Jews and Syrio-Lebanese all came, as did Japanese and Chinese. Many of Latin America's biggest companies were founded by immigrants.

Transcontinental immigration tailed off by the mid-20th century, to be replaced in a few cases by movements within the region. Hundreds of thousands moved in the 1950s and 1960s to then-booming Venezuela from the other Andean countries. Bolivians, Paraguayans and Peruvians migrated to Argentina, southern Brazil or Chile. Some 400,000 Nicaraguans live in Costa Rica.

These migrations were gradual. Often, they met a demand for labour. But nothing in its past has prepared Latin America for the scale and suddenness of the exodus from Venezuela, in which some 2.3m people have moved to other countries in the region since 2014. Around half have gone to Colombia. Peru, Ecuador, Chile, Brazil and Argentina, in that order, have received most of the rest. Around 5,000 people continue to abandon Venezuela every day. Some fear political persecution by Nicolás Maduro's dictatorship; many have simply had enough of hyperinflation, crime and collapsed public services. On a smaller scale, perhaps 25,000 Nica-



raguans have sought asylum in Costa Rica (population: 4.9m) since its dictator, Daniel Ortega, began persecuting the opposition in April.

The vast majority of the newcomers have been well received. Unlike most refugees in Europe, no big differences of language, race, religion or culture separate them from host populations—though Portuguese-speaking Brazil is a bit less familiar. But it would be a mistake to conclude that their absorption will be easy.

Some have been the target of isolated episodes of xenophobia. In August locals at Brazil's remote border with Venezuela attacked a migrant camp, expelling some 1,200 people. In the same month a hundred or so Costa Ricans staged an anti-refugee demonstration at Parque de La Merced in San José, their capital, where Nicaraguans congregate at weekends. Ricardo Belmont, a candidate for mayor of Lima in an election on October 7th, has repeatedly said he will "defend Peruvians" and their jobs from Venezuelans.

Fortunately, this is not the norm. In Costa Rica seven former presidents jointly called for Nicaraguans to be welcomed

"with open arms". Having once led in the opinion polls, Mr Belmont now looks like an also-ran in the election.

But there are two reasons to fear trouble. As Luis Alberto Moreno of the Inter-American Development Bank has pointed out, while the six European countries that have absorbed the most immigrants since 2014 have an average income per person of \$46,500 in purchasing-power terms, the figure for their Latin American counterparts is less than \$17,000. Solidarity among the poor can go only so far. Unlike Venezuelan emigrants earlier in this century, who were business people or professionals, many of the new arrivals will compete for unskilled jobs, perhaps depressing wages.

It would be a mistake, too, to assume a common identity. Many writers from the region have said that they only began to think of themselves as Latin American when they were in Europe or in the United States. Nationalism is a powerful force in Latin America. A brief war in 1969 between El Salvador and Honduras was triggered mainly by the harassment and expulsion of Salvadorean migrants.

All this underlines the urgency of a coordinated regional approach to the Venezuelan exodus, and international aid to help cope with it. Mr Moreno notes that it will cost Colombia around \$1.6bn a year (or 0.5% of its GDP) to provide services for the new arrivals. The UN last month appointed a special representative for the Venezuelan migratory crisis. The United States has offered around \$100m in emergency aid; a bipartisan bill in the Senate might add to that. The European Union has promised €35m (\$40m). Much more will be needed. Alongside generosity should go efforts to recoup some of the money spent by seizing assets stolen by those in power in Venezuela.

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OPERATING WORLDWIDE

▶ Canada and Mexico, the main consequence is that the threat from Mr Trump to their most important trade relationship has subsided. BMO Capital Markets, a broker, thinks that Canada's economy will grow 2% next year. It now says it is more likely to revise the forecast up than down. Mexico's economy is expected to grow at a slightly faster rate.

Despite angry cheesemakers, Mr Trudeau should have no trouble getting parliament to approve the USMCA. Andrés Manuel López Obrador, who will become Mexico's president on December 1st, wants his country to ratify it as soon as possible so that he can focus on his domestic agenda. The USMCA faces more obstacles in the United States. Republicans in Congress may try to vote on the deal in the lame-duck session after congressional elections in November. It would have a rougher passage in the next Congress, especially if the Democrats, who get support from trade unions and are not fond of the president, win either house. As Mr Trump remarked on the day he rebranded NAFTA, "anything you submit to Congress is trouble." ■

### International law

## Landlocked and out of luck

COBIJA AND SANTIAGO

**A court sets back Bolivia's quest to reclaim part of Chile's coast**

**P**OLICE, soldiers, dignitaries and citizens gathered hopefully in the palm-shaded central plaza of Cobija, a town in northern Bolivia, on the morning of October 1st. A large television screen mounted on a scaffold, as if to broadcast a football game, showed a session of the International Court of Justice (ICJ) in The Hague. When the court's Somali president, Abdulqawi Ahmed Yusuf, had finished reading its judgment, the crowd dispersed dejectedly. A brass band playing Bolivia's national anthem could not cheer them up. After five-and-a-half years of hearings and deliberation, the court ruled that Chile had no "obligation to negotiate sovereign access to the sea" for Bolivia.

This was a blow to every Bolivian, including the president, Evo Morales, who was in the courtroom as Justice Yusuf read out the humiliating judgment. Over a century ago Bolivia lost 400km (250 miles) of coastline to Chile (in the "War of the Pacific" of 1879-84). It has been trying to get it back almost ever since. Bolivia celebrates March 23rd as "the Day of the Sea". Its constitution, adopted in 2009, calls access to the Pacific an "irrevocable" right. Cobija, a dishevelled district capital 1,000km from the ocean, is the name of a Chilean fishing



village that was Bolivia's main seaport. The judgment is "a real shame", said Gladys Quispe, a clothes vendor in Cobija. "I was sure we were going to win."

Chile gives Bolivia's goods tariff-free access and lets Bolivia post its own customs officials in the ports of Arica and Antofagasta. But only territory will satisfy Bolivia. In turning to the court it did not seek to overturn the peace treaty of 1904, in which it accepted the loss of its coastline. Instead, it argued that Chile had incurred an obligation to negotiate access to the sea through a series of statements and diplomatic acts since the 1920s. By a vote of 12 to three the court said Bolivia had no case. One by one the judges knocked down Bolivia's eight arguments. Mr Morales looked crestfallen.

The left-wing president had promised success. In August he said that Bolivia was "very close" to getting back its coastline. On the eve of the ruling he predicted "good news". That would have lifted his low level of support. Just 29% of Bolivians would

vote for him. His failure in The Hague is a blow to his plan to run for a fourth consecutive presidential term in October 2019. Although Bolivians voted in a referendum in February 2016 to deny him the right to run, the constitutional court overruled the result. His odds of winning have surely diminished. "There's a lot of disappointment," says José de Francesco, an entrepreneur in Cobija.

The mood in Chile is relief. Officials had feared that the court would deliver a "Solomonic ruling", balancing the requirements of international law with sympathy for Bolivia. They were braced for a decision to require Chile to negotiate in good faith (though not to hand over coastline to Bolivia). Seeking to underline its view that the case should turn purely on the law, Chile did not even send its foreign minister, Roberto Ampuero, to The Hague. In the end, the court demanded nothing of Chile, saying merely that a settlement is a "matter of mutual interest".

That looks as far away as ever. Bolivia has not given up. "This is not a closed subject," said Eduardo Rodríguez Veltzé, Bolivia's agent in The Hague, after the judgment. Chile's president, Sebastián Piñera, is willing to talk, but if Bolivia keeps claiming Chilean territory "there is nothing to talk about," he says. Relations may get worse. The two countries are arguing in the Dutch city in another case, over the Silala river. Chile wants the ICJ to declare the river, whose source is in the department of Potosí, 4km from Chile's border, to be an international waterway. Bolivia insists that the water flows into Chile only because Chilean railways and miners channelled it early in the 20th century. Bolivia, which broke off diplomatic relations in 1978, is unlikely to restore them, at least while Mr Morales is president. Lawyers, not diplomats, will continue to set the tone for Bolivia's relations with Chile. ■

### Fujimori unpardoned

**Supporters of Alberto Fujimori, a strongman who ruled Peru from 1990 to 2000, gathered outside a clinic to which he was admitted after the supreme court overturned a pardon granted to him last December. Mr Fujimori, who is 80, had been sentenced to 25 years in jail for his role in the murder of two dozen people by a government-backed death squad. Pedro Pablo Kuczynski, Peru's president until March this year, pardoned Mr Fujimori, supposedly on health grounds. Many Peruvians thought he was trying to head off a threat of impeachment from Popular Force, the largest party in congress, which is led by Mr Fujimori's daughter, Keiko. Mr Kuczynski later resigned. Many Peruvians remember Mr Fujimori as a leader who defeated Shining Path, a guerrilla group, and tamed hyperinflation.**





## Twin natural disasters in Indonesia

# Wasteland

PALU

**The danger has not yet passed for victims of the earthquake and tsunami**

THE houses, shops and restaurants that used to line the waterfront in the city of Palu are now just piles of debris. Cars and vans have been smashed against the few structures that remain standing. Uprooted trees are scattered among the wreckage. The main bridge crossing the river that bisects the city lies twisted, crushed and broken in two. The stench of decaying corpses is unmistakable.

Most of this is the work of the tsunami that struck the city on September 28th. It was triggered by an earthquake of magnitude 7.5, which caused equally horrifying damage. In Palu, 80km from the epicentre, it razed buildings and cracked roads. One eight-storey hotel, in which 60 guests were staying, was flattened. The quake also caused soil liquefaction, in which seismic pressure transforms solid ground to quicksand. Whole neighbourhoods in Palu sank into the earth.

And the damage extends far beyond Palu. Donggala, a town to the north (see map), was closer to the epicentre of the quake and was struck by the tsunami too. Hundreds of homes were destroyed there. Rescue teams have yet to reach more remote areas, where roads were in poor condition even before the quake. The twin disasters have so far claimed over 1,400 lives. That figure is likely to rise, as more bodies are pulled from the wreckage and contact

is made with isolated communities. Authorities have dug a mass grave on the outskirts of Palu.

Experts are still struggling to explain the power of the tsunami, which reached heights of six metres in places and speeds of around 800kph. One theory is that it was caused by an underwater landslide, which might have generated more force than the seismic shifts that preceded it. Another is that the triangular shape of the bay where Palu is located served to funnel the water towards the city.

Natural disasters are tragically common in Indonesia. Of the 200 earthquakes of magnitude 6 or more that have taken place around the world since the begin-



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ning of last year, 19 were in Indonesia. In 2004 a tsunami flattened large parts of north Sumatra, killing 220,000. In August an earthquake in Lombok killed 500. Just days after the tsunami a volcano erupted about 600km to the north-east of Palu.

Yet the death toll this time is particularly high. That is partly because Central Sulawesi, the province which was struck, is relatively poor. And in contrast to most of the country, the number of poor people has not fallen in the past few years. Wages lag behind the national average. Infrastructure is rropy.

The disaster has pushed services in Palu to breaking point. Most of the city has no electricity or water. Hospitals are overrun. In one, the ceiling of the emergency room caved in during the quake. That means patients must be treated outside in the sizzling heat. A nurse says that they have no more surgical scrubs and are running low on other supplies.

Essentials of all kinds are in short supply. Bottles of water are selling on the side of the street for three times their normal price. Queues for gasoline stretch for hundreds of metres. The hungry and desperate have raided shops and homes for food.

The city feels on edge. The quake razed the walls of local prisons, letting more than 1,200 convicts loose. Regular aftershocks have sent residents running repeatedly into the streets. One tries to conceal a machete under his coat; another carries what appears to be an assault rifle.

The damage done to runways, roads and bridges has hampered relief efforts, but food, medicine and fuel are beginning to trickle in. On September 30th Palu's airport opened for humanitarian flights. Supplies are also being sent by lorry from Makassar, a city 20 hours' drive to the south. ▶▶

▶ Road access is improving slowly, as diggers clear stretches engulfed by landslides. But the throngs of victims trying to leave the area are exacerbating bottlenecks.

The authorities' response has been reasonable, argues Fajar Sugandhi of Save the Children, a charity. After the tsunami of 2004, the government established regulations about how to handle future disasters and set up BNPB, an emergency-relief agency. Disaster-prone cities, including Palu, were obliged to draw up contingency plans. This week the army promptly deployed soldiers to maintain order. Officials have been conducting a detailed survey to

establish the scale of the damage. The ministry of tourism even set up a post to help foreigners caught up in the tragedy.

It is clear that the tsunami-warning system was inadequate. Although BNPB issued an alert immediately after the earthquake, toppled towers had already crippled the mobile network, making it impossible to relay premonitory text messages. A nationwide system of buoys intended to detect tsunamis was not working, as BNPB did not have the budget to maintain it. But the tsunami struck just 11 minutes after the quake, so there would have been little time to evacuate anyway.

The government's immediate task, however, is to limit further casualties. Disease is a serious risk. Lombok has suffered a surge in malaria since the earthquake there, as traumatised victims have taken to sleeping outside, where they are more likely to be bitten by infected mosquitoes. Hygiene is crucial, says Necephor Mghendi of the International Red Cross, another charity. Tsunamis can contaminate the water supply, washing sewage into pipes. A lack of proper sanitation can cause outbreaks of diarrhoea and cholera to spread fast. And aftershocks continue. The threat to the people of Sulawesi is far from over. ■

## Banyan | The Kim two-step

North Korea's diplomatic dance may turn out as usual, but it is tantalising to think of other possibilities

LAST month Moon Jae-in, erstwhile puppet of American imperialists, stood in the May Day stadium in Pyongyang, North Korea's capital, and promised a new era of shared prosperity as 150,000 North Koreans cheered. The next day he and Kim Jong Un, North Korea's dictator, climbed (well, were driven) to the top of Mount Paektu, the Korean peninsula's sacred peak, where they put together the tips of their thumbs and index fingers to form a heart-shape in a gesture more commonly used by K-pop stars to show appreciation for their fans.

This week South and North Korean soldiers began clearing mines along their heavily fortified border. As *The Economist* went to press, America's secretary of state, Mike Pompeo, was about to fly to Pyongyang to arrange a second summit meeting between President Donald Trump and Mr Kim, to follow the television spectacular starring the two leaders in Singapore in June. Meanwhile, Mr Kim's fourth get-together with Mr Moon is planned for later this year in Seoul, the South Korean capital.

It is all so unprecedented that it is surreal. A year ago Mr Kim was firing missiles and conducting an underground nuclear test, his country's sixth. Mr Trump promised "fire and fury" against "Little Rocket Man". Now he jokes that he "fell in love" with Mr Kim in Singapore and says that one year on is "a much different time".

This week in Seoul Banyan pinched himself when he saw a huge photograph of the gathering on Mount Paektu hanging across the façade of City Hall, a beaming Mr Moon holding Mr Kim's hand high. Remember, Mr Kim executed his uncle, assassinated his half-brother and keeps hundreds of thousands of his citizens in gulags. Praising the North Korean state or even reading its propaganda remains a



crime in the South.

Yet the odds of a dramatic "peace declaration" are rising. Mr Trump seems to see such a step as a means to a Nobel peace prize. Mr Moon has spent much of his political career pursuing a peace deal with the North. And Mr Kim could present one to his citizens as an American climbdown.

This is alarming to hawks on North Korea. No security guarantees will be enough for Mr Kim to give up his nukes, they say. Instead, the North will try to shake down the outside world for concessions, as it has done countless times. Mr Kim, they point out, is already dragging his feet over the commitment he made in Singapore to disarm, having failed to provide any inventory of his nuclear capabilities. That fits the pattern of alternating bonhomie and recalcitrance established by his father.

Yet Mr Kim's summit diplomacy this year (including three meetings with President Xi Jinping of China) has reshaped the political dynamics of north-east Asia. No one, certainly not the sceptics, predicted the sudden change of tone. So it is worth considering whether they might be wrong about Mr Kim's ultimate intentions, too.

Could the dictator really be thinking of giving up nukes in favour of economic development? They cost a fortune. He might be able to trade them for an American commitment to withdraw its forces from the South. After all, Mr Trump hates keeping troops there. Meanwhile, Mr Moon's dream of a Korean confederation, with no bad word said about the gulags, would suit Mr Kim very well.

It is only a step from there to a neutral Korean peninsula, an old idea strategists are reviving. China fears North Korea falling into the American orbit; America would hate South Korea to fall into the Chinese one. Meanwhile, paranoid Koreans will always be suspicious of Japan's designs on the peninsula. Suddenly the Koreans as the Switzerland of the East becomes a tempting notion. It may also be a forlorn one: how could neutrality be guaranteed in an era of growing rivalry between America and China?

There is another scenario. For all that Mr Kim's diplomatic dance increases his security in the short run, it could well undermine it in the end. Flirting with many partners at once can only get harder. The endless foreign summits, meanwhile, will give ordinary North Koreans a better sense of the vastly greater well-being of people in the South, and of their own country's brutal contradictions. Mr Kim may be looking strong and shrewd now, but great peril may lie in store.

Which of these scenarios seems the likeliest? In raising nuclear tensions last year and in embracing his summitry in 2018, Mr Kim has proved himself a gambler. But is he overplaying his hand? Outsiders have consistently underestimated the Kims, risk-takers all. But bear in mind that no one has ever lost money betting that they will sell the same big bag of nothing again and again.

## Sexism in India

## Nuns, pilgrims and starlets

DELHI

Several institutions are treating women a bit less badly

TANUSHREE DUTTA is not the first starlet to have stormed off a set in the middle of a shoot. She was, however, the first to lodge a formal complaint with the Cine and TV Artists' Association (CINTAA), a Bollywood trade body, charging her male lead with "unbecoming" behaviour. The union ignored the complaint. The film's producer sought compensation. Newspapers mocked and vilified her, even as they lauded her alleged tormentor for his devotion to charity. Thugs attacked and smashed her car. She moved to America.

That was in 2008. On October 2nd CINTAA issued an abject apology to Ms Dutta. Its failure to pursue her grievance had been "inappropriate" and "highly regrettable", the union said. One by one, fellow actors have stepped forward to express regret, sympathy and solidarity for her ordeal. Ms Dutta is rumoured to be weighing a Bollywood comeback.

No one expects India's entertainment industry, where hunky male stars with steroid salaries still reign supreme, to eliminate sexual harassment in the near future. Yet neither can the belated recognition of Ms Dutta's woes be dismissed as an aberration. Even as women in India continue to suffer myriad forms of discrimination from cradle to grave, recent weeks have witnessed a series of changes that, taken together, suggest a weakening of the prevailing wind.

Only a month ago, for example, it seemed unlikely that the word of five

Catholic nuns might prevail over that of a bishop. Defying their church, they had mounted a hunger strike near the high court in Kochi, a city in the southern state of Kerala. They were demanding the arrest of Franco Mulakkal, the bishop of Jalandhar, who had been accused by a sister nun of sexually molesting her on at least 13 occasions. The church had fought back, threatening to mount a case against the aggrieved nun for attempted murder, revealing her identity to the press and describing her charges as baseless. Wary of upsetting Kerala's large Christian "vote bank", state authorities wavered. But as public sympathies, along with some junior clergymen, shifted behind the nuns, first the church and then Kerala police took action. Barely two weeks into the nuns' hunger strike Bishop Franco was relieved of his post. He is now in custody, awaiting trial.

The courts have been more even-handed of late, too. The Supreme Court has struck down a law that criminalised adultery by men, but not by women. It has also ordered the Sabarimala temple, a Hindu shrine in Kerala that draws 50m pilgrims a year, to allow women between the ages of ten and 50 to enter the temple precinct (they might affront the god worshipped there by menstruating, zealots say).

Universities, too, are becoming marginally less sexist. At several, Pinjra Tod, a pressure group whose name means Break the Cage, has succeeded in easing curfews enforced at dormitories for "ladies" but not at

the men's ones. A month-long strike over such restrictions at Hidayatullah National Law University in the state of Chhattisgarh prompted its head to resign on October 1st, amid promises of greater freedom. Students at Panjab University in north-west India elected the first female leader of their student union last month. She presented the administration with a list of demands that includes scrapping curfews outright. "Universities are a place to change the mindset of the younger generations and I believe that mindsets can't be changed unless we have a material reality to invoke the change," her manifesto chides.

The mindsets that need changing include many women's. Maneka Gandhi, the minister for women, has decried curfew protests, saying that young women are "hormonally challenged" and so must be protected from themselves. The Supreme Court's ruling on the Sabarimala temple has prompted huge demonstrations; the biggest so far was led by women. The sole judge to dissent was also a woman. ■

## The South China Sea

## Hot water

## Tempers are flaring as the South China Sea grows crowded

IT IS getting hard to sail across the South China Sea without bumping into a warship. On September 30th an American destroyer passed within 50 metres of a Chinese naval vessel which was conducting "unsafe and unprofessional" manoeuvres, according to the Americans. Earlier in the month Japan sent a submarine to conduct drills in the sea for the first time. In August a British warship was confronted there by Chinese ships and jets. And this month ships from Australia, Singapore, Malaysia, New Zealand and Britain will take part in more than two weeks of joint naval drills in the same crowded waters.

The maritime hubbub is an attempt to push back against China's claim to the entire South China Sea, which other littoral states dispute and which a UN tribunal has rubbished. China wants military vessels and aircraft to notify it before passing through the sea, something America and others would view as an infringement of international norms even if China's claims had been upheld. To make matters even more fraught, China has reclaimed land around a series of reefs and rocks in the sea to build bases teeming with guns, missiles and radar. Should these constructions be deemed rocks or islands under international law, and rightful Chinese territory, then certain restrictions would apply to ▶▶



Their prayers have been answered

▶ military vessels passing within 12 nautical miles. But America and the UN tribunal, among others, consider several of them “low-tide elevations”—shoals, in effect—that do not enjoy the same rights. America and its allies keep sending warships to sail around the sea in ways that demonstrate that they do not accept China’s position.

Since 2015 America has conducted 12 of these “freedom of navigation operations” (FONOPs, in Pentagon jargon). These flout China’s claims in several different ways. By sailing within 12 nautical miles of genuine islands, for example, America’s navy demonstrates that it does not need and will not seek permission to exercise its right of “innocent passage”. By conducting military manoeuvres within 12 nautical miles of other fortified specks it shows that it con-

siders them mere elevations around which no restrictions are warranted. And by entering the sea at all, it rejects China’s stance that it has any say in military activity in open waters within the area it claims.

FONOPs have grown “more regular and strident” under the Trump administration, says Alessio Patalano of King’s College London. America’s European and regional allies are not quite as confrontational. They tend to keep a greater distance from China’s bristling baselets. But simply by showing up, they help to demonstrate a united front. Australian, Japanese, British and French vessels have all sailed across the sea together, in various pairings. The hitch is that there are a lot more warships ploughing around, and so a lot more scope for dangerously heated encounters. ■

cians flock to a new president’s party because that increases their chances of getting funding for projects in their districts included in the budget. Passage of next year’s budget was delayed recently after 55bn pesos (\$1bn) of pork was found hidden within it.

Ideology and tribal loyalty—so vital in America, Britain and elsewhere—do not play much part in politics. Thus Mr Duterte, who heaps praise on Marcos, is leading a party that was founded to oppose him. In elections next year HNP plans to support the Senate campaign of Marcos’s daughter, Imee (pictured on the right, with Ms Duterte-Carpio).

Parties are weak partly for historical reasons. Soon after Marcos’s fall in 1986, Congress devolved greater powers to provincial and local authorities, as a reaction to the former dictator’s strongly centralised regime. That strengthened local power brokers and weakened national institutions of all sorts, including political parties.

The government provides no financial support for parties, and it is hard to build a mass membership when you do not stand for much, so candidates must either fund their own campaigns or seek backing from tycoons. Celebrities and members of political dynasties have a head start, both because they tend to be rich and well-connected and because they are already household names—something it is otherwise costly to become in a country of 104m. To survive beyond the term of a supportive president, parties must secure a wealthy backer. Manuel Villar, a billionaire businessman, is the president of the Nacionalista Party while Eduardo Cojuangco Jr, the chairman of the giant San Miguel beer-to-banking corporation, sits at the helm of the Nationalist People’s Coalition.

But even if money allows some parties to survive (the Nacionalistas have been around since 1907), the main organising principle of Philippine politics is family. “I think a large part of the reason why I won is because of my family name,” concedes Senator Bam Aquino, a member of the Liberal party whose aunt and cousin have both been president. A study published in 2014 found that fully 70% of representatives were dynasts.

Another study, published in 2016, found that beyond the island of Luzon, home to the capital, Manila, a greater prevalence of political dynasties is associated with greater poverty. Despite his background, Mr Aquino champions legislation to break the hold of families on elections. Recent reform at the lowest level of government, *barangays*, which are akin to wards, has barred the children of *barangay* captains from senior posts in local youth councils. Mr Aquino would like to apply similar restrictions higher up the political hierarchy. The constitution, after all, explicitly endorses laws to limit dynasticism. ▶



## Democracy in the Philippines

# Post-partisan

MANILA

## Why personalities trump parties in Philippine politics

**T**O WHICH political party does the president belong? In most countries, the question would have a straightforward answer, but not in the Philippines. Rodrigo Duterte won the job in 2016 as the candidate of PDP-Laban, which was founded by democrats campaigning against the despotic rule of Ferdinand Marcos in the 1970s and 1980s. He had previously headed two regional outfits based in the city of Davao, where he used to be mayor. But his daughter, Sara Duterte-Carpio, the current mayor of Davao, recently founded a party called Hugpong ng Pagbabago (“Faction for Change” or HNP), which Mr Duterte’s supporters are joining in droves, even though the president himself remains head of

PDP-Laban.

Mr Duterte is not the only politician to flit from party to party. Filipinos love a winner: most of PDP-Laban’s 114 members of the House of Representatives belonged to other parties when they were elected, but defected after Mr Duterte became president. Nor is he the only one to have created a party (or three). Three former presidents, Fidel Ramos, Joseph Estrada and Gloria Arroyo, all had personal vehicles.

There are no restrictions on switching parties. “People don’t vote for me because of my party, they vote for me because of my character and my ability to deliver,” says Miro Quimbo, a congressman who has served only the Liberal party. Politi-

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▶ Another proposal that would bolster parties is to bar politicians from switching between them within a year of an election. More radically, Mr Duterte, like many presidents before him, has talked about amending the constitution to adopt a parliamentary system of government, in which party discipline is needed to form a government. But incumbents are unlikely to change a system which works in their favour.

“I don’t foresee any major change in the

political party system in the next elections,” says Mrs Arroyo, the former president, who is now speaker of the House. Nonetheless, she argues, “There can only be advantages in strengthening party politics in the Philippines.” She should know: in addition to founding her own outfit, she has also been a member of three other parties. The latest, naturally, is PDP-Laban, which she joined last year, when the president was still firmly in it. ■

Rights Watch, a pressure group, “It isn’t for the police or the government to decide innocence or guilt.”

The Awami League used to take turns in power with the Bangladesh Nationalist Party (BNP), the main opposition. The constitution said that a non-partisan caretaker government should supervise elections to guarantee fairness. But after one such caretaker government exceeded its mandate and extended its term, Sheikh Hasina amended the constitution to abolish them altogether, despite the BNP’s objections.

The BNP boycotted the subsequent election, in 2014, leaving it with no seats in parliament. Earlier this year its leader, Khaleda Zia, was jailed for five years for corruption. (Back when they used to alternate as prime minister, she and Sheikh Hasina were known as the two begums.) Her son, who has also been convicted of corruption, is trying to lead the party from exile in Britain. Several leaders of an Islamist party allied to the BNP, the Jamaat-e-Islami, have been executed for crimes committed during the war of independence, when it opposed separation from Pakistan. Others have been jailed. Neither party seems capable of mounting a serious challenge to the Awami League, even if they agree to participate in the election this time.

Most observers assume that Sheikh Hasina intends to win another term by hook or by crook, confirming Bangladesh as a one-party state in all but name. But that does not mean that discontent with the government will disappear; it may simply assume other forms. The neutering of Jamaat-e-Islami has led to the creation of a welter of new Islamist organisations, some of them radical. After a spate of grisly terrorist attacks on foreigners, gay people and outspoken secularists in recent years, the government has cracked down on violent Islamist groups. The bloodshed has since abated, but the extremist tendency that inspired it has not, according to a former member of the intelligence services: “If anything, it is growing.” ■

## Politics in Bangladesh

# Bullying begum

DHAKA

## A slide towards authoritarianism accelerates

IT IS hard to see how the prime minister of Bangladesh, Sheikh Hasina Wajed, could lose the next election, which is due to be held by January 28th. The main opposition parties are in disarray—the product in part of a relentless barrage of lawsuits fired at them by Sheikh Hasina’s government. Yet in the run-up to the vote, the suppression of dissent is growing ever more ferocious.

The latest attack on critics is a bill regulating online publishing and social media, which parliament approved at the end of September. Its draconian provisions include prison terms of up to 14 years for those who spread “propaganda” about the war in 1971 in which Bangladesh won independence from Pakistan. (Sheikh Hasina’s father led the independence movement; she is so vitriolic about his opponents that she could be accused of propagandising herself.) Another vague clause bans the posting of “aggressive or frightening” content. Sheikh Hasina says the bill, which the president has not yet signed, is necessary to prevent the spread of radicalism and pornography, but journalists are terrified.

The bill is not the government’s only weapon. Newspaper editors who publish unfavourable articles have been charged repeatedly with sedition and defamation. One faced over 80 lawsuits at one point. Shahidul Alam, a photographer, was arrested in August for “spreading false information” after speaking out in support of students protesting against unsafe traffic in the capital, Dhaka. The government even orchestrated complaints to Facebook about posts criticising its handling of the protests. Facebook asked some users to delete the offending posts, something the firm says should not have happened.

The assault on digital detractors follows an offensive against independently minded judges. In 2014 parliament approved an amendment to the constitution to make it easier for the government to dismiss

judges. When the Supreme Court nullified the amendment last year, the government abruptly accused the Chief Justice, who was abroad, of corruption. He resigned without returning to the country. In September he published an autobiography accusing the prime minister’s party, the Awami League, of frequent attempts to intimidate judges.

The police also appear to be showing less respect for democratic niceties. A Philippine-style anti-drugs campaign earlier this year claimed almost 200 lives. All of the victims, according to the government, died while resisting arrest or when caught in crossfire. Yet a recording released by the family of one of them suggests he was shot while unarmed, with his hands tied, in the custody of the Rapid Action Battalion, an especially feared elite police squad. The opposition claims the government took advantage of the crackdown to bump off troublesome politicians, a charge the government vehemently denies. But even if the victims were all involved in the drugs trade, says Meenakshi Ganguly of Human



Are you resisting arrest?




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**Unrest****Masses of incidents**

BEIJING

**Despite tight controls, protests are common**

**T**HE last tweet sent by Lu Yuyu before his arrest two years ago was typically terse. “Monday June 13th 2016, 94 incidents” it read. Appended was a link to a page on his Blogspot website (newsworthknowingcn) listing details of those cases. They included a protest by more than 100 parents complaining about a local-government decision to make their children attend a distant school instead of a nearby one; another by dozens of farmers enraged by the seizure of their land by village officials; and a demonstration in Beijing by around 2,100 ex-servicemen demanding better benefits.

For his painstaking efforts to catalogue unrest in China—Mr Lu and his girlfriend had recorded more than 70,000 outbreaks in the three years before he was seized—the activist was found guilty last year by a court in Yunnan province of “picking quarrels and causing trouble”. He was given a four-year jail sentence.

There was a time when the Ministry of Public Security (MPS) itself released annual data relating to “mass incidents” around the country, even if it kept quiet about the details. In 2006 it said that 87,000 of them had occurred in the previous year, nearly 7% more than in 2004 and up 50% since 2003. But over the past 12 years the government has ceased providing such figures (a report in a state-controlled journal said the number had doubled between 2006 and the end of that decade, which many analysts took to mean that about 180,000 incidents occurred in 2010). China-watchers

who had used the numbers to assess the country’s stability have been left with little to go on but anecdotal evidence and statistics produced by researchers such as Mr Lu, which are mainly gathered by trawling through Chinese social media.

The MPS figures were highly suspect. The definition of a mass incident was fuzzy. The figure for 2006 was said to relate to “public-order disturbances”, an even woollier term which could apply to activities such as unauthorised religious gatherings or illegal gambling sessions as well as to demonstrations. The figures were probably far from complete. Local officials had little incentive to report every case to their superiors. The MPS had every reason not to paint a picture of turmoil publicly.

But the trends suggested by the MPS figures were still often cited by analysts as evidence of a country that was suffering mounting social stress. There was little sign that political protests involving explicit criticism of the Communist Party or its leaders were becoming more common. Yet the numbers were proof enough that citizens were increasingly prepared to take their grievances to the streets, despite the party’s abhorrence of public protest.

Since the most recent figures were published, it might be supposed that this trend continued for a while before coming to a halt and possibly going into reverse. Controls on the internet have tightened. Police have become more adept at anticipating unrest by monitoring online chatter. Activ-

ists using the internet to organise demonstrations (or, as in the case of Mr Lu, to publicise other people’s protests) have been given lengthy jail terms. Since he took over as China’s leader in 2012, Xi Jinping has been waging a relentless campaign against civil society. This has involved sweeping arrests of NGO workers, independent lawyers and rights activists.

Surprisingly, however, Chinese academics and foreign researchers have found little evidence that the trend has changed. In an article published in May, Yu Yanhong of the University of International Business and Economics (UIBE) in Beijing wrote that mass incidents had grown from being relatively small in number and scale into a “prolonged high-level state” (pictured is a protest in Beijing in 2016 by parents whose only children had died when the one-child policy was in effect).

**Trouble spreads**

China Labour Bulletin (CLB), an NGO in Hong Kong, monitors protests involving workers and uploads the data into a frequently updated “strike map” of the country on the group’s website. Geoff Crothall, the group’s spokesman, says collective action by workers has maintained a “continuous high level” in recent years. The unrest is no longer so concentrated in factories in the Yangzi and Pearl river deltas. Across the country, service industries such as taxi and food-delivery companies are increasingly affected. The group has obtained details of 1,257 protests in 2017 and of 1,318 so far this year. Mr Crothall reckons that incidents coming to the attention of his group are probably only about one-tenth of those that occur. State media keep quiet about most of them, such as strikes by thousands of lorry drivers in several provinces in June over pay and rising fuel costs.

Christian Göbel of the University of Vienna has analysed the cases that were ▶▶

logged by Mr Lu, the jailed activist. Mr Göbel writes that most of them involved demands relating to pay and compensation. They occurred mainly around the Chinese new year, when workers traditionally expect the settling of unpaid wages. But the protests involved a wide social spectrum. Demonstrations by homeowners against property-management and property-development companies “increased steeply” during the three years covered, he says.

Mr Göbel notes that protests against land-grabs by officials in the countryside did not feature prominently among those recorded by Mr Lu. But affected farmers often use the petition system, which allows citizens to seek redress for official misconduct by lodging a complaint at designated offices. Based on data from the eastern province of Zhejiang, Christopher Heurlin of Bowdoin College in Maine reckons that the numbers of petitions filed is linked with rising land values (see chart). The higher the price of land, he says, the more likely officials are to seize it and displaced residents to protest. Although petitioning is legal, police often round up those who submit complaints, fearing that they may try to gain attention by airing their grievances on the streets. In June hundreds of army veterans staged protests in the eastern city of Zhenjiang after an ex-soldier petitioning at a government office was beaten by security guards.

Social media play a powerful role in helping protesters to organise. For all the expertise gained by the police in monitoring online activity, and by censors in deleting sensitive content, internet users have become increasingly skilled at evading attempts to block sensitive messages. Those who blatantly call for protests are likely to be pounced on quickly. Earlier this year, a crane operator in Hunan province posted a message on WeChat about a planned strike on May 1st. Within a day he had been picked up by security agents, who ordered him not to take part.

But Mr Crothall of CLB says that workers are using social media to share their complaints and co-ordinate their demands, assign specific roles to different ac-

## Non-state companies

# So long, and thanks for all the growth

SHANGHAI

## Private firms fear they are being sidelined under Xi Jinping

**P**OLITICIANS in democracies are skilled at portraying themselves as all things to all people. China’s leader, Xi Jinping, is trying to achieve much the same in the realm of economics.

Amid anxious speculation in China that Mr Xi wants to tip the scales in favour of state-owned enterprises (SOEs) at the expense of the private sector, he has given full-throated support—to both. On a trip late last month to the north-east, he began with a defence of SOEs, saying that he wants them to become stronger, better and larger. “Any thoughts and statements that place doubt on the future of SOEs are wrong,” he told employees of a state firm.

Later that day, Mr Xi visited a privately owned factory. There he offered soothing words. Most of the government’s economic policies, he said, were aimed at supporting the private sector. Entrepreneurs should have confidence.

For much of the past three decades, private firms have flourished. Starting from almost nothing, they account today for about 80% of industrial output, 90% of exports and nearly all new jobs. SOEs still dominate sectors that are deemed strategic by the government, notably finance and energy. But they lag behind private firms in performance, with much lower returns on investment. Some Chinese economists have called SOEs deadweights that gobble up resources.

When Mr Xi became leader in 2012, some observers thought he might expose

SOEs to more competition. Those hopes have been dashed. Instead, private companies find themselves on the back foot. Efforts to curb excess capacity in steel and coal have driven up the prices of industrial goods, to the benefit of their producers, often SOEs, and to the detriment of buyers, mostly private. Controls on shadow banking have hurt private firms, which struggle to borrow from official banks.

Entrepreneurs have long complained about a phenomenon called *guojin mintui*—“the state advances while the private sector retreats”. Evidence for its existence has mostly been scarce. Many private firms still thrive. But troubling signs are emerging. So far this year, 22 listed non-state firms have sold large stakes to SOE investors. Private firms have come under more pressure to put Communist Party members in high positions.

A sense that SOEs are ascendant was captured in an online article that went viral last month. Wu Xiaoping, a former banker, wrote that the private sector had completed its “historic task” in helping state firms to develop, and that it was time for it to start fading away. Mr Wu’s opinion was widely ridiculed online. His post was deleted, perhaps because even censors thought it was over the top. One associate said Mr Wu had only intended it as satire. Whatever the case, his argument touched a nerve. Mr Xi may think that he is taking a middle road, but suspicions of his intentions abound.

tivists and alert journalists. In March 2017 more than 800 online chat groups were formed by residents of Sihui city in Guangdong province in opposition to the building of a waste incinerator, says a report by academics at Jinan University in the provincial capital, Guangzhou. (They did not name the city, but its identity is clear.) The researchers said protests against the project, involving more than 10,000 people, bubbled up from WeChat forums.

Given the intensity of Mr Xi’s clampdown, it is remarkable how willing some activists remain to wage public campaigns that annoy the government. This summer, students from prestigious universities travelled to Shenzhen to support factory workers there who were trying to form a union. Some of them were arrested. Students have also been at the forefront of China’s #MeToo movement, attracting much online attention with accounts of alleged sexual harassment by academics and public figures. Since the Tiananmen Square mas-

sacre of 1989 the party has been especially nervous of student-led protests. Few have occurred, except in support of nationalist causes. But recent campus activism suggests that rebellious embers glow.

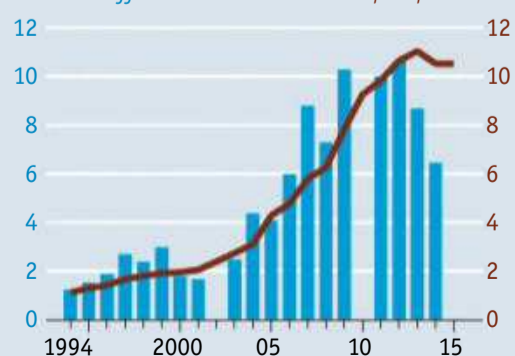
Analysts debate how much the number of protests affects the party’s grip on power. A recent report by CLB calls the “intensification of social contradictions” in China a “direct threat to the legitimacy of the regime”. But Mr Yu of UIBE argues that the “astonishing number” of protests has had “no major impact on China’s political stability”. He writes that it would be difficult in China for those with grievances to form a political movement. Some Chinese scholars argue that protests can usefully allow people to let off steam. What is clear is that the public’s fear of the government is not as great as might be expected, given Mr Xi’s strong hand. That is fine for the party as long as most people support Mr Xi or are prepared to put up with him. It becomes a problem if the public mood changes. ■

### A better predictor than WeChat

China, Zhejiang province, '000

Petitions to land resources office

House prices Yuan per square metre



Source: Christopher Heurlin, Bowdoin College

# Chaguan | The Analects of Trump

It was hypocrisy for America to “welcome” China’s rise. Yet honesty may be worse



IT TAKES nerve for a White House official to pick a fight with China’s government and claim that Confucius gave him the idea. Matt Pottinger, senior director for Asia at the National Security Council, did just that with a speech at the Chinese embassy in Washington on September 29th. Citing Confucian strictures on the dangers of hypocrisy, Mr Pottinger urged his audience to take seriously the Trump administration’s decision to brand America and China as competitors. To ignore such an evolution in relations was to invite miscalculations, he added, dropping into Mandarin to recite the Confucian counsel: “If names cannot be correct, then language is not in accordance with the truth of things; and if language is not in accordance with the truth of things, affairs cannot be carried on to success.” It was quite a moment. Read between the lines. A Trump aide was declaring an end to years of warm words about welcoming China’s rise.

Confucian scholars call this doctrine the “rectification of names”. As trade tensions deepen between China and America, both powers are being careful with their name-calling. Chinese officials avoid stoking the fires of nationalism. They have not rebuked Mr Trump personally, instead chiding America for “trade hegemonism” and other abstruse offences that are hard to chant at protest rallies. As for Mr Trump, he recently conceded that his (unreciprocated) habit of calling President Xi Jinping a friend had run its course, after his announcement of tariffs on up to \$200bn-worth of Chinese exports. “He may not be a friend of mine any more, but I think he probably respects me,” Mr Trump said.

Western relations with China have long whiffed of hypocrisy. Politicians mumbled about welcoming China’s rise when they meant that they did not know how to stop it. Such leaders hoped instead to manage the impact of that soaring growth so that, on balance, China, their countries and the world would all be better off. Chinese officials, in turn, continue to talk of seeking “win-win co-operation” with America, even as they privately accuse Team Trump of plotting to contain their country. The same officials boast of open markets but, when Western governments raise specific cases of brutal treatment of foreign firms, blandly reply that they cannot get involved in commercial disputes.

Double-speak, then, has provided cover for many abuses. An optimist might conclude that more candour is just what relations

need. There are two problems with that theory. One involves confusion about what a more honest America might want. The second involves the degree to which China’s foreign policy—and its presentation to the Chinese people—is built on foundations of hypocrisy, and might totter if those were to be removed.

American confusion can be taken first. Within Team Trump, hawkish but practical China-hands like Mr Pottinger present candour as a way to shore up an American-led, rules-based order. Competition is not a four-letter word and America can still compete as a champion, Mr Pottinger said at the Chinese embassy. “We’re adapting our game to China’s style of play.” If that sounds like a gentleman athlete warning opponents that their cheating has been rumbled, Mr Trump’s candour is more cynical. His is the logic of a sports promoter who assumes that every match is rigged and lives by only one rule: that rivals should not disrespect him. On October 1st Mr Trump said—as he has before—that he does not blame China for “ripping us [off] for so many years”. Instead he chided predecessors for failing to extract enough from China for the privilege of trading with America. China “wants to talk very badly”, Mr Trump added happily. But he will wait, the better to extract terms that favour American workers.

Chinese leaders are visibly unsure how to cope with such extortion. Their caution suggests that, in part, they fear a public backlash at home that could tie their hands when deal-cutting. Here, the role of hypocrisy becomes complicated. It is a given among many China pundits that the country lives on the brink of hair-trigger nationalist outrage. The reality is more nuanced. A large and cleverly designed study of Chinese public opinion by Kai Quek of the University of Hong Kong and Alastair Iain Johnston of Harvard University tested scenarios involving a fictional conflict over the Japanese-controlled, Chinese-claimed Senkaku islands, during which China’s leader publicly threatened military action against Japan then backed down. Each scenario was presented to a different panel of some 450 people. Several excuses for a climb-down mollified those polled, notably ones in which China’s leader variously agreed to UN mediation, argued that the Chinese were a peaceful people, explained that the economy would be hurt by war, or proposed economic sanctions as an alternative to armed force. One scenario proved less palatable. Told that China’s leader was backing down in the face of American military threats, respondents disapproved, many strongly.

## The doctrine of the mean

A stickler for Confucian principles of correct naming might quibble at frequent claims by Chinese leaders that theirs is an exceptionally peace-loving country. So might neighbours which, in living memory, China has invaded, threatened with invasion, bullied or robbed of South China Sea reefs. Still, Messrs Quek and Johnston, in their paper “Can China back down?”, show that such claims did allow a fictional Chinese leader to climb down, whereas American threats tied his hands. As Mr Quek puts it: “Hypocrisy can have a positive impact.”

These are unsatisfying complexities. The two countries’ relations are long overdue a bracing dose of honesty. But reducing China’s bargaining space is not automatically in America’s interests. And Mr Trump’s preferred form of candour—an amoral, might-makes-right cynicism—may be the least help of all. ■

**Correction:** In last week’s column, “China’s one-way globalisation”, we said that Richard Gathigi arrived in Guangzhou in 2005. In fact it was 2015. Sorry.



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## Crime in South Africa

# Gun town

HANOVER PARK, CAPE TOWN

### Why Cape Town is one of the world's most violent cities

**"I**T'S going to be crazy tonight," sighs Craven Engel, a pastor in Hanover Park, a township on the fringes of Cape Town. A few hours earlier gunmen had killed a high-ranking member of the Laughing Boys, a gang. Mr Engel is on his phone, trying to dissuade its leaders from vengeance, which is just hours away. "Everyone has a violent vibe going on."

Since the advent of democracy in 1994, South Africa as a whole has had less of a violent vibe. The murder rate—the best indicator of violent crime, as most cases are reported—has fallen by almost half, from 69 per 100,000 people in 1994/95 to 36 in 2017/18. International data are patchy, but they suggest that since the end of apartheid South Africa went from being the world's third-most-murderous country to the seventh. Nevertheless, its murder rate has recently ticked up, from a low of 30 per 100,000 in 2011/12. The jump last year was the biggest since 1994.

Cape Town's murder rate has risen from 43 to 69 per 100,000 between 2009/10 and 2017/18, calculates Anine Kriegler of the University of Cape Town. Last year's rise was the biggest since comparable data became available in 2005/06. Today its rate is more than twice that of Johannesburg (see chart) and higher than in any large city outside the Americas, according to the Igarapé Institute, a Brazilian think-tank.

That may surprise those who associate

Cape Town with beaches and Table Mountain. But a short drive from some of the priciest property in Africa are the Cape Flats, a patchwork of townships. Many were dumping grounds when the apartheid regime removed "Coloureds" (people of mixed race) from the inner city in the 1960s. Unemployment and poverty are endemic. Most children grow up fatherless. In one precinct, Philippi East, 93% of households were victims of crime in 2016.

The Flats also contain gangs. In few cities globally are they so deeply rooted. The "numbers" prison gangs have such complex rules that they speak their own lan-

guage. They trace their history back more than a century. Street gangs were present before forced removals but, over the past five decades, have become entrenched. A higher share of young people are affiliated to gangs than in cities such as Baltimore.

One member who lives in Hanover Park explains his initiation into the Americans, probably the largest gang. At 13 he was given a knife with which he had to stab someone before two peers, then wipe the blood on an American flag. Membership gave him an identity, food, clothes—and a way to impress girls. But it meant killing. "The brotherhood is real even if the way we show that love is wrong," he says.

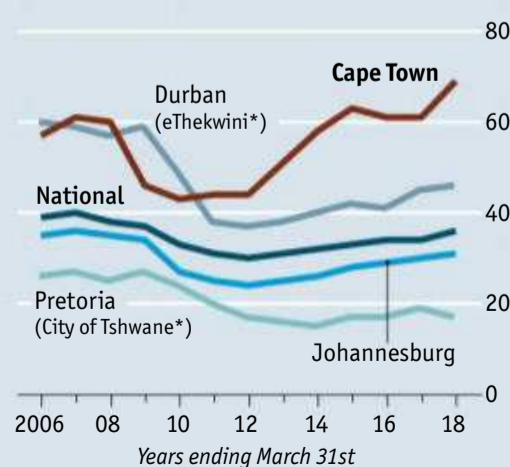
Gangs are not the only source of murder in the city. But they have caused a "substantial portion" of the recent surge, notes Mark Shaw, a criminologist who runs the Global Initiative against Transnational Organised Crime. Since 2011 every police precinct in a known gang area has seen a rise in the murder rate. "We have become desensitised," says a resident of Manenberg, another township. She no longer covers dead bodies so that they are not seen by children coming home from school.

Today about 100,000 people on the Flats belong to more than 130 gangs, in an unstable patchwork of alliances. As members pass in and out of jail, lines blur between prison and street gangs, creating new rivalries. As members age, intergenerational friction appears. Pastor Engel recalls a school gang, the Spoiled Brats, set up by children of Americans gang members. The offspring got too uppity, so their fathers, and another gang, turned on them. Just two of its 22 members are still alive.

These gangs are increasingly sophisticated and commercialised operations, which use a mix of street muscle and assassinations to amass power. The biggest ▶▶

### A criminal record

South Africa, murders per 100,000 population



Source: Anine Kriegler

\*Metropolitan municipality

▶ street gangs are fronts for vast mafia-like enterprises, complete with links to policemen and politicians. When changes take place in the markets they are involved in, it can encourage new entrants and battles for turf, leading to surges in violence.

One such disruption has been in the drug market, especially heroin. As more of it has been shipped through South Africa, partly because other routes have become trickier, domestic use of the drug has risen. From 2000 to 2015 drug-related arrests in the Western Cape rose nearly sixfold.

There are a lot more guns around, too. The rise in the murder rate in Cape Town matches the arrival of high-powered weapons in the Flats, notes Guy Lamb of the University of Cape Town. These weapons “disrupted the balance of power among the gangs”, he says.

Shockingly, these guns often come from the police. In 2016 Chris Prinsloo, a former police colonel, pleaded guilty to selling 2,400 guns to an arms-dealer who sold them on to gangsters. Investigators have linked 1,066 murders and 1,403 attempted ones in Cape Town to these firearms, including 261 cases in which children were victims. More than half the guns are probably still circulating. Mr Shaw calls the case “the deadliest crime in the history of post-apartheid South Africa”.

The Prinsloo case points to a broader problem: the rottenness of the South African Police Service (SAPS). Not since Nelson Mandela’s presidency has a national police commissioner left office without being charged with corruption or misconduct. In May, Arno Lamoer, the former police commissioner for the Western Cape, was jailed for up to six years for corruption. On the ground, gangs recruit corrupt officers. These cops provide tip-offs about raids. They tamper with court dockets of arrested members for as little as R2,500 (\$174). The conviction rate for gang murders in the Flats is about 2%. “If the police act like gangsters, how can we identify the real criminals?” asks Roegchanda Pascoe, an activist in Manenberg.

In response to the failings of the SAPS, the city of Cape Town has expanded the remit of its police. Historically devoted to catching parking offenders, the metro police now has an anti-gang unit. But it has only 600 officers, compared with 18,000 for the SAPS in the city.

Local leaders such as Pastor Engel try to do their bit. With funds from the city, he uses technology to detect gunshots. Once they are picked up he sends ex-gang members to try to prevent retaliation. Looking at his map, he tries to work out where shootings will take place. Blocks of two or three streets are prized territory, each with their own names such as Cowboy Town, Taliban Area and the Jungle. “I call it the prison,” he says, tracing a line with his finger around the map. “A violent prison.” ■

## Cameroon’s elections

# The old man and the insurgency

CALABAR

**Paul Biya, Africa’s oldest president, campaigns for another term**

ON THE campaign trail Paul Biya’s motto is “*La Force de l’Expérience*”. It is a slogan that few would dispute. Since Robert Mugabe was tossed off Zimbabwe’s throne last year, the 85-year-old Mr Biya, Cameroon’s president since 1982, has been Africa’s oldest head of state.

Still, as he tours his country ahead of presidential elections on October 7th, two corners of Cameroon are unlikely to hear his pitch in person. In the English-speaking south-west and north-west regions, where separatists are waging an insurgency, the violence is so intense that it would not be safe for Mr Biya to visit.

Militias there have threatened to attack the president. They have also told fellow Anglophones to boycott the election. Armed mainly with home-made rifles, cutlasses and *juju* (black magic) charms, the guerrillas have limited power to carry out their threats. Yet much of the population already backs the boycott. Come election day, it may be a brave person who ventures out of his house at all. Thousands of people have already fled the two regions ahead of the poll.

This will probably be Mr Biya’s last election—he will be 92 if he stands for another seven-year term. Critics say that the blame for the violence surrounding the poll rests largely with the president, an aloof leader with scant regard for human rights or Anglophones. For decades English-speakers have complained of government neglect of their regions. When they protested two years ago over plans to increase the number of French-speaking judges in their British-styled courts, Mr Biya responded

with bullets and tear gas.

Today, a smouldering civil war afflicts much of English-speaking Cameroon, with tit-for-tat atrocities by security forces and separatists. Some 160,000 people have been displaced and 600 killed, 160 of them members of the security forces. Reports from Bamenda, the north-western capital, say the hospital morgue is now filled to capacity with unidentified corpses. Last week separatists staged a mass jail break, freeing more than 100 prisoners.

Amid mounting pressure from Britain, France and America, Mr Biya has responded with some belated concessions, including a cabinet reshuffle to increase the number of English-speakers, and creating a clunkily titled National Commission for Bilingualism and Multiculturalism. But diplomats worry that the president and his ageing inner circle have yet to grasp the scale of revolt. In February Mr Biya said the crisis was “stabilising”.

That was not the view of Cameroonians in the city of Calabar on the Nigerian side of the border, where 25,000 are refugees. Ulrika Naseri, who had just arrived after a two-day trek through the forest with her children, said soldiers had rampaged in her village, killing her neighbour. “It is too late for dialogue now,” says a former fighter with one of the separatist militias. “Too many lives have been taken.”

Yet it is hard to see the separatists getting their own state. Regional and Western governments are wary of backing them, mindful of how newly minted South Sudan has collapsed into civil war.

The crisis could still be defused if Mr Biya made the right moves, including, perhaps, devolving more power to the restive regions. Once he is re-elected—which seems likely, since the vote is sure to be rigged—he may feel free to make magnanimous gestures. But that would mean swallowing his pride. Doing so would not be easy for a president who has adopted the nickname “lion man” to symbolise his tenacity and ruthlessness. ■



After 36 years of Biya, all we have is nuts

## Middle East security

## NATO for Arabs?

## A new Arab military alliance has dim prospects

WHEN President Donald Trump, King Salman of Saudi Arabia and Abdel-Fattah al-Sisi, Egypt's president, laid their hands on a glowing orb in Riyadh last year, the theatrical gesture provoked bewilderment and derision. But perhaps the orb worked some magic. On September 28th Mike Pompeo, America's secretary of state, met six of his counterparts from the Gulf Co-operation Council (GCC), as well as Egypt and Jordan (see map), and confirmed that they were fashioning a Middle East Strategic Alliance (MESA). They paid lip service to the goals of curbing terrorism and pacifying Syria. But their priority was plain: "stopping Iran's malign activity".

Excitable American and Arab officials, who plan to hold a summit in January, have already dubbed it an Arab NATO. Excluding America, the alliance's annual defence spending would exceed \$100bn and it would command over 300,000 troops, 5,000 tanks and 1,000 combat aircraft. But MESA is unlikely to live up to its nickname. It will probably not operate on the basis that an attack on one is an attack on all, a principle enshrined in its Western equivalent, which Mr Trump has undermined. Moreover, previous efforts at Arab military unity have ended in disappointment.

Arab coalitions were humiliated in almost all of their wars with Israel. Shortly after the GCC was formed in 1981, it created the Peninsula Shield force. That not only proved useless in the Gulf war, but the following year Saudi and Qatari troops killed each other in border clashes. In 2014 the idea of a GCC joint command was resuscitated. Little came of it.

One problem is that smaller states fear ceding control to larger neighbours. In the 1960s it was Egypt that caused jitters; today



it is Saudi Arabia, under the de facto rule of Muhammad bin Salman, its ambitious crown prince. His obsession with Iran is another concern. Though he is supported by the United Arab Emirates (UAE), Kuwait and Oman are more sanguine about the threat posed by Iran. A third problem is that many Arab states blame foreign foes for internal troubles, such as protests and terrorism. Even Mr Trump may not be keen to help his autocratic allies put down dissent in the name of defence.

But the biggest obstacle in MESA's path is a dispute between Arab states. For over a year Saudi Arabia, the UAE, Bahrain and Egypt have blockaded Qatar over its contrarian stances. The feud has hit military co-operation, with America pulling out of drills with its Gulf allies last October to encourage "inclusiveness". America's main base in the region is in Qatar.

MESA will probably go the way of other half-baked defence schemes—from the Arab League's Joint Defence Council of 1950 to Saudi Arabia's Islamic Military Counter-Terrorism Coalition in 2015. "Every couple of years someone comes up with a big idea," says Emile Hokayem of the International Institute for Strategic Studies, a think-tank in London. "People work like crazy for a year. And it ends with a shiny new building and a deck of Power-Point slides."

More important than any multilateral bloc is America's commitment to the region. Yet even here, a gap is opening between words and deeds. America has pledged to keep its troops in Syria "as long as Iranian troops are outside Iranian borders". But there has been no American aircraft-carrier in the Persian Gulf for six months, the longest absence in 20 years. Next month America will pull four missile defence batteries out of Bahrain, Jordan and Kuwait, just as Iran threatens missile attacks on Gulf capitals. James Mattis, the defence secretary, wants to reduce America's military footprint in the Middle East after 17 years of continuous war. Mr Trump will probably show more enthusiasm for flogging weapons to his Arab allies than wading onto the battlefield next to them. ■

## Saudi Arabia

## The long arm of the prince

ISTANBUL

## Repression inside (and outside) Saudi Arabia has reached a new level

SAUDI dissidents who fled abroad to escape repression at home are looking over their shoulders. On October 2nd Jamal Khashoggi, a prominent Saudi journalist and government critic (pictured), went to the Saudi consulate in Istanbul to file paperwork for a new marriage. As *The Economist* went to press on October 4th, his fiancée was still waiting for him to return. Turkish customs officials were scouring the ports with his photograph, fearing the Saudis had kidnapped him.

Since Muhammad bin Salman became crown prince of Saudi Arabia last year, thousands of dissidents have been jailed, often for offences as slight as failing to tweet royal talking points. The geographical scope of the repression is also expanding. Last month a Saudi satirist in London claimed he had been beaten by thugs from the Saudi embassy.

Some of the repression has come in the service of reform. Prince Muhammad has reined in spendthrift princes and neutered the religious police, who enforced a strict interpretation of Islamic law. Now Saudi Arabia has pop concerts, cinemas and female drivers. "One word from these sheikhs could cause lots of problems," says a Saudi official. "Sometimes you have to balance the individual good against the good of society."

But rather than courting support,

Prince Muhammad is ruling by fear. For all his promises of due process, most political prisoners are held without trial. They are the lucky ones. Essam al-Zamil, an economist, was reportedly charged with terrorism after questioning the proposed sale of part of the national oil company, which has since been postponed. The public prosecutor has called for Israa al-Ghomgham, a women's rights activist, to be executed. He wants Salman al-Awdah, once the country's most popular television preacher, to be killed too. Some whisper that Prince Muhammad has launched an inquisition.



Missing: last seen at the Saudi consulate

## Tunisian politics

# A third sheikh emerges

**The ruling duo that kept Tunisia stable has parted ways**

TUNISIANS often call them “the two sheikhs”. They are strange bedfellows, this pair of old men who have steered the country since 2014. Rachid Ghannouchi heads Ennahda, a moderate Islamist party that led the first elected parliament after Tunisia’s revolution in 2011. It stepped down in 2014 after a string of political assassinations. In the subsequent election voters gave a plurality to Nidaa Tounes, a secular coalition led by the current president, Beji Caid Essebsi. The two formed an unlikely alliance, with Ennahda taking a small role in a unity government and backing many of its policies. On September 24th, though, Mr Essebsi announced that the pact was over. “Ennahda took another path,” he said bitterly.

Their falling out is not over religion, or really anything of substance. Instead it is over Mr Essebsi’s hand-picked prime minister. Before his appointment in 2016 Youssef Chahed was an obscure economist with a doctorate in agribusiness. He now often ranks as Tunisia’s most trusted politician (admittedly a low hurdle to clear). His efforts to fight corruption are popular. He has held office for longer than any other prime minister since 2011. The president now seems to regret appointing him. Mr Essebsi and his influential son, Hafedh, have publicly criticised the prime minister for his handling of the economy.

Some Tunisians would agree. Backed by the IMF, the government has imposed painful austerity measures. Perhaps its most controversial policy has been allowing the dinar to weaken. It has fallen over 20% against the dollar in the past two years, to its lowest level in more than a decade. The depreciation has boosted some firms. Exports grew 20% in the first eight months of the year. Agricultural exports were up 63% compared to the same period last year. Low prices are also luring tourists back. The industry crashed in 2015 after a gunman stormed a resort near Sousse and killed 38 people. This summer many hotels were fully booked. Tourist spending through July was 44% higher than last year.

But the weak currency has wrought havoc on the state’s balance-sheet, because many of its debts are in dollars. Next year Tunisia will spend 9bn dinars (\$3.2bn) on debt service, equivalent to about 8% of GDP and 76% more than it paid in 2016. Fuel prices have gone up four times in 2018, yet the government’s subsidy bill keeps climbing. This year it will hit 4.3bn dinars, almost

## Egypt and Britain

# Obloquy for an obelisk

**Egyptians are upset by Britain’s disregard for a gift**

FOR two millennia Europeans have prized ancient Egyptian obelisks. Roman emperors placed captured obelisks in temples in Rome. Pope Sixtus v unearthed one and placed it in St Peter’s Square, the Vatican’s forecourt. Ottoman sultans redesigned Istanbul around them. King Louis Philippe of France made one the centrepiece of the world’s most elegantly planned city.

Not so the British. Muhammad Ali Pasha, the founder of modern Egypt, gave Britain a 3,500-year-old obelisk as a gift in 1819. But efforts to honour the bicentennial have fallen on deaf ears. The office of London’s mayor, Sadiq Khan, refers

requests for an Anglo-Egyptian festival to a website for frequently asked questions. Follow-up inquiries go unanswered.

The snub has not gone unnoticed. Egypt’s press protests against this ingratitude and calls for the obelisk’s return. Visiting Egyptian officials are shocked that it is hidden by trees on the banks of the Thames, covered in pigeon droppings and bereft of helpful signs. “If the mayor of London isn’t interested in the obelisk, he does not deserve to have it, and it should come back,” says Zahi Hawass, a former head of Egypt’s Supreme Council of Antiquities.

Britain has never seemed especially fond of the obelisk. Its prime minister in 1819, Lord Liverpool, decried the expense of shipping the 200-tonne icon. So it sat in Alexandria for decades. The boat that collected it in 1877 nearly lost it in a storm off the Bay of Biscay. When it finally sailed up the Thames it was left on the riverbank, contemplating mudflats. Like the Paris one, it was given the homely title of Cleopatra’s Needle. The pink granite turned black in the smog and was later dwarfed by Art Deco mansions. Bomb damage in the second world war was never repaired.

The London obelisk is one of a pair. The other was given to America—and has also been largely forgotten. It sits in a lonely corner of Central Park in New York. But America, at least, placed an obelisk on its dollar bill and erected a bigger one in Washington, DC. Britain seems more enamoured of columns.



**A needle in Egypt’s eye**

three times more than expected. Some economists believe the devaluation has gone too far. And though exports are up, the trade deficit is still growing.

Mr Ghannouchi backs the prime minister and argues that removing him would halt necessary reforms. This is not a natural position for Ennahda. It draws much of its support from poor regions, which erupted in protest over tax hikes earlier this year. The party has shown a willingness to work in the national interest, even at its own expense. But Mr Ghannouchi is also a cunning politician. His support for Mr Chahed is a sign of the ruling party’s weakness.

After the election in 2014 Nidaa Tounes held 86 seats in parliament, 40% of the total. It began haemorrhaging support almost immediately. About half of its MPs have since defected. Many are now aligned with Mr Chahed, who was suspended from Nidaa Tounes last month.

Their so-called “National Coalition” has yet to register as a political party. When it does, it will be one of the largest in parliament, about the same size as Nidaa Tounes. With Ennahda’s support, Mr Chahed could probably weather a no-confidence vote. The Essebsis fear they have been eclipsed by their own creation.

Mr Chahed has been vague about his political ambitions. He could enter parliament as the head of a powerful bloc. If instead he runs for president in 2019, it would be in a crowded field. Ennahda is likely to field a candidate. And Leila Hammami, a liberal academic barred from running in 2014, hopes to compete this time. The uncertainty is a welcome sign. Mr Essebsi is 91, Mr Ghannouchi 77. The two often cut deals in private and present them to lawmakers as a *fait accompli*. Tunisia needs fresh faces and a stronger parliament. It needs more sheikhs—and sheikhas, too. ■





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### Italy's budget row

## Di Maio tries to take charge

ROME

**More spending for his supporters is a way of countering the rise of his colleague and rival. But Brussels does not like it**

**T**HAT a potentially hazardous trial of strength has begun between Italy's unstable populist coalition and the European Commission is clear. What is less clear is how long the stand-off will continue and whether it can be resolved without damage to Europe's single currency.

On September 27th the Italian cabinet approved a budget deficit for 2019 of 2.4% of GDP. The aim was to boost the country's lacklustre economic growth and fulfil at least some of the costly promises the two parties in the coalition had made to voters at the general election in March. The hard-right Northern League, headed by Matteo Salvini, promised to slash taxes. The anti-

establishment Five Star Movement (M5S), led by Luigi Di Maio, offered an income guarantee for the unemployed and poor. Both parties favoured rolling back a pension reform so that some Italians will again be able to retire at 62 instead of 67.

Government representatives protested that the proposed deficit is well below the euro zone's ceiling, of 3% of GDP. But the real issue is whether Italy can risk such largesse. Relative to the size of its economy, its public debt is the largest in the euro zone after that of Greece. Thanks to the heroic efforts of the previous, left-of-centre, government, it shrank slightly last year. But even so it still totals 132% of GDP.

The coalition's target is 50% bigger than the biggest deficit officials had calculated the state could run without piling up more debt. It was three times what the previous government had agreed on with Brussels. And, said the technocratic prime minister, Giuseppe Conte, the plan was to hold the deficit at 2.4% for three years. As investors took fright, the government shifted ground, announcing that the deficit would be trimmed by 0.3 percentage points in both 2020 and 2021. By then, the Milan stockmarket index had lost 4.4% since the planned deficit was revealed, and the yield on Italy's benchmark, ten-year bonds had reached its highest level since March 2014.

In Brussels European Commission rep-

resentatives did nothing to comfort the markets, piling extra pressure on the government in Rome. The commission's president, Jean-Claude Juncker, cited the danger of a crisis like the one that engulfed Greece and warned that giving Italy special treatment could even doom the euro (in absolute terms, Italy's debt stock is far higher than Greece's). Mr Salvini insinuated that Mr Juncker was a drunk.

The atmosphere is fraught. Yet surprisingly little is known about the government's intentions. Detailed forecasts, meant to have been submitted last week, are still awaited. The budget itself will not be ready until the middle of the month. And ministers have given conflicting figures for the increased economic growth the government believes can be achieved by running a higher deficit. The saga could be protracted: the budget will take the rest of the year to approve.

### Best of frenemies

Both sides are treading a fine line. The M5S has much to gain from sticking to its guns. It entered the coalition as the senior partner, having won a third of the national vote. Yet Mr Di Maio (pictured, large) has since had to play second fiddle to his fellow-deputy prime minister, the brash Mr Salvini (pictured, small).

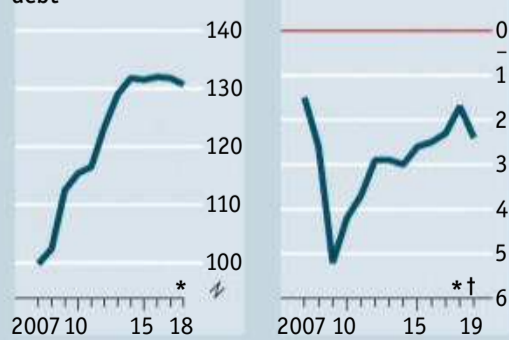
The League leader has used his other role, as interior minister, to take a hard line on immigration that has almost doubled his party's following since the election, to nearly 32% in recent polls. The M5S, by contrast, has slipped more than four points, to 29%. Mr Di Maio took on a broad portfolio encompassing industry and employment that so far has offered him fewer opportunities to grab headlines. But last month he at last put himself centre stage with a threat ▶▶

### The shape of things to come

Italy, % of GDP

General government debt

Budget deficit



Sources: Eurostat; European Commission; Italian Finance Ministry

\* Estimate  
† Forecast

▶ to block any budget with a deficit below 2.4%. After Italy's non-political finance minister, Giovanni Tria, reluctantly gave in, Mr Di Maio appeared on the balcony of the prime minister's office, jubilantly punching the air.

If the markets continue to turn against Italy, however, his joy will be short-lived. It will take time for the rise in yields to push up the government's cost of borrowing, which rises only as debt is rolled over. The average maturity of Italy's government debt stock is close to seven years. But by the end of October two ratings agencies, Standard & Poor's and Moody's, are due to review their classification of Italy's bonds. Any downgrade could raise the government's borrowing costs, soaking up cash it had planned to spend.

Foreigners have reduced their holdings of Italian government debt. But Italy's banks still hold €370bn of their country's bonds—10% of their assets. A sharp fall in bond prices would weaken their balance-

sheets as funding costs begin to rise. Meanwhile, the European Central Bank is poised to wind down its bond-buying scheme, which will also act to push up yields.

Mujtaba Rahman of the Eurasia Group, a consultancy, says that the commission, too, will need to be careful. If it is soft on Italy, it risks being seen by member states as weak. But too hard a line could easily stoke further Euroscepticism ahead of the European parliamentary elections next May. A lot of Italians stand to benefit from the M5S's handouts, or the lower taxes promised by the League, and will doubtless blame Brussels if they are not forthcoming.

In 2014 the commission successfully sought revisions to the spending plans of Matteo Renzi's left-right coalition. Its reaction to Italy's populists suggests it will seek changes this time too. And, says Mr Rahman, it might be prepared to veto Italy's budget if not enough changes are made. That would be unprecedented and could eventually lead to sanctions. ■

## The defence of Sweden

# War clouds

STOCKHOLM

### Will Sweden tie the knot with NATO?

SOME states soothe their citizens in troubled times. Others prefer not to sugar-coat things. "A larger European conflict could start with an attack on Sweden," warned the most recent report of the country's defence commission. Electricity would be limited. Calorie intake would fall. Tens of thousands might be wounded. This was not idle talk: in June, all 22,000 Swedish volunteer soldiers were called up for the largest surprise exercise since 1975. For the first time in almost 30 years, the government has written to millions of households exhorting them to prepare for the worst. "We will never give up," warned leaflets decorated with vivid tableaux of burning buildings and rolling tanks.

Sweden's aim is to hold out for three months, until help arrives. These twin tasks—becoming "indigestible to Russia", as one analyst puts it, and ensuring that the cavalry shows up—will be high on the agenda of whichever government emerges from the hung parliament produced by the election of September 9th. Sweden may not be a member of NATO. But under Stefan Lofven, Sweden's Social Democratic prime minister for the past four years, it has manoeuvred as close to the alliance as it is possible to get from the outside. By deferring the question of outright membership, anathema to the left, he created political space to tighten Sweden's triple embrace

of America, NATO and its neighbours. A landmark "host nation" agreement with NATO was steered through parliament in 2016. America's potential wartime role in Sweden was once a state secret; now contingency plans can be made openly.

This is not just for Sweden's benefit. Thousands of NATO troops were sent to the Baltic states last year to serve as tripwires in case of any Russian aggression. In a war, they would need swift and massive reinforcement. But the overland route runs through the Suwalki Gap, a choke point with the Russian enclave of Kaliningrad on one side and Russia's ally Belarus on the other. It would be easier to send back-up

through Sweden and over the Baltic Sea. That is one reason why Gotland, a bucolic Swedish island in the middle of those waters, has assumed such importance. Were Russia to seize it, the sea route might also become perilous. Last year's Aurora exercise, involving the largest-ever American force on Swedish soil, simulated attacks on Gotland. In January, Sweden re-established a military unit there, its first new regiment since the second world war.

Sweden is also cosyng up to its neighbours. It agreed to swap defence attachés with Norway last year, and to share data on air surveillance—particularly Russian bombers on the prowl. It has gone further with Finland, agreeing to form a "partially integrated" Finnish-Swedish air force and operating a joint naval group that lets Finnish admirals command Swedish vessels, and vice versa. Niklas Granholm of FOI, Sweden's defence research agency, notes that Swedish, Finnish and Norwegian fighter pilots are on first-name terms after weekly air exercises in the High North. He suggests this could be turned into a "strike force for the entire Nordic-Baltic region".

Whether the Social Democrats cling to power or are ousted by the centre-right Moderates in the coming months, a consensus has taken hold. "We are realising that Crimea was not a passing storm, but climate change," says Anna Wieslander, director of the Swedish Defence Association, referring to Russia's annexation of the Ukrainian peninsula in 2014. One left-wing MP milling around Sweden's parliament, the Riksdag, is glum. "Nothing will change," he complains of the election. "Everyone hates Russia."

In fact, Sweden's political direction will have important implications for defence. The four opposition parties that governed until 2014, including the Moderates, have all come out in favour of joining NATO over the past few years. Polls indicate public support swinging modestly in this direction: 43% in favour and 37% against. But there are several hitches.

One decision for the next prime minister is whether to sign a UN treaty "banning" nuclear weapons. Some Social Democrats, including Margot Wallström, the foreign minister, are keen. But it would strain Sweden's relationship with America and NATO. A more serious obstacle is that any Moderate effort to take Sweden into NATO might depend on the support of the far-right Sweden Democrats. The party is opposed to membership on nationalist grounds, though its base, numbering many former Moderate voters, might be more amenable. A third problem is that Sweden is reluctant to leave Finland in the lurch, if its smaller neighbour declines to join. Meanwhile, as the wrangling continues, Sweden hugs NATO ever tighter: over 2,000 of its troops will join one of NATO's largest-ever exercises next month. ■



## Spain

# The splitters are splitting

BARCELONA

**Catalan separatism faces new dilemmas one year on**

FOR Catalans of whatever persuasion, October 1st 2017 was a day of infamy. Catalonia's 2m or so separatists recall Spanish riot police baton-walloping citizens waiting to vote in a referendum on independence. Other Catalans recall that the referendum was unconstitutional, and see the unilateral declaration of independence that followed it as an alarming plot to break up Spain.

A year on, nothing and everything has changed. Spain's government suspended Catalan autonomy and its courts charged Carles Puigdemont, the regional president, and 12 others with rebellion. Having won a narrow majority of seats (though not votes) in an election in December, the separatists are back in charge of the Generalitat in Barcelona, the regional government. The declaration of independence might never have happened.

Still, tens of thousands of Catalans marked the anniversary this week with a demonstration at which they carried scores of the ballot boxes used last year. They see October 1st as a bigger defeat for the Spanish government than for their own cause. "It put Catalonia on the international map," says Elsa Artadi, a senior official at the Generalitat. "It showed that the state doesn't control some parts of Catalonia." But the horizon is different. In Madrid Mariano Rajoy, the stolid conservative who sent in the riot police, has given way as prime minister to Pedro Sánchez, a Socialist. The Catalan nationalists backed the censure motion that brought Mr Sánchez to power. Unlike Mr Rajoy, he says Catalo-



The vote that died

nia requires a political solution. Several ministers have said they would prefer the prisoners not to be in pre-trial detention (though only the courts can free them).

These changes have left the separatist movement "disoriented", without a clear strategy and increasingly split, says an adviser to Mr Sánchez's administration. The rhetoric remains confrontational. Quim Torra, Mr Puigdemont's replacement, claims to be "building the [Catalan] republic". This week he gave Mr Sánchez "a month" to agree to an independence referendum or face a withdrawal of Catalan nationalist support in parliament.

This is bluster. Mr Torra commands only a few of the MPs in question. In practice, the Generalitat is acting within the law. "We are re-establishing normal relations," says an official in Madrid. While Ms Artadi warns that Mr Sánchez has so far of-

fered "a few words" but no action, she says the Generalitat wants to talk, even as it mobilises its supporters.

The divorce between rhetoric and reality is prompting splits. Hours after Mr Torra called on radicals, organised in the Committees for the Defence of the Republic, to "keep pressing", they broke away from the October 1st demonstration to attack Catalan police with smoke-bombs and bottles.

Perhaps half the 2m independence supporters want to pursue civil disobedience, says the government adviser. The other half might settle for reforms in Catalonia's home rule, but are inhibited from speaking out until the trials, due to start in January, are over. Mr Sánchez can do little without winning a clear mandate at a general election. The opposition in Madrid already accuses him of appeasement. "This will take years," says a minister. Indeed so. ■

## Food prices

## The chips are down

**A long, hot summer has left tattie crops in tatters**

EUROPE faces a potato crisis. Around 53m tonnes of spuds are harvested in the EU each year. Germany, the biggest producer, usually digs up 10m-12m tonnes. But thanks to a dry summer, the tubers have come a cropper.

On September 26th Germany's agriculture ministry announced a harvest 25% smaller than usual. This year's spuds are littler and denser than normal. Belgians are feeling less than chipper over rumours that their beloved *frites* may now be one-third shorter as a result. But these fears are small fry compared with the wider implications.

Climate change is at the root of the problem. "Farmers noticed that wet and dry periods are getting closer together," says Katja Börgermann of the German Farmers' Association. In 2003 Europe experienced a "once in a century" drought. Fifteen years later it has endured another. It is hard for farmers to adapt fast enough. They could develop better irrigation systems, and new crop strains could be bred to resist drought. But such things take time.

Carb-lovers may have to pay more for their mash. This has happened before. In 1976 potato production fell by roughly 40% as temperatures soared. Prices soared with them—by Christmas, potatoes in Britain cost six times their normal price. These days consumers have more choice, and other starchy options such as pasta and noodles have reduced demand for the humble spud. But bad weather has also caused wheat yields to fall in Europe this year, and previous reductions

in the acreage devoted to growing potatoes mean there were fewer tubers to go round in the first place. Already, potato prices have risen in Spain. McCain Foods, a potato-processor, has raised its prices by 20%. Consumers who know their onions are cheesed off.

A quick fix could be found through trade. Already, potato trading between EU countries is common, but most of the rice eaten in Europe is imported, whereas only a small proportion of potatoes come from outside the EU. Some say that more open markets would ensure that if the harvest fails in one country, appetites could still be met. But try telling that to the guardians of the common agricultural policy in Brussels. They see any market opening as the thin end of the wedge.



# Charlemagne | In Europe's McCainland

To the Baltic states, European talk of “strategic autonomy” from America is alarming nonsense



PERHAPS nowhere in Europe was John McCain mourned more deeply than in Estonia, Latvia and Lithuania. He had been one of a small group of American senators who in the 1990s called for NATO to encompass the Baltic states after four decades of Soviet rule. “He was always ready to listen to us and relate our problems and challenges to the US administration, Republican or Democrat,” says Juri Luik, Estonia’s defence minister. “He understood the role of NATO enlargement as part of the reunification of Europe; not everyone in Washington shared that.” Mr Luik has called for NATO’s new headquarters in Brussels to bear his name. Intentionally or not, such tributes also read like rebukes to President Donald Trump, whose commitment to transatlantic security remains as hazy as McCain’s was crystal-clear.

Baltic pro-Americanism is deep-rooted and intimately linked to the three states’ quest for freedom from Russia. Karlis Ulmanis spent years in exile in Nebraska before returning to Latvia, helping to wrangle its independence and becoming its first prime minister in 1918. He modelled his populist political style on William Jennings Bryan and imported American cultural institutions like 4-H agricultural youth groups and state fairs, even orchestrating aeroplane fly-pasts based on one by the Wright brothers. Opposition to Soviet rule in the 1970s and 1980s collected around, among other icons, Pits Andersons, a rock musician who took the name “Pete Andersen”, drove around Riga in a pink Cadillac and became known as the Latvian Buddy Holly.

It was America’s support after the cold war that sealed Baltic affections. The countries emerged from behind the iron curtain after decades of trauma. One survey in 1993 found that more than 40% of citizens had relatives who had been killed, imprisoned or deported by the Nazis, Soviets or both. It was Bill Clinton, urged on by McCain, who put them on the path to NATO membership, and Madeleine Albright who encouraged Latvia to naturalise its ethnic Russians to avoid future conflict. Then it was George W. Bush who presided over the Balts’ arrival in NATO (visiting several times) and Barack Obama who, weeks after Russia’s incursion into eastern Ukraine, visited Estonia to reassure Balts who feared they would be the next target of Russia’s hybrid warfare.

Mr Trump’s election caused anxiety. The president openly admires Vladimir Putin, has questioned America’s NATO spending

and had at times appeared reluctant to affirm the alliance’s Article 5, under which an attack on one member is considered an attack on all. His presidency seems to have emboldened Russia. In February it deployed nuclear-capable Iskander missiles to Kaliningrad, its militarised enclave between Poland and Lithuania, and in September carried out its largest-ever post-Soviet military exercise, a 300,000-soldier simulation of a major land war. “Every time Trump criticises NATO, people in the Baltics get very worried,” says Nils Muiznieks, a Latvian-American political scientist. Baltic elites are somewhat reassured by enduring support for NATO in Congress and by Mr Trump’s emollience on a visit of Baltic presidents to Washington in April. Raimonds Bergmanis, Latvia’s defence minister, was in the room: “The president was very clear about his commitments to our security.” But his inconsistency continues to worry the Balts. (A threat this week by America’s NATO ambassador to “take out” the missiles is not exactly reassuring.)

A second concern also haunts the Baltic capitals. At a time when America’s commitment to Europe is in question, Europe’s commitment to America and to a common security architecture could be fracturing in response. In Berlin, Brussels and Paris it is becoming vogueish to advocate “post-Atlanticist” foreign and defence policies making Europe more independent from America. “The US can no longer and will no longer be the stabiliser and protector of Europe,” wrote a group of continental intellectuals in *Die Zeit*, a liberal German weekly, last October. Emmanuel Macron and Angela Merkel, Atlanticists by their countries’ standards, have not endorsed such arguments. But even they have said that Europe can no longer rely on America.

## Mind the Suwalki Gap

What seems expansive and defiant in comfortable foreign-policy salons in Europe’s west is, to Baltic leaders, not just fanciful but irresponsible. In a city like Riga, Russia is close, immediate and scary. It has a record of bullying the Baltic states. Estonians recall the crippling Russian cyber-attack that brought their country to a standstill in 2007. Military planes routinely fly into Baltic air space from neighbouring Kaliningrad and St Petersburg, and Russian television pumps inflammatory disinformation into societies with large ethnic Russian minorities. Officials here lie awake at night worrying about the Suwalki Gap, the 65km Lithuanian-Polish border strip between Kaliningrad and Russian-allied Belarus that is the Balts’ only land link to the rest of Europe and could be cut off fast if Russia doubted NATO’s willingness to defend its members. No surprise, then, that in Mr Muiznieks’s words: “Talk of strategic autonomy scares the hell out of us.”

Baltic leaders raise practical objections to the notion; Europe lacks the cash, but it also lacks the willingness to create a real substitute for America’s security umbrella. The EU’s existing battle-groups, part of its tentative shuffle towards a military capacity of its own, have remained in their barracks as politicians have argued about where and how they should be deployed. Anything like strategic autonomy would take decades of “post-Atlanticist” investment and political evolution.

To the Balts, that is a long time. This year they are celebrating the 100th anniversary of their independence. It is a time of happiness and national pride, but also a reminder that these countries are young, vulnerable and pressed up against a large, threatening neighbour. McCain understood that. Balts wish more of their European partners did so, too. ■




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**The Conservative Party**

## Who'll be first in line?

BIRMINGHAM

**Theresa May clings on, but a queue is forming to succeed her as prime minister**

**S**HE danced, she joked and she got to the end without the stage collapsing. Theresa May's speech to the Conservative Party conference in Birmingham was a triumph of low expectations. After last year's catastrophic effort was marred by a stage invader, a coughing fit and a broken backdrop, this year's went without a presentational hitch. It was in the content that the trouble lay.

The week before, Labour had outlined a bold, if badly flawed, vision of post-Brexit Britain at its own party conference. Mrs May's speech was well crafted and convincingly delivered. But she failed to put forward ideas of a similar scale to Labour's. The few policies she announced—a plan to let councils borrow more to build houses, and the continued freezing of fuel duty—were small-bore. A promise to end austerity came with no explanation of how. “Conservatives will always stand up for a politics that unites us rather than divides us,” she promised. Unfortunately for the prime minister, what most unites the Conservatives is a feeling that her time in office is coming to an end.

A host of MPs are jostling to position themselves for the moment when Mrs May leaves (or is forced out of) Downing Street. This week's conference turned into a ministerial catwalk, with suitors flaunting themselves before the MPs and Tory ac-

tivists who will pick the party's next leader, and thus Britain's next prime minister.

The day before Mrs May's speech, Boris Johnson, her least-subtle would-be successor, hosted a 1,500-strong rally in which he set out an undisguised alternative plan for government. Jeremy Hunt, the foreign secretary, tried to fire up party members by likening the European Union to the USSR, and ended up infuriating EU ambassadors. Sajid Javid, the ambitious home secretary, promised to give taxpayers the £39bn (\$50bn) that Britain owes the EU, if the

country leaves with no deal. They are the front-runners in a long list of pretenders (see chart). Mrs May's eventual departure could trigger the most open leadership contest in decades.

The next leader must clear two hurdles. First, he or she must win the support of fellow MPs, who select a shortlist of two. The next hurdle is to win over the party's 124,000 members, who have the final say. Appealing to both of these groups is a difficult trick to pull off. MPs and activists may belong to the same party, but they are very different constituencies.

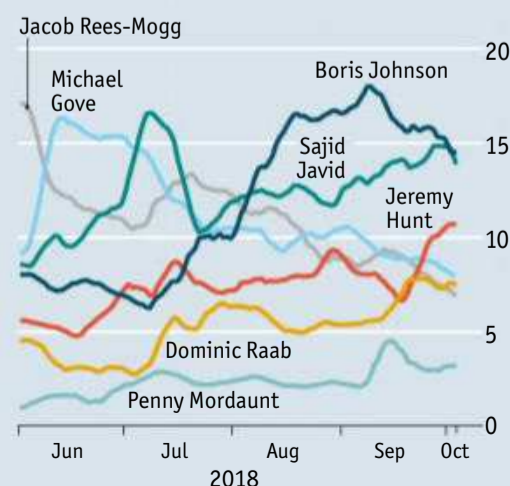
**Take a chance on me**

Two-thirds of Tory MPs were elected after 2010. Although many are strongly Eurosceptic, most have turned their attention to the questions Britain will face after it leaves the EU. At one event James Cleverly, the party's deputy chairman, joked that he didn't “give a shit” about the Brexit process. Fringe meetings saw earnest discussion of the housing crisis, the struggling high street and how to reinvigorate local government. Labour is “setting the rules of the game”, complained Lee Rowley, an astute member of the Conservatives' 2017 intake. The overwhelming consideration for most MPs in choosing a leader will be who can best keep the opposition from power, rather than who has the best lines on Brexit.

This may not be the case for the rank and file, for whom Brexit trumps nearly everything. Tory activists are “markedly Eurosceptic”, says Paul Goodman, the editor of ConservativeHome, a website for Tory activists. In Birmingham it was the hardline Brexiteers who were greeted with most excitement by members (see Bagehot). Young activists queued for three hours to see Mr Johnson.

**The winner takes it all**

Britain, next Conservative Party leader  
 Probability based on bets placed\*, %



Source: Betfair

\*Seven-day moving average

Members may be sceptical of the Damascene conversion of ministers like Mr Hunt, who backed Remain but now claims he would vote for Brexit if he had his time again. (Mrs May, another Remainer, has always refused to answer this question.) Mr Javid also voted for Remain, though mainly because at the time it looked like a sensible career move. Those who backed Leave from the beginning, such as Penny Mordeant, the international-development secretary, may have an edge that makes up for their inexperience. Although the party membership is male, pale and stale, it can be far-sighted. In 2005 it plumped for a 39-year-old David Cameron over an older and more right-wing David Davis, points out one former Downing Street staffer.

It may yet be some time before the contest gets under way. To trigger a leadership challenge, 48 Tory MPs—15% of the total—must submit letters of no confidence in the prime minister. Many are reluctant to do so while the negotiations with Brussels are in

their final, crucial phase. Should Mrs May survive until Brexit day, on March 29th, her fortunes may improve markedly. If she reaches a deal with Brussels, she will be unwilling to go quietly, believes one MP. What's more, if a leadership challenge is triggered and she survives it, under the party's rules a fresh challenge cannot be launched for another year.

Perhaps with this in mind, many ambitious, highly rated young MPs like Rishi Sunak and Tom Tugendhat have so far kept a low profile. The Conservative Party has a regicidal streak, but those who are seen to bring down a leader rarely end up with the prize, say old hands.

Whoever steers Britain into its post-Brexit era will face a grim task, with an exit deal that is likely to leave no one satisfied, frail public institutions, a fragile economy and a Labour Party increasingly setting the economic agenda. They will need big ideas as well as powerful rhetoric. Even then, they will have little to dance about. ■

£161m of which was funded by lottery and government money. Under the deal with Mr Khan, the FA would keep most of the stadium's hospitality rights, valued at about £300m. But the cash that it received would be substantially below what the FA has spent on the site since 1999.

Given that house prices in London have tripled since then, it looks to many like a bad deal. But the market for 90,000-seat stadiums is rather different from that for three-bedroom semis. Valuing Wembley is particularly hard, as it is almost unique in not being part of a rich Premier League club. Twickenham stadium, owned by the Rugby Football Union, is the only comparable asset in London, points out JLL, a property services company. The FA says that the offer meets a valuation that it commissioned from Rothschild, a bank.

Mr Khan is the sole bidder, so there is little pressure on him to improve his offer. If the FA does sell up, it will be saying goodbye to its only substantial asset. The proposed deal excludes branding rights, meaning that England will at least be spared the indignity of Wembley being renamed by a commercial sponsor. The FA is also seeking assurances that Wembley would still stage "major fixtures and events currently hosted at the stadium". But the FA already concedes that England's autumn international matches would have to be moved elsewhere to accommodate more NFL games.

Moreover, many doubt that this sale would achieve the "transformation" of the grassroots game that the FA promises. The public money that was used to build the stadium would have to be repaid (though the government might channel it back into football). The rest could quickly disappear if spent helping 29,000 clubs. "It seems like a short-term fix," argues David Webber, a sports expert at Southampton Solent University. A bit like many England managers' coaching methods. ■

## Wembley stadium

# An own-goal?

### Fans cry foul over plans to sell the national stadium

**A**FTER an intoxicating summer in which England reached the semi-final of the World Cup in Russia, English football fans face the prospect of seeing Wembley Stadium, the national squad's home, fall into the hands of a foreigner. This is the sacred turf where England won the World Cup in 1966. Many fans are far from happy.

The potential buyer is an American, Shahid Khan. He already owns an English Premier League football club, Fulham, as well as the Jacksonville Jaguars, a National Football League (NFL) franchise. The Jaguars have been playing NFL games at Wembley since 2013. Mr Khan wants to stage more such matches there, so he is offering £600m (\$780m) to Wembley's owner, the Football Association (FA), to buy the stadium outright.

The FA, which runs the grassroots side of the game in England, is hard-up. Its bosses see this as a one-off opportunity to overhaul the tens of thousands of muddy pitches and freezing club houses that make up the country's dilapidated football infrastructure. The deal, already agreed on by the FA's board, will be put to its 127-member council on October 11th.

No one doubts that the English game needs an injection of cash. Football's Premier League might be the richest in the world, but the grassroots remain in poor shape. In a survey of the 29,000 affiliated

clubs, 49% reported that at least five fixtures per season were cancelled because of frozen or waterlogged pitches. But many argue that selling Wembley is not the best way to fund a modernisation of the game.

For a start, there is the valuation. The FA bought Wembley stadium in 1999 for £103m and completely rebuilt it, demolishing its old twin towers and installing a giant arch designed by Lord Foster. Costs overran, eventually totting up to £757m,



They think it's all over

# Bagehot | The true believers

All the energy at the Conservative Party conference was with the hard Brexiteers



THE theme of this year's Conservative Party conference in Birmingham was "opportunity". In normal times it would be political death for a speaker to make fun of his party's slogan. But these are not normal times. Ross Thompson, the MP for Aberdeen South, told a rally of Brexiteers that he couldn't look at one of the ubiquitous "opportunity" signs without wanting to add a few modifiers, such as "missed", "lost", "wasted" and "squandered". They roared with approval.

The Birmingham conference was in fact two events rolled into one: the annual meeting of the Conservative Party and a reunion of the pro-Brexit movement. The party conference had a North Korean feel. Tory dignitaries delivered wooden speeches. "Real people" testified about the party's wisdom. Well-scrubbed functionaries gave out stickers proclaiming "the best Brexit deal". The rally, by contrast, felt like something out of the French revolution. The crowds erupted with cries of "Sack the woman!" and "Traitors!"—and only just stopped short of chanting "Lock her up".

Brexit's true believers like to say that they made a great mistake in assuming that winning the referendum meant winning the war; that they wound up their operation while the other side kept campaigning. This is a dubious claim. BrexitCentral, a website run by former Vote Leave staffers, has continued to publish since referendum day. Either way, the movement is certainly back. Leave Means Leave, another campaigning outfit, is deploying all its old tricks: a battle bus, mass rallies and snappy slogans ("No deal, no problem").

The movement's biggest star is Boris Johnson. In Birmingham people queued for three hours to listen to the former foreign secretary dismissing Theresa May's Brexit plan as a national humiliation. Its most ubiquitous spokesman is Jacob Rees-Mogg, who was mobbed wherever he went. Mr Rees-Mogg has established a unique position in the movement, more trusted by true believers than Mr Johnson, but also more respected by Mrs May's team ("Jacob plays chess while Boris only plays chequers," says one). The Brexit firmament extended beyond Old Etonians. Priti Patel, the MP for Witham in Essex, and Andrea Jenkyns, MP for Morley and Outwood in Yorkshire, were also everywhere. Ms Jenkyns became a Brexit hero when she asked Mrs May in Parliament, "At what point it was decided that Brexit means Remain?"

The hard core are Manicheans. They believe the world is divided between the people (who are both virtuous and wise) and the powerful (who are so clever they are stupid). Daniel Hannan, an MEP, says that Remainers who predicted that Brexit would lead to economic disaster are like members of a doomsday cult, constantly revising the date of the apocalypse. Mr Rees-Mogg likens the British people to Gulliver and the establishment to Lilliputians who are determined to tie him down.

The Brexiteers regard referendum day as Britain's greatest moment since the second world war. But they are convinced that their great achievement is about to be betrayed. Theresa May promised what amounted to a hard Brexit in her Lancaster House speech last year. More than 80% of the electorate voted for parties that supported Brexit in the election of 2017. But now the prime minister has been got at. Senior civil servants have poured honeyed words into her ear. Eurocrats have worn her down. Traitors such as Michael Gove have put their own careers above the true faith. The resulting compromise that she proposes will be the worst of all worlds—out of Europe but still run by Europe. There is an even bigger threat on the horizon: a second referendum that will be rigged to ensure the elite gets its way. Sir Nick Clegg, a former deputy prime minister, has already floated the idea of giving young people two votes each. One Tory confided in Bagehot that there was an even more dastardly scheme in the works, to limit the franchise to university graduates.

Does any of this fire and brimstone matter? One possibility is that the ultras are making so much noise precisely because they have lost the war. Most Tory MPs regard them as nutters. Mrs May is determined to stick to her Brexit plan. And the party is in no mood for a leadership fight in the middle of the negotiations.

## Taking over the asylum

Yet the depressing truth is that it does matter. The hard-core Brexiteers exercise a gravitational pull on the party. They persuade otherwise sensible politicians to speak in tongues. Jeremy Hunt, the foreign secretary, delighted them (and appalled his fellow foreign ministers) by likening the EU to the Soviet Union. They dominate local selection committees. Anna Soubry says that Remainers like her would not get a seat these days. They embolden potential rebels. Spotting a whip taking notes at a meeting of Brexit ultras, Owen Paterson, another MP, told him that he intended to vote against the government's Brexit deal. One reason Mrs May's premiership has been so troubled is that she started it by playing to the Brexit gallery, beginning exit negotiations before she had a plan and drawing red lines that have limited Britain's options.

The hard-core Brexiteers are yet more evidence of an ugly turn in British politics towards tub-thumping, no-holds-barred populism. The similarities between the Brexiteers who gathered in Birmingham and the Corbynites who gathered in Liverpool the week before are striking. There is the same insistence that "we are the mainstream". There is the same hunt for traitors to hang. There is the same hijacking of party democracy: wealthy Leave-backers are trying to get Remainer Tory MPs deselected, putting up posters in their constituencies saying "Make the Conservatives Conservative again". There is even the same insistence that there will be blood on the streets if the people's will is thwarted. Debating the pros and cons of having a referendum, David Cameron quoted Shakespeare's warning against "unleashing demons of which ye know not". The demons have been unleashed and on both the left and the right they are on the prowl. ■



## School bullying

## The unhappiest days of their lives

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56 Cyber-bullying

Two articles look at school bullying—first in its age-old, physical variety, and then its digital form

“THEY forced my ten-year-old son to wear used toilet paper on his head,” complained a mother in Beijing on We-Chat, a Chinese social-media site, in 2016. Her post soon went viral. It touched a nerve in a country where school bullying has traditionally been seen as a rite of passage. Her son’s school, one of the best in Beijing, dismissed the brouhaha as “harmless mischief between kids”. But a spate of reports about even more vicious acts of bullying at other schools soon followed.

Officials reacted swiftly, passing anti-bullying legislation at both national and local levels. So today China’s anti-bullying policies are among the world’s toughest. In one Beijing district staff at public schools are required to report incidents of bullying to the local education authority within ten minutes of observing them. (How to punish the bullies is yet to be worked out.)

Surveys in Britain and America consistently show that the biggest worry parents have for their school-age children is that they will be bullied. In Japan more pupils commit suicide on September 1st, just before the start of the new term, than on any other day. But educators struggle to spot bullying, let alone to stop it. Many victims are too ashamed to tell a teacher. One former victim who recently finished high school in Vancouver says he kept the pain

to himself for several months, worried that teachers would “judge” him.

Globally, bullying tends to peak in the early-teenage years before tapering off. Boys are slightly more likely than girls to engage in it, and to bully both sexes. Girls tend to bully other girls. Boys are more likely to use their hands and feet. Female tormentors prefer “relational” bullying, such as spreading false rumours or exclusion from a social group.

Children who are from ethnic minorities, short, obese, disabled, gay or have poor social skills are at higher risk. Victims of bullying may in turn bully others. In America bullies pick on “nerds”. In China and South Korea, by contrast, those with poor grades are at higher risk. A study in 2013 of the Arab world found that the best predictor of being bullied was having crooked teeth. But bullied children everywhere risk long-term health effects. A graduate student at Oxford University says he was “emotionally scarred for at least five years” after being tormented in middle school in Hong Kong.

The prevalence of bullying varies greatly across the world. Data, largely based on students’ own reports, probably underestimate the scale of the problem. They suggest bullying is most common in parts of Africa. A survey from 2011 found that 70%

of Egyptian 13- to 15-year-olds reported being bullied at least once in the past 30 days. At the other end of the spectrum stands Sweden, where, according to a poll from 2014, only 11% of children in the same age group reported being bullied in the past month. In America, Britain and Canada the rate is between a quarter and a third. Cross-country comparisons, however, are problematic. Perceptions of what constitutes bullying vary across borders. For instance, the Chinese word for bullying, *qifu*, has a very physical connotation.

## Get involved

Most rich countries have anti-bullying laws. In Britain all state schools have since 2006 been required to adopt a school-wide anti-bullying policy. By 2015 every state in America had anti-bullying legislation. States with the strictest laws, such as Massachusetts, require school officials to report all bullying to the head, who must “promptly conduct an investigation”.

Central to tackling bullying in schools, argues Christina Salmivalli of the University of Turku in Finland, is to encourage bystanders to intervene. The main motivation for bullying is the drive for social status. By teaching bystanders to speak up, or at least not to laugh at the victim, the “social rewards” of bullying can be reduced, ▶▶



she says. In the late 2000s Ms Salmivalli formulated an anti-bullying programme called KiVa (the Finnish word for “nice”), which includes team-building exercises and online simulations. Today it is taught in thousands of schools in Finland, and hundreds more around the world, with promising results. Most surveys of KiVa’s effects show steep drops in the numbers reporting themselves bullied.

Other approaches abound. The International School of Beijing has security guards in every changing room (an option few schools can afford). Many school-bus drivers in North America assign seats, keeping suspected bullies close to the front. Every classroom at Rhiw-Bechan School in mid-Wales has a “worry-box” for pupils to report bullies anonymously.

Anthony Parker, head of Weston High School in Massachusetts, says he informs parents any time their child is accused of bullying. Nine times out of ten, the bullying then stops. An anti-bullying bill proposed in March in Pennsylvania would al-

low a judge to mandate community service or levy a \$500-750 fine on parents if their child is caught bullying, starting from the third offence.

Some approaches have been shown to backfire. “Restorative” methods that put the bully and victim together to patch things up may end up further traumatising the victim. Some sorts of punishment, like expulsion from school, may simply shift the problem elsewhere.

Cultural differences complicate the picture. In China, for example, rural migrant workers in cities are treated as second-class citizens. Their children, when bullied, may attract less sympathy from teachers. Such unfairness helps explain why, distressingly, some victims will always decide that the only answer to bullying is to fight fire with fire. One such, Alexander, a 23-year-old now working in Canada who spent part of his childhood in Uzbekistan, says that “sometimes you have no choice but to match the aggressiveness of the bully. It worked for me.” ■

have been victims.

Online, where posts can lead their own viral lives and everything leaves a trail, words can be eviscerating. Often the only defence victims have is to delete their online profiles entirely. But that means forging a way to interact with others in a positive way. Bullying happens where young people spend their time—at present, mainly Instagram, Snapchat, Facebook and WhatsApp. In South Korea the most likely venue is Kakaotalk, the country’s most popular messaging app. A widely suggested “solution” is to forbid teenagers from particular platforms. But then they will migrate to another.

Facebook and Instagram use artificial intelligence to spot abusive language. Most social-media sites have instructions on how to report disturbing material and block other users. Users can anonymously flag posts by others who they think might be suicidal. The source of concern will then receive suggestions and support. Facebook this week announced new ways for users to avoid “unwanted, offensive or hurtful experiences”. They will be able to delete or hide a whole set of comments at once. And it will be easier to report bullying anonymously, including on another’s behalf. But bullied teenagers are unlikely to find solace in any of this. A recent survey in Britain found that 70% of them thought that social-media companies do too little to prevent bullying.

Schools around the world have varying ways of dealing with bullying, ranging from banning mobile phones to using software that blocks social-media platforms in school grounds. Italy passed an anti-cyber-bullying law last year. It requires schools to assign a staff member responsible for tackling the problem. Websites must remove bullying content within 48 hours. But reducing cyber-bullying through legislation is often tricky. The Canadian province of Nova Scotia introduced an anti-cyber-bullying bill after a high-profile teenage suicide. But the law was later struck down by the courts for violating free speech.

Many scholars agree that the answer to tackling cyber-bullying lies in educating both children and adults in digital skills. Around a third of internet users are under 18. Yet Tijana Milosevic, a postdoctoral researcher at the University of Oslo, says minors are rarely asked about how to curb cyber-bullying. As they use social media without adult supervision, they often find it hard to tell their parents when something goes wrong online. Mrs Trump has produced a leaflet, suggesting parents discuss with their children their online lives, about which they often know nothing. Sensible advice—like her injunction to set an example of good online behaviour, and to remind children that “online actions have consequences”. If only adults could take this lesson to heart. ■

## Cyber-bullying

# Clicks and stones

### Schoolyard abuse has migrated online; adults are still catching up

THE anonymous messages poured in daily. “Go kill yourself.” “You’re worthless.” At first Courtney Axford-Dando bottled it all up. She had been bullied since she was five years old. It began in the playground and classroom and then moved to social media. Her bullies would hurl abuse about the way she looked and behaved, and try to isolate her in school. Eventually, when she was 12, her family found out. In her school in Wales, teachers spotted the face-to-face bullying. But online, her tormentors continued after classes and, as most were anonymous, the school would not help. She spiralled into a depression that only years of counselling alleviated.

Of all the forms of bullying, the online variety attracts the most attention these days. It is a big focus of the “Be Best” initiative launched by Melania Trump, America’s First Lady, to teach children the importance of social, emotional and physical health. Online platforms offer bullies ever more creative ways to persecute victims outside school hours. Cyber-bullying varies from private threats to cruel public comments to spreading sexually explicit material. Bullies might invite their target to a chat room or group conversation created for the sole purpose of hurling abuse at him or her. Conversely, exclusion from a popular group chat is the online equivalent

of being picked last in gym class.

Reports of teenagers bullied online and committing suicide naturally cause panic among parents and legislators. But cyber-bullying—continuing hurtful harassment—is in fact not as rampant as tabloid headlines suggest. Prevalence estimates vary depending on the definition used. One multi-country study found that the share of children reporting that they had been bullied online more than once a week ranged from 0.7% in Japan to 12.6% in Israel. A second study found that 27% of American children had endured bullying online; a third that 17% of British teenagers





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## General Electric

# Blame game

NEW YORK

**John Flannery could not reverse the mistakes of former GE chiefs rapidly enough. Will Larry Culp do better?**

THE weight of the past can be heavy indeed. That is a lesson that John Flannery, who only 14 months ago took over as chairman and chief executive of General Electric (GE), an 125-year-old industrial conglomerate founded by Thomas Edison, has learned the hard way. The company veteran (pictured above) came up with fairly radical plans for downsizing and decentralising the troubled conglomerate. He announced a cut in its dividend. He also declared that he would, in time, spin off its health-care division and sell its majority stake in Baker Hughes, an oilfield-services firm. That made for a welcome change from Jeffrey Immelt, his predecessor, whose 16-year tenure saw a dramatic decline in GE's performance and profitability.

So it came as a shock when, on October 1st, GE's board ousted Mr Flannery. He must have thought it would give him a few years to implement his turnaround strategy, which was unveiled only last November. He had not made any big missteps. He was replaced by Larry Culp, a former chief executive officer of America's Danaher, a smaller but more successful industrial conglomerate. Mr Culp, who joined GE's board in April, is the first outsider to run the company.

Why did Mr Flannery get the boot so quickly? Part of the answer may be that the firm's board knew it had waited too long to hasten the departure of Mr Immelt, who during his time bought and sold industrial

businesses worth \$126bn (paying around \$6bn in fees to Wall Street banks in the process) with rather little to show for it in terms of cash return on capital, which has fallen. The board was probably compensating by subjecting Mr Flannery to closer scrutiny for any problems.

That such problems emerged was hardly his fault. A series of financial setbacks have buffeted GE in recent months, but they originated long before Mr Flannery's time as chairman. This week the company

said it would have to write off a staggering \$23bn in goodwill associated with acquisitions of France's Alstom and a number of other power-related businesses. In 2015 Mr Immelt ill-advisedly paid \$10.6bn for Alstom, which makes turbines using fossil fuels, just as renewable energy was taking off around the world.

In January the firm had revealed a massive shortfall in reserves at its GE Capital insurance business, part of a legacy financial-services arm that is being wound down (Mr Immelt himself inherited this over-expanded unit from Jack Welch, who ran GE for 20 years). The gap in reserves forced the firm to take a \$6.2bn after-tax charge and to put another \$15bn aside to cover its long-term-care insurance policies. And in September, the firm's troubled power division, which makes electricity-generating turbines, acknowledged that defective blades have been found on some of its newest turbines, prompting worries about the potential cost of fixes.

Mr Flannery must accept some responsibility for his fate. He may have been pointing GE in the right direction but he was not moving fast enough, perhaps because he was too much of an insider to make cuts of the necessary severity and speed. Despite appearing to speak bluntly about GE, argues Scott Davis of Melius Research, Mr Flannery continued Mr Immelt's bad habit of sticking to overly ambitious profit targets for too long.

He was too slow to acknowledge that sinking demand for gas turbines, for example, would mean missing some goals. This combination of bad luck and slow implementation undid him as investors lost confidence in his ability to turn things around. GE lost over \$100bn in market value during his tenure (see chart).

What are the chances of Mr Culp doing better? Shares bounced on news of his ap- ▶▶

### Electric slide

Share prices, August 1st 2017=100



GE, change in market capitalisation since August 1st 2017, \$bn



Source: Thomson Reuters

pointment. He has strong credentials. From 2000 to 2014, when he ran Danaher, its revenues rose five-fold, to \$20bn, and its market capitalisation leapt six-fold, to \$50bn. In a book published in 2012, Chris Zook and James Allen of Bain, a consultancy, describe how he perfected the Danaher Business System, a methodical approach to running diversified industrial firms. They note that the corporate headquarters of Danaher (which had some 48,000 employees and over 80 business units at the time of the book's writing) had fewer than 100 people. GE, by contrast, is known for its legions of well-paid executives.

Yet the new boss will have his work cut out. At Danaher Mr Culp succeeded by expanding a middling industrial firm through many disciplined acquisitions. At GE, which grew bloated from too many overpriced purchases, Mr Culp will be on unfamiliar terrain. Rather than buying in the name of growth, he will probably be managing decline, for a while at least. That could become difficult politically, too. There is talk that GE may have to shut its costly turbine-manufacturing plant in upstate New York, for example, something that may well attract the ire of President Donald Trump.

It is possible that GE's financial position could deteriorate further before Mr Culp gets his feet under his new desk. On October 2nd Standard & Poor's, a ratings agency, downgraded GE's debt by two notches, to BBB+. GE now predicts weak demand for gas turbines until 2020. Sales are likely to plunge sharply this year. Since no strategic plan or press conference accompanied Mr Culp's sudden ascent this week, analysts have been left guessing as to the new boss's plans. GE's third-quarter earnings presentation on October 25th, which may be the next chance to glean some clues, will be watched like few before. ■

## Bartleby | Keep calm and go home

### A management book that is refreshingly different

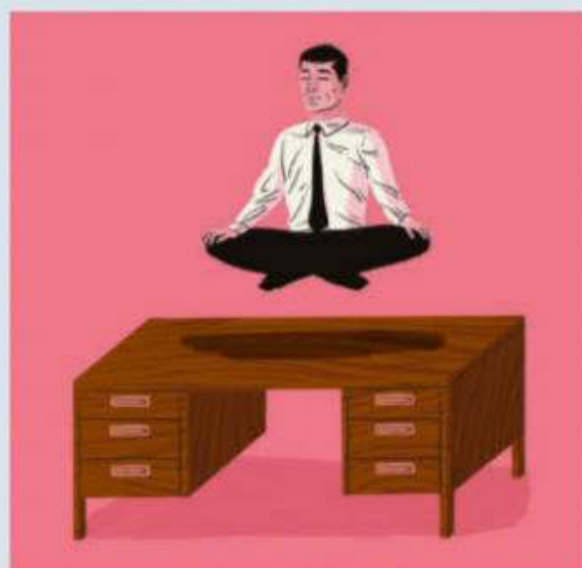
MANAGEMENT books have a deservedly poor reputation. Too often they are written by people who confuse insight with jargon, the types who love to call a spade a "manual horticultural utensil". At the other end of the scale are tomes containing a plethora of pithy platitudes about "breaking the mould" and "worshipping the kill". The choice, in short, is between the incomprehensible and the inconsequential.

So it was a joy for Bartleby to read "It Doesn't Have to be Crazy at Work", by Jason Fried and David Heinemeier Hansson, who run a software company in Chicago called Basecamp. Their book is funny, well-written and iconoclastic and by far the best thing on management published this year.

The authors argue that it is perfectly possible to run a business with consistently growing profits (as they do) without requiring employees to work madly long hours. Tired workers will not be productive since "creativity, progress and impact do not yield to brute force". Sleep-deprived managers are likely to be counterproductively impatient.

Basecamp employees have a 40-hour week, except in the summer when the company runs a four-day, 32-hour week. They also get three weeks' holiday every year (subsidised by the firm to the tune of \$5,000 per person), a month-long sabbatical every three years, and a monthly massage at a spa.

Those are the right sort of perks, say Messrs Fried and Heinemeier Hansson. The wrong kind, found in many offices, include free dinners, games rooms and snack bars, which are all devices to keep employees at the office for longer. Workers should also beware of companies that declare "we're all family here"—a ruse to get workers to put their employers ahead



of the needs of their real families.

Another criticism of corporate culture levelled by the book is that offices have become interruption factories. People are working longer and later because they cannot get stuff done at the office any more. At a conference attended by 600 people, the authors asked how many had recently enjoyed 3-4 hours of uninterrupted work; only 30 hands went up.

Open-plan offices are particularly bad at providing an environment for calm, creative work, they argue. So "library rules" are imposed at Basecamp. Conversations are kept to a whisper and there are separate rooms when meetings are needed.

Meetings are avoided, especially those involving lots of people. As the authors rightly point out: "Eight people in a room doesn't cost one hour, it costs eight hours". Workers do not need to be kept abreast of every single corporate development via memos or all-staff emails. The firm encourages JOMO, the "joy of missing out", so employees can concentrate on their own work projects.

Another way to reduce stress is to avoid turning deadlines into "dreadlines"—unre-

alistic targets for project completions accompanied by ever-changing requirements. "Goals are fake," the authors write. In their telling, made-up numbers function as a source of unnecessary stress until they are either achieved or abandoned.

Nor should workers demand that their colleagues deal with a query straight away. In almost every situation, the expectation of an immediate response is unrealistic. Allowing workers more time means they can come up with a more considered and helpful answer.

The overall aim of the firm should be couched in modest terms. Too many businesses talk about "changing the world" and becoming a "disrupter". Such aims are far too grandiose and put everyone under too much pressure. As a manager, if you set out to do a good job for your customers, and to treat your employees fairly, things will probably turn out fine.

In short, the book aims to persuade managers to take their "mission" less seriously and to take their employees more so. Furthermore, executives should stop equating the work ethic with the practice of working long hours. Work should not be frantic. A calm company can be good for employees and very profitable as well.

Whether or not it is as nice to work at Basecamp as the authors make it sound is hard to tell from the outside. It was voted one of America's best small companies in 2017 by *Forbes*, a magazine. It helps that the group is private and has no activist investors to please. Some of its practices might not be possible at a giant, listed firm. But a lot more executives ought to reflect on its message. A relaxed ethos in the office might work better in the long run than the hard-charging approach that, at the moment, is all too common.

## Generation gap

## Millennial longing

Firms are gradually adapting to the tastes of younger consumers

OLDER people are not the only ones to try too hard to be hip and youthful. Long-established firms can, too. Just look at Procter & Gamble (P&G), one of the world's largest consumer-goods firms, which this year applied to America's federal patent office to trademark LOL, NBD, WTF and FML, abbreviations commonly used in text messages and social media. If it succeeds, the 181-year-old firm plans to use the phrases to market soap, cleaners and air fresheners to young buyers. Its move is the intellectual-property equivalent of Dad dancing. But it is a sign of large firms' eagerness to woo millennial consumers.

To many firms they are a mystery. KPMG, a consultancy, reckons nearly half do not know how millennials—typically defined as those born between 1980 and 2000—differ from their older counterparts. That may be because such differences are overblown. According to Ipsos-MORI, a pollster, millennials are “the most carelessly described group we have ever looked at”. Many claims about them are simplified or wrong. It is often said, for example, that they ignore conventional ads; in fact they are heavily influenced by marketing.

Given such misconceptions, it is little wonder that firms sometimes get it wrong. In February, MillerCoors, an American brewer, released Two Hats, a light fruit-flavoured brew the beer-maker said would suit millennials' tastes and budgets (tagline: “Good, cheap beer. Wait, what?”). Consumers just waited; the beer was pulled from shelves after six months. But some stereotypes about millennials have roots in reality. Companies are finding that three broad approaches do succeed when trying to sell to them: transparency, experiences (over things) and flexibility.

On the first of these, transparency, younger brands have led the way. In clothing, one example is Everlane, an online clothing manufacturer based in San Francisco. It discloses the conditions under which each and every garment is made and how much profit it generates as part of its philosophy of “radical transparency”.

Some large companies have made dramatic changes. ConAgra, an American food giant, has simplified its recipes and eliminated all artificial ingredients from many of its snacks and ready meals. After years of falling sales, it is growing again; millennials now account for 80% of its customer growth. “Bringing in these folks has been absolutely critical to growing the



brands,” says Bob Nolan, ConAgra’s senior vice-president of insights and analytics.

Millennials’ appreciation of experiences over “stuff” is also real. Online platforms such as Airbnb have capitalised on youngsters’ taste for splurging on holidays, dinners and other Instagrammable activities, but so too have some older bricks-and-mortar firms. In 2016 JPMorgan Chase, a bank, launched Sapphire Reserve, a premium credit card that offers generous rewards for spending on travel and dining. Touted as “a card for accumulating experiences”, the \$450-a-year product has been a hit with well-off millennials, who represent more than half of cardholders.

Younger consumers also have more debt, fewer assets and less job security than previous generations. In this regard, flexibility matters. Ally Bank, a subsidiary of Ally Financial, the former financial wing of General Motors, for example, does not charge its current-account customers any maintenance fees or require them to hold minimum balances. Such features have earned it the loyalty of millennials.

Business models are being revamped to serve commitment-phobic millennials. Big carmakers, including GM, Volvo and BMW, offer subscription services for their cars, offering access to new vehicles without lengthy financial obligations.

Yet many firms still have too homogeneous a view of millennials, says Laura Beaudin, a partner at Bain & Company, a consultancy. “If you want to resonate with a group that prides itself on diversity, having a one-size-fits all solution does not make sense,” she says. Some firms do embrace customers’ individuality—in May, Gucci, an Italian fashion house, introduced customised versions of a popular tote bag and pair of sneakers as part of a campaign called Gucci DIY. Gucci reportedly maintains a cadre of under-30 staffers to advise its boss. Expect more companies of a certain age to hark back to youth. ■

## Thyssenkrupp

## This end, cropped

PARIS

A European industrial stalwart breaks up under investor pressure

CONGLOMERATES hold a natural appeal for bosses, who fancy themselves capable of managing any number of businesses under one corporate roof. At least in rich countries, investors are sceptical about such bluster. They have long applied a discount to the shares of diversified companies against those of rivals focused on doing one thing and one thing only. Thyssenkrupp, born of the merger of two German conglomerates in 1999, has bowed to frustrated shareholders: on September 30th it said it would split in two. The 17% jump in its share price when the news was announced, though short-lived, will surely spur investors to take on other ungainly corporate structures.

As a purveyor of steel, submarines, robots, lifts and much else besides, thyssenkrupp is as unwieldy as they come. A new strategy announced in 2011 drifted along until the summer when both its chief executive and chairman were ousted. The firm has done little in a decade when its German peers surged. Radical surgery could no longer be delayed.

It is not alone in reaching this conclusion. Across the Atlantic, GE’s troubles are well known (see previous article). Voluntary amputation has taken place at a number of European firms. In August Whitbread, which mainly runs hotels, agreed to sell its Costa coffee shops to Coca-Cola for \$5.1bn. In March A.P. Moller-Maersk finalised a deal to sell its energy assets to Total, a French oil giant, to focus on its logistics and shipping business. Other big firms, from Nestlé to Philips, are shedding units.

At many companies, activist hedge funds are the driving force behind carve-outs and break ups. Freed from their corporate overlords, the thinking goes, bosses of the liberated divisions can seize market opportunities more readily. Spun-out businesses are also easier to merge with a rival or can be taken over by a private-equity fund, which drives up share prices further.

Thyssenkrupp had been nagged since 2013 by Cevian, a Swedish investor which owns 18% of the group, to rethink its structure. It has long complained that the stagnant parts of the group, notably the ailing steel business, hogged management’s attention at the expense of more promising units. One of these is thyssenkrupp’s lucrative lifts business, which generates enough profits to justify the entire conglomerate’s €13bn (\$15bn) stockmarket value. This will form the bedrock of the new “Thyssenkrupp” ▶

rupp Industrials” company, which has roughly half the group’s €34bn in sales but generates higher margins. The other firm, “Thyssenkrupp Materials”, will include a stake in the historic steelmaking unit being merged with the European business of Tata, an Indian conglomerate. Guido Kerkhoff, the newish chief executive who will oversee the split, says it will take up to two years.

Investors in America have had such successes busting conglomerates apart that they are now largely viewed as creatures from another era. In Europe, battles to break up what few remain are more bruising. Thyssenkrupp’s unions have had to be

placated. Germany remains hostile territory for Anglo-Saxon financiers: Elliott Management, another activist hedge fund that has targeted Thyssenkrupp, has had to deny claims of inflicting “psycho-terror” on the firm’s executives.

Activist Insight, a data provider, says no fewer than 77 European companies, including many conglomerates, are being targeted by activist investors. These funds sit on more corporate boards than ever before. What little time bosses of the remaining conglomerates have between juggling duties at disparate business units will be spent fending off investors clamouring for empires to be dismantled. ■

average. The 98 brands owned by Vivo, a smartphone-maker, were the most widely affected, in 53 countries and regions including America, Brazil, and the EU. Another victim was Hunan China Tobacco Industry, a cigarette brand squatted in 21 places, from Panama to Indonesia.

The practice is not entirely new: the trademark for the biggest brand of traditional Chinese medicine, Tong Ren Tang, has been owned by others in Japan, South Korea, America and Europe since the 1980s. But the CTA claims that malicious squatting of Chinese brands, which are increasingly valuable, has become “professional and large-scale”.

In one case last year dozens of toymakers, chiefly from the Chenghai district of Shantou, in southern Guangdong province, learned that an Indian-Chilean toy merchant in Chile had registered over 300 of their trademarks there, resulting in the blocking of some of their products at customs. Tianjin Wanda Tyre Group, a tyre firm, had refused to give exclusive distribution rights to a Finnish reseller, then discovered that its partner had registered Wanda’s trademark for its own use in the EU in 2011. Since 2014, a Chinese food-and-beverage giant has fought to invalidate the registration of its trademark in Britain by a British citizen of Chinese descent.

Like their Western counterparts, however, Chinese firms are finding registrations by others hard to overturn. Jani Kaulo of Kolster, a Finnish intellectual-property firm that represented Wanda, says that is partly because they have been slipshod in storing files to prove a first-to-use right. This should have been easy: Wanda had been selling its tyres in Europe since 2006. But it failed in its appeal at the European Union Intellectual Property Office, thus losing its main brand in the EU market.

Trademark offices approach complaints from Chinese brands with an attitude shaped by the relentless squatting by Chinese trolls on European ones, adds Mr Kaulo. Compounding this is the weak position of Chinese-character trademarks abroad. In the EU only their visual component is recognised in trademark law, not their pronunciation or their conceptual meaning. That makes them easy to copy, for example with homonyms that could fool Chinese-speaking buyers abroad.

China is stepping up efforts to defend its brands. After the CTA set up a committee to protect trademarks abroad in April, Nantong, a coastal city, established its own office and nearby Shanghai announced that it would, too. The Chilean toy case was among the first set of brand-infringement warnings released by the Chinese government in 2017. Ning Lizhi, a legal expert who worked on the dispute in Chile, terms the case an “unusual and significant” one, which was resolved when the Indian-Chilean businessman agreed to become a re- ▶▶



### Chinese trademarks

## Bringing their pigs to market

SHANTOU

### China begins to grapple with trademark infringement of its own brands

PEPPA PIG was the target of China’s online censors earlier this year when the pink porcine character for toddlers was co-opted by unruly Chinese teenagers as a subversive symbol. But the popular piglet is also the object of another sort of unwanted attention: the registration of trademarks related to the brand by foreign “squatters”, who hope to benefit as counterfeiters or competitors, or to extract a hefty fee when its true owners lay claim to it. The cartoon character’s British owners said last month that more than 100 Chinese firms have put in applications for Peppa Pig trademarks, some made years ago, thus in effect blocking its own.

China’s “first-to-file” trademark law (as opposed to the “first-to-use” rule in America and Britain, based on the sale of the

good or service in question) means that speedy filings by locals can stop original brand-owners selling in China. Because registrations are cheap, trademark “trolls” file by the hundred. Dozens of foreign firms have been stung, from Apple (which paid \$60m in 2012 to retrieve the right to use its iPad trademark in China) to Viagra, for which Pfizer, its American manufacturer, still does not own the Chinese-character mark by which it is best known to Chinese.

Now Chinese brands are finding that they too are increasingly targets of foreign squatters. An investigation commissioned by the China Trademark Association (CTA), a lobby group, into around 300 of its best-known members found that the trademarks of around a third had been squatted, each in around four countries on

▶ seller for the Shantou toymakers in Chile. Given the ease and speed of the settlement, Mr Kaulo reckons that China's government must have intervened.

Might greater concern for its own brands prod China into playing fairer with those of others? Its leaders have already been threatening tougher intellectual-property protections. Last year three Chinese shoemakers were told to pay 10m yuan (\$1.5m) to New Balance, an American footwear company, for copying its logo. In August the Lego Group won a case against Lepin, a Chinese toy manufacturer and copycat of its colourful brick sets, which was made to pay damages of 15m yuan to the Danish firm. It was one of the largest trademark-related awards ever made by a Chinese court. And in the same month two Chinese firms were ordered to stop making products using the image of Peppa Pig, in what the court called a landmark case. Swine beats swindler, then. ■

## Tesla

# Taking one hand off the wheel

**Elon Musk's grip on his carmaker is loosened by American regulators**

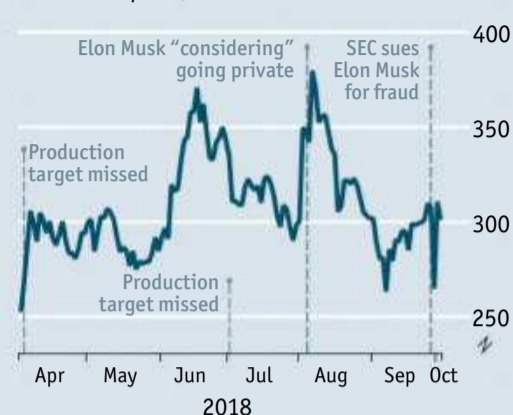
THE brief and bizarre battle between Elon Musk, the face of Tesla, and the Securities and Exchange Commission (SEC), the main regulator of America's stockmarkets, is over. The agency had filed a civil lawsuit against Mr Musk on September 27th, alleging that he misled shareholders about his plan to take the firm private. The Tesla boss had casually tweeted on August 7th: "Am considering taking Tesla private at \$420. Funding secured."

The resulting surge in Tesla's share price, and Mr Musk's oft-stated desire to "burn" the short sellers that have targeted his firm, stoked the SEC's anger. Its investigation revealed that Mr Musk had indeed reached an oral agreement with a Middle Eastern investor, believed to be Saudi Arabia's sovereign-wealth fund, to take the firm private but had not agreed on a specific price or got bankers involved to draft the paperwork. Unimpressed, regulators asked the courts to ban the entrepreneur from serving as a director or senior officer at any public company, including Tesla.

The prospect of the visionary boss of the world's leading electric-vehicle (EV) manufacturer being ousted from the firm he has lifted from obscurity to global prominence shocked investors, who started dumping its shares. In the event, however, it turned out that the SEC was using this extreme threat to get a reluctant Mr Musk to accept sensible reforms of cor-

## Highs and lows

Tesla share price, \$



Source: Thomson Reuters

porate governance at Tesla, which by all accounts he has run with an iron fist. Under a settlement that was announced on October 1st, he cannot serve as chairman of the EV maker for three years; Tesla must also appoint two independent board directors. The firm has also agreed to supervise Mr Musk's corporate communications, including his tweets.

Tesla shares jumped once more on the news that Mr Musk will remain as chief executive. Although America's Department of Justice has started a criminal probe of the "funding secured" tweet, this would require proving criminal intent, a high bar. Some disgruntled investors have launched lawsuits, but these are nuisances compared with the threat of regulatory action.

The hope for shareholders is that a chairman overseeing Mr Musk, along with a more independent board, will keep him focused on the job at hand. That job is considerable. Production numbers released on October 2nd contained encouragement for a firm that has struggled to ramp up output of its Model 3, its first mass-market EV. But Tesla still has big distribution problems to iron out.

Some worry that Mr Musk's skills are



Elon gets a tweet censor

not necessarily those required to run a manufacturing business. He is a brilliant product developer; as a result, Tesla now has an array of vehicles in various stages of planning, including a lorry, a roadster, a small SUV and possibly a cheaper mass-market car. His ability to convince investors to hand over cash is impressive. But the idea of appointing a new chief operating officer to oversee the nuts and bolts of the business has long hung in the air.

The whirring exit door for Tesla executives shows the difficulty of finding someone ready to work under a self-described "nano-manager". Still, it is possible. The day-to-day running of SpaceX, his thriving rocket business, is handled by Gwynne Shotwell, a talented aerospace veteran, with Mr Musk taking more of a hands-off role. By insisting that Mr Musk ease his white-knuckle grip on Tesla's wheel, the SEC may have done the carmaker and its backers a favour. ■

## Facebook's European woes

# GrrrDPR

**The EU's strict privacy law is starting to bite the social network**

REGULATION helps incumbents, which have the resources to comply, but hurts newcomers. Or so argue critics of the European Commission's new rules for the digital realm and of its privacy law, the General Data Protection Regulation (GDPR). That may yet prove true, although the GDPR makes exceptions for smaller firms. But for now these new laws are making life harder for big technology firms. Facebook, in particular, is in the cross-hairs of European regulators as never before.

The latest example came on September 28th, when Facebook announced that an attack on its systems had exposed the personal information of 50m users—the biggest data breach in the firm's 14-year history. Hackers had exploited three separate bugs in its software to extract snippets of code ("access tokens"), which let them take control of accounts and even log into other online services that accept these digital keys (although Facebook says that it has found "no evidence" that they actually used them to do this).

The company notified European regulators of the breach in order to comply with the GDPR. For the first time in a big case, regulators will have to decide whether Facebook did this within 72 hours of an attack being discovered, as the law demands. If it did not, it faces the threat of a penalty of 2% of annual revenue, or \$813m. The fine could be even bigger—up to 4% of rev- ▶

## Face off

Facebook, monthly active users  
% change on a year earlier



Source: Company reports

► enue—if officials find that the firm had not done enough to avoid the breach. The Data Protection Commission in Ireland, where the firm's European headquarters are based, has launched an investigation.

Facebook had already started to feel the force of the GDPR, which went into effect in May. Last month Vera Jourova, the European Union's commissioner for justice and consumers, warned that it needed to amend its "misleading" terms of service to make clearer how it uses personal data—or face sanctions. And Max Schrems, a privacy activist who has successfully challenged the firm in court before, has lodged complaints alleging that Facebook forces users to consent to their data being processed, which the GDPR does not allow.

Privacy is not the only issue getting Facebook into trouble in Europe. Antitrust regulators are interested in the firm's practices. Germany's Federal Cartel Office will probably decide later this year whether to take action against Facebook after finding in December that it had abused its market dominance to gather personal data.

And the European Commission is likely to look much more closely at the firm's next big acquisition, should it make one. In an interview on September 26th Brian Acton, co-founder of WhatsApp, a popular messaging app that Facebook bought for \$19bn in 2014, confirmed that the new owner had always planned to merge data from both services—despite having told regulators at the time that this would be technically too difficult. The fine for this breach had already been levied by the commission last year—\$122m for giving "incorrect or misleading information".

All these cases suggest that Facebook will face more constraints. Its user growth is already slowing (see chart). And alternatives may yet emerge. On September 30th Tim Berners-Lee, inventor of the World Wide Web, announced a new startup, Inrupt, which lets users store their information in personal "data pods" and control who has access to them. It could, he hopes, restore the balance of power between firms that process personal data and the people who provide them. ■

## Shipping

# Shiver me timbers

### Wind-powered ships are making a comeback at sea

**A**N OIL tanker that ferries nearly 110,000 tonnes of the black stuff between the Middle East and Europe does not sound like a green ship. But *Maersk Pelican* is unique among the world's biggest cargo ships in that it does not rely on fossil fuels alone for propulsion. On September 29th it arrived in Saudi Arabia on its first voyage since the installation of two 30-metre rotor sails.

Coal- and oil-powered cargo ships wiped out wind power in the 19th century. But interest in wind propulsion, and in rotor sails in particular, is growing as shipping lines seek ways to slash fuel bills. Placed on a ship's decks, these giant rotating cylinders propel it using the "Magnus effect", the force that causes a spinning ball to curve through the air.

The concept was demonstrated by Anton Flettner, a German engineer, in the 1920s, but rotor sails failed to catch on, partly because coal was a cheap alternative. The first ones he made were metal and so heavy that they slowed ships.

The rotor sails that Norsepower, a Finnish firm, has developed are made of carbon fibre and are far lighter, says Tuomas Riski, its chief executive. They are also automated, so no extra sailors are needed to operate them, unlike Flettner's version. As well as *Maersk Pelican*, Norsepower has already fitted them to several other ships, including *Estraden*, a ferry which operates between the Netherlands and Britain, and *Viking Grace*, which sails between Sweden and Finland.

The interest in the sails comes because

they can slash fuel bills and emissions, says Tommy Thomassen, chief technical officer of Maersk Tankers. The *Maersk Pelican*'s two rotor sails will cut its fuel bills by 7-10%, he forecasts; if it added two more that could rise to 15-20%. Such savings help with another priority for the shipping industry; complying with new climate-change targets. In April the International Maritime Organisation, a UN agency, agreed to cut by half the global shipping sector's carbon emissions from 2008 levels by 2050.

Sails can make serious contributions to that target. Most other technologies (such as adding bulbous bows) shave only a few percent off fuel bills. Electric batteries cannot store enough energy for long sea voyages.

Upfront costs remain a problem. Norsepower's rotor sails cost €1m-2m (\$1.15m-2.3m) to install; it takes five years on average to earn that back in lower fuel bills. Mr Riski hopes to slash that figure to three years by making the sails more cheaply in China. It would then become worthwhile for charterers, which only tend to lease ships for under three years, to install them.

Rotor sails are not the only ones about. Modern versions of the sort of sails fitted to conventional ships, as well as kites attached to the front of the vessel, have also been mooted as energy-saving solutions. But these are a health-and-safety risk to sailors in bad weather. Wind power may be back in fashion but no one needs to mount the rigging.



A new wind's in her rotors



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### The changing labour market

## Serfs up

LONDON, SYDNEY AND TURIN

### Worries about the rise of the gig economy are mostly overblown

IT IS a warm morning on Bondi Beach. Simon and Sophia are drinking coffee on a terrace while athleisure-clad millennials stroll by. The young American couple, both management consultants, came to Sydney from New York for a working holiday. Both found work through Expert360, a platform that connects professionals with firms needing help with tasks. They may use the proceeds to travel around Australia—or simply stay by the surf. “Some people think we’re crazy to travel halfway across the world without a job lined up, but the potential of freelance work made us comfortable with the idea,” says Sophia. “It’s one of the best decisions I’ve ever made.”

On a cold day in Turin, 17,000km away, Cecilia sits in her flat. She has just heard from Deliveroo, a food-delivery service, that it does not need her today. She is glad, she says, as she wipes her dripping nose. But it means a day without earning. When asked what she likes about her job as a rider, she pauses for a long time.

Sophia, Simon and Cecilia all work in the gig (or sharing, or platform) economy, the set of online marketplaces that have developed in recent years for short-term and freelance tasks. Gig workers are often paid “piece rate” (that is, per task completed) rather than earning a salary, like employees. Uber, Handy, Upwork and PeoplePerHour are among the thousands of such

platforms worldwide. All sorts of services are on offer, from putting together a PowerPoint presentation to cleaning a house. Young urbanites have grown used to being able to order a meal to be delivered to their home for Sunday lunch, or to rent someone to accompany them to IKEA, a furniture giant, and help bring home a sofa.

Around a third of Americans and Britons use a mobility app such as Uber. *The Economist’s* analysis of data from the Oxford Internet Institute, a department of the university, suggests that, relative to population, more gig-economy vacancies are posted online in Australia than in any other big country. Official statistics on the gig economy are poor, and labour-force surveys are rarely up to the job of tracking people who use online platforms. But data published on September 28th suggest that gig work accounts for 1% of American employment. Other surveys come up with a higher figure. Almost all suggest that the gig economy is growing.

Opinions differ about whether this is good or bad. Boosters point to the flexibility of gigging, which can be particularly useful for people with children, and for the disabled or the elderly. They see it as a useful stopgap between roles, or a way to top up low earnings from a first job.

But others fear the gig economy will bring an end to steady, decently paid em-

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ployment for ordinary people. Jeremy Corbyn, the leader of Britain’s Labour Party, blames it for enabling “a more rapacious and exploitative form of capitalism”. “The gig economy is normalising labour conditions it took generations of political struggle to stamp out in this country,” thunders an Australian parliamentary report. Elizabeth Warren, an American senator, sees it as part of a broader trend in which “the basic bargain of the old work relationships has become badly frayed”. Who is right matters for the future of work—and for policymakers fretting about inequality and how best to protect low-skilled people from chronic insecurity.

### Daily grind

In the 20th century the standard type of worker in the rich world was a full-time, permanent employee. Ronald Coase, an economist, argued in 1937 that this made perfect sense. It was cheaper for firms to have people there throughout the working day and order them about than to negotiate and enforce a new contract on the open market for every job that needed doing. In return for coming to work every weekday and following orders, employees received security and predictable pay.

The gig economy overturns that model. It relies on “two-sided markets”, which cater to two groups—workers and customers. The more there is of each group, the better for the other. Two-sided labour markets make it easier for economic activity to be organised according to price rather than the boundaries of firms. Accountants, drivers, lawyers and cleaners list themselves online, with descriptions of their experience and availability, and how much they charge. As more people sign up, the platforms have become highly efficient. ▶▶

► Clients with tasks that need doing can easily find the skills that they are looking for, without making a permanent hire.

For workers, there are many upsides. The most obvious is that finding work has never been easier. With so many potential customers a click away, someone looking for work on a big platform like TaskRabbit or Uber can almost always find it.

The gig economy also creates paid employment that would not otherwise exist. Ride-hailing firms seem to boost demand for private-hire transport rather than forcing conventional taxis out of the market altogether. In Australia Airtasker is filled with requests for help with removing spiders, a job that people used to do themselves. “There was a huntsman spider in my room,” writes a panicked customer, after spotting one of Australia’s scariest beasts. “We sprayed it with insect spray and it fell down & we lost it...If it’s alive I need it killed.”

That makes gigging a boon in places where there is little work on offer of the conventional sort. In Italy the official rate of youth unemployment is over 30%. Cecilia, the Deliveroo rider in Turin, has a part-time job as a receptionist and hopes to be taken on full-time one day. Until then, Deliveroo is a lifeline.

Gig work can help smooth out rough patches in the conventional labour market. A report from the JPMorgan Chase Institute, a think-tank attached to the bank, finds that earnings from labour platforms make up for dips in conventional earnings. Data from the Aspen Institute, a think-tank, suggest that the share of giggers working part-time is twice the rate among the workforce as a whole.

Gigs may also help people find their way back into the formal labour market. A paper by Cody Cook of Uber and others finds that roughly two-thirds of Uber drivers in America are no longer active six

months after their first trip, suggesting that they may have moved on to pastures new.

And many gig workers appreciate the flexibility. Bujar, an Albanian living in Turin, works for a food-delivery service while studying computer engineering. Though he must arrange shifts in advance with a supervisor, rather than switching on an app and working when he pleases, he enjoys a level of autonomy that is unusual in conventional jobs. When an exam is coming up, he quits temporarily.

Bujar’s experience of gigging highlights another fact: the pay can be quite good. He does not think he could make as much elsewhere. He used to work as a chef, with long, unpredictable shifts, earning €5 (\$6) an hour. These days he earns more like €10 an hour, he says.

Of course, many gigs—making deliveries, cleaning and taxi-driving—are not lucrative. But such work never paid well. For people in low-skilled jobs, gigging can mean an upgrade. A paper by Thor Berger of Lund University, and Chinchih Chen and Carl Benedikt Frey, both of Oxford University, finds tentative evidence that the average hourly earnings of self-employed taxi drivers in American cities rise after Uber moves in. That may be because Uber drivers are more productive, spending less time waiting for a passenger.

At the other end of the labour market, coders and consultants can sell their expertise across the world to the highest bidder, with three or four gigs on the go at once. Workers on Expert360 can earn thousands of dollars a day.

Research by Paul Oyer of Stanford University suggests that on average gig workers may make more per hour than conventional employees do, after taking account of things like age, sex and level of education. But since gig workers often miss out on employer-provided benefits, such as pension contributions, whatever wage ad-

vantage they appear to enjoy may in practice be smaller. A new paper by academics at Oxford University finds that the typical Uber driver in London earns well above the minimum wage.

But that is not the whole story. For low-skilled workers with poor bargaining power, the gig economy has an important downside. That is what critics have in mind when they fret about the end of the old ways of working.

The problem is the way different types of workers are treated in law. Gig-economy firms portray themselves as intermediaries in the two-sided market of workers and jobs, rejecting any idea that they are employers. For example, according to the “participation agreement” between Mechanical Turk, a platform run by Amazon, and people seeking to use it to find gigs: “Workers perform Tasks for Requesters in their personal capacity as an independent contractor and not as an employee of a Requester or Amazon Mechanical Turk.”

### Lumpen labour

Classing workers as self-employed contractors rather than employees has big consequences. Employees have various legal rights, typically including sick pay and protection against unfair dismissal. Unlike self-employed people, they are entitled to the minimum wage. Is it a different story for labour sourced on Mechanical Turk? “You decide how much to pay Workers for each assignment,” the firm says.

For some gig workers, that is not much. Many earn less than the minimum wage. Gig workers often save little for their pensions. Couriers all have stories of people they know who have been injured while riding and had to take time off, unpaid.

It is standard for self-employed people to have fewer rights than employees. That is the flipside of being able to pick and choose when they work, and for whom. Yet are gig firms right when they say that they are mere intermediaries between customers and millions of self-employed workers? Or are they something more?

Many do not simply set up their platform and sit back, letting all-comers join and set about striking bargains. Since they want repeat business, they try to control the quality of the work done. In Australia Expert360 accepts just one in six of the consultants who apply to sell their services through the platform. Lyft, like other ride-hailing services, operates a five-star rating system for its drivers. “Anything more than 4.8 is awesome,” it tells them. “If your rating drops below 4.8, you may want to consider ways to improve it. Consistently low ratings can put you at risk of deactivation.”

In some cases, gig-economy platforms and their workers are in effect being integrated into conventional businesses. Last year IKEA snapped up TaskRabbit. Taskers will help IKEA customers to assemble fur- ►



Shifting up a gear

► niture. Every second restaurant in Sydney displays an Uber Eats, Deliveroo or Foodora sticker in its window.

All this makes it harder to sustain the argument that platforms are no more than marketplaces. And increasingly, workers are clubbing together to demand that the platforms treat them more like employees. In 2016 Foodora riders in Turin called a strike after the firm switched from paying per hour to paying per delivery. (They failed to get the decision reversed.) Organising isn't easy, however. Few gig workers are in unions, precisely because they are not recognised as employees.

Some gig workers have turned to the courts to make their argument, with mixed results. A labour tribunal in Turin recently rejected Foodora riders' claims that they were really employees. Last year Australia's Fair Work Commission, an industrial-relations tribunal, ruled that an Uber driver was self-employed, not an employee. But in 2016 a tribunal in London ruled that Uber drivers should receive the minimum wage, describing the company's view of itself in London as "a mosaic of 30,000 small businesses [ie, the drivers] linked by a common 'platform'" as "faintly ridiculous". (Uber is contesting the ruling.)

In April California's Supreme Court made it more difficult for companies to class workers as independent contractors. More cases, including a date for Uber in Britain's Supreme Court, loom.

On such hearings much depends. If the courts rule that vast swathes of gig workers are in fact employees, they could raise costs, killing innovation and hitting jobs. Yet inaction brings risks, too. If a growing chunk of the workforce has to make do with poor pay and worse pensions, governments will eventually have to pick up the pieces. The battle over the gig economy has a long way to run. ■

## Buttonwood | Keeping it real

Ever the innovator in these matters, Brazil is shaping up for a unique kind of financial crisis

**R**UDI DORNBUSCH, a renowned economist who died in 2002, said there were two sorts of currency crisis. The pre-1990s kind is slow. It starts with an overvalued exchange rate, which gives rise to a trade deficit. Foreign-exchange reserves are gradually run down to pay for it. When they are gone, the game is up. The currency drops. The finance minister loses his job. But life goes on much as before. The world does not collapse.

The second sort of crisis is the first sort on steroids. A country that might once have blown some World Bank loans on bad policies is able to tap global capital markets for billions of dollars to misuse. Domestic banks join the party. The economy booms. When the flow of capital suddenly reverses, the currency collapses. Bankruptcy is widespread. The damage is big enough to affect others.

Brazil would seem to demand a third category. Elections this month will decide its next president and the character of its congress. They will thus shape the response to a slow-motion financial crisis. The drama is likely to be played out in the currency market. The impact might be far-reaching. But Brazil shows no signs of an old-fashioned balance-of-payments crisis. It is at not the mercy of global capital. Its crisis is, in essence, a battle with itself.

Compare Brazil with Argentina and Turkey, both in the eye of market storms this year. They fit the template for a currency crisis. Both had run large deficits on the current account, a broad measure of the trade balance. These were financed by foreign borrowing, much of it in dollars. Both suffer high inflation. Both had skimpy foreign-exchange reserves. Brazil is different. Its current account is broadly in balance. Inflation is close to a record low. Its plentiful currency reserves dwarf its dollar debts.

### Brazil's home fixture

Foreign ownership of domestic bonds  
2018 or latest available, % of total



Brazil's problem is that its government finances are on a dangerous path. Public debt has risen from 60% to 84% of GDP in just four years. That owes a lot to a collapse in revenues after 2013. A brutal recession did not help. But the budget had been flattered by windfall receipts from a mining boom and credit-fuelled consumer spending. Those will not be repeated.

### The third way

That means spending cuts are needed to fix the public finances. The government wage bill has grown rapidly. But over-generous pensions are a far bigger problem. They already account for 55% of non-interest public spending. The cost will go on rising as Brazil ages. Things would surely be worse were it not for a constitutional amendment in 2016, which caps the rise in public spending. An attempt to reform pensions was aborted when the president, Michel Temer, was implicated in the corruption scandals that have seen one of his predecessors impeached and another sent to jail.

In a different Brazil, politics would seek to reconcile the claims of bondholders

(who are almost all Brazilian savers; see chart), pensioners, well-paid government workers and the rest of the country. Instead, to make the sums add up, the last of these groups has suffered a squeeze on public services and living standards. And the corruption crisis has engulfed the governing class. The front-runners for president are polarising figures who might struggle to steer pension reform through congress. The crunch point might come next August, if not before, says Arthur Carvalho of Morgan Stanley. A budget for 2020 must be submitted then. If pension reform is not in place, a big squeeze will be needed elsewhere for the country to stay below the spending cap, he says. Or the cap itself will have to be lifted.

Bondholders would take fright. Though foreigners hold little of Brazil's debt, there would still be capital flight, a falling currency and rising bond yields. As Brazilian savers anticipated the inflation and chaos that would result from soaring public debt, they would seek to escape it. Savers elsewhere in Latin America have long used dollar accounts as a shield from inflation. This would be novel for Brazilians, says Mr Carvalho. But because short-term interest rates have been slashed to reflect subdued inflation, the opportunity cost of pulling money from Brazil has rarely been lower.

Nothing is ever entirely new. The symptoms of Brazil's past crises were high inflation and external deficits. But below the surface, the underlying problem was lax fiscal policy, says Armínio Fraga of Gávea Investimentos, a hedge fund, and a former governor of Brazil's central bank. In the slow-burning sort of crisis, said Dornbusch, a mid-course correction can prevent the worst. Brazil might yet manage that. If it cannot, its decline is likely to speed up dramatically.

## Non-bank finance in India

## Lurking in the shadows

MUMBAI

## A bail-out for an infrastructure lender raises wider worries

CAN a big financial firm's credit rating fall from AAA one month—good enough for pension funds and life insurers—to junk the next without causing a crash? India's government decided it did not want to find out. Last week it granted Infrastructure Leasing and Financial Services (IL&FS), one of India's biggest shadow banks, a parachute. Plenty are worrying that it will not be enough.

As recently as early September, IL&FS raised few concerns. A couple of weeks later it had defaulted on several payments to creditors. By the end of the month it had said it would raise 45bn rupees (\$630m) of fresh capital through a rights issue from its owners, including the Life Insurance Corporation of India, a state-owned insurer. On October 1st the government forced out the board and appointed a new one. It was, in effect, a shadow-bank bail-out.

IL&FS is a very Indian beast. It was founded in 1987, with the support of state-owned banks, to provide finance to local governments for infrastructure. It has grown into a vast conglomerate, with 169 group companies. It finances, builds and runs everything from toll roads to “smart cities”, not just in India but abroad. Though it is private, the projects it runs, and the roughly 40% of its equity that is owned by nationalised firms, make it what Indian analysts call “quasi-sovereign”. If it went bust, projects across the country would stall, leaving taxpayers on the hook.

As India's state-owned banks have sought to repair their rosy balance-sheets, IL&FS, which lends but does not take deposits, grew to satisfy demand for infrastructure finance. Its own debt nearly doubled from 2014 to 2018, to 910bn rupees. It used to borrow mainly from banks. Re-

cently it has turned to the corporate-bond market. More than a third of its debt falls due within 12 months, up from a fifth a year ago. The problem is that most of its assets are long-term, illiquid projects. This year interest due overtook operating profit; hence the cash crunch.

Few think that a liquidity crisis is the firm's only problem. Even when its credit was good, its projects had a nasty habit of busting their budgets. Some, such as GIFT City, a pet project of Narendra Modi, the prime minister, in Gujarat, look like white elephants. More than half of IL&FS's receivables are tied up in claims about delays, termination payments and the like. The government has accused the management of being “well aware of the precarious and critical financial position”, but continuing to present “a hunky-dory scenario which was just a mirage”. India's Serious Fraud Investigations Office is investigating.

Bureaucrats in the Reserve Bank of India, the central bank, will be unsettled by the risks that lie outside the banking sys-

tem, and not just within it. Bad debt in the regulated and largely publicly owned banking sector is rising (see chart). Last year the government had to recapitalise state-owned banks to the tune of 2.1trn rupees. Shadow banks offer a new festering mess. In recent years they have provided more credit to the commercial sector than banks have. Either India's fast-growing mutual funds and insurers, which own much of IL&FS's debt, have been judging risk inaccurately, or they know full well what they have been doing but expect the government to step in.

A cash infusion will win IL&FS and the government a few months. That will allow the revamped board to appoint new management, assess losses and start selling assets to pay down debt. The government may seek to clear obstacles in the way of those of its projects that could be made profitable. Meanwhile, markets are nervous. Shares in other non-bank lenders have collapsed. Which will be next to look for the government to cushion its fall? ■

## Australian banks

## The charge sheet

SYDNEY

## The country's biggest financial institutions are in the dock

BANKS often face conflicts of interest when it comes to advising their customers. The regulators who are supposed to stop the abuses that can result are not always up to the job. But when wrongdoing does finally come to light, the penalties can be vast. Financial institutions in Britain have had to lay aside £40bn (\$52bn) to compensate customers mis-sold payment protection insurance. Wells Fargo was fined \$1bn by American regulators and ordered to reimburse the people to whom it had sold useless insurance or mortgages with inflated fees. Now it is the turn of Australian banks to face a reckoning.

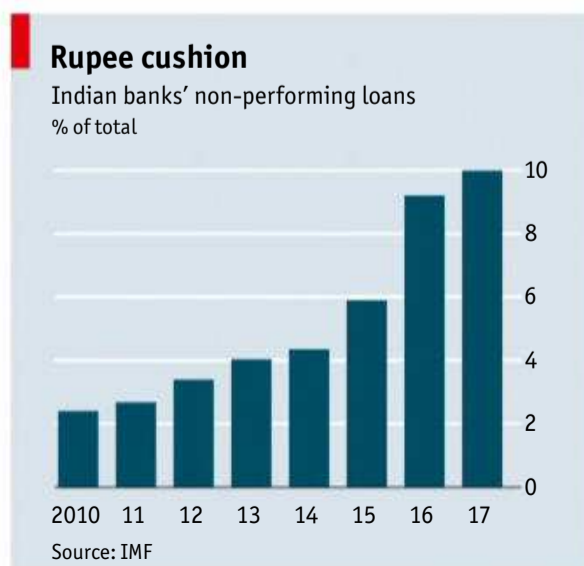
A royal commission has exposed a litany of abuses. Its interim report, published on September 28th, paints the country's financial institutions as consumer-crushing oligopolies. Lenders charged hidden fees long after providing services, and for some services they never provided at all, on occasion to people who were dead. They siphoned off at least A\$1bn (\$720m) of compulsory pension savings in excessive charges. And they offered mortgages that they should have known were far too expensive to afford. Their behaviour, said Kenneth Hayne, the head of the inquiry, was not just immoral, but criminal.

The banks have tried to pin the blame on a few rogue staff. In fact the wrongdoing

was pervasive—and turbo-charged by government policy. Until relatively recently few Australians sought financial advice. But the introduction of compulsory private pensions in the 1990s gave them savings to invest. At A\$2.6trn, Australia's superannuation pot is now one of the world's largest. It has sustained a swelling wealth-management industry.

The inquiry levelled sharp criticisms at outsized commissions. These, it found, had encouraged financial advisers to direct customers' savings towards high-cost, poorly performing funds and insurance providers to sell policies that would never pay out. They also boosted risky mortgage lending, since brokers' earnings were linked to the size of the loans they sold. Financial regulators were lax, negotiating minimal fines for those who broke the rules rather than taking them to court. Sanctions were often “immaterial”, the report stated. In the decade to June, the infringement notices (a kind of fine) issued to large banks by the Australian Securities and Investments Commission, the conduct regulator, came to less than A\$1.3m.

The institution hit hardest by scandal has been AMP, a wealth manager, which not only charged for non-existent services but then lied to the regulators about it. It has lost its chief executive, chairman and ▶▶



## The IMF's new chief economist

## A little less consensus

## A fresh face, and fresh thinking on exchange rates

THE International Monetary Fund (IMF) used to be known for its unwavering advocacy of the “Washington consensus”, a set of free-market policies including free capital flows and fiscal consolidation. Nowadays it is a little more introspective—or, perhaps, open-minded. On October 1st the fund announced that Gita Gopinath, a professor at Harvard University, will soon replace Maurice Obstfeld as its top economist. The appointment puts another pillar of orthodoxy—regarding the benefits of flexible exchange rates—on notice.

Born in India, Professor Gopinath studied for her doctorate at Princeton under Kenneth Rogoff, a former occupant

of her new job, and Ben Bernanke, who later led the Federal Reserve during the financial crisis. From there she moved to the University of Chicago, and on to Harvard, where she has produced prodigious amounts of research.

Most famous is her work on currency movements. One reason countries have flexible exchange rates is to cushion their economies from external shocks. A country whose currency is falling should see its terms of trade—the cost of its exports relative to imports—fall, encouraging foreigners to buy its goods and keep its economy healthy. Professor Gopinath’s work questions that assumption. Because so much trade is invoiced in dollars, she argues, foreigners might find that their troubled neighbour’s goods are no cheaper, unless their own currency has moved against the dollar. In this “dominant currency paradigm” the strength of the greenback drives trade flows and prices. Floating currencies therefore provide less of a cushion.

The IMF role will not be Professor Gopinath’s first foray into public policy. For example, she currently advises the chief minister of Kerala, a state in India. In her new job she will oversee the fund’s twice-yearly economic forecasts. She will also be responsible for ensuring that the fund’s thinking is based on “solid theoretical and empirical grounds”, says Olivier Blanchard, another of her predecessors.

Her research suggests that she may have a fresh perspective on what does, and does not, meet that threshold. And she is distinctive in another way—she will be the first woman to hold the job.



Go, Gita Gopinath

► half its board. AMP and the four biggest banks have agreed to repay A\$216m charged for services they never provided.

Financial institutions are now scrambling to prepare for the inquiry’s final recommendations, due in February. They have tightened home-loan assessments, and some have said they will sell their wealth-management businesses. More than that may be needed. The commission may call for statutory separation of lending and financial advice, and for an overhaul of bonuses.

It seems likely to demand better enforcement, rather than new laws (there are plenty already). The conservative coalition government, which had at first opposed the inquiry, has allocated more money to the regulators. It says a recently appointed counsel will improve the chance that mis-

conduct will be punished in court. Yet the regulators’ reputation has been damaged. Allan Fels, the former chairman of the Australian Competition and Consumer Commission, thinks his old employer should be given greater power to step in. Others call for an entirely new regulator.

The commission looks unlikely to be able to wrap everything up before the final report is due. Mr Fels suggests that unfinished business could be turned over to other review boards. Or the inquiry could be extended—an idea favoured by the Labor Party, which is on course to win an election due next year. Either way, the banks stand exposed to potentially huge regulatory penalties and to consumer lawsuits. The days since the interim report was published have seen billions of dollars wiped from their market capitalisation. ■



## The power of journals

## Tyranny of the few

## Economists care about where they publish—to the cost of the profession

LIKE most academics, economists are obsessed with how many research papers they produce, and where they are published. A new paper by James Heckman and Sidharth Moktan from the University of Chicago shows why—and why that might not be good for the profession.

The authors analyse the career paths and publication records of researchers at 35 highly regarded economics departments in America. They consider the impact on tenure decisions of publications in different journals, assuming that they are cited the same number of times. Young academics who had three papers published in what are universally regarded as the top five journals were nearly five times as likely to gain tenure in a given year as those with papers in less prestigious journals. A single publication in the top five nearly doubles the chance. The impact of a top-five publication is weaker for women, which means they need more publications for the same outcome—though the authors warn that their sample includes only a few women, and that they did not take maternity leave into account.

Junior researchers themselves know very well that a top-five publication is the surest route to success. In a survey by the authors almost all ranked the number of publications in top-tier journals as the most important factor influencing tenure.

Economists are producing ever more re- ►►

search, and measuring the quality of new ideas is not easy. That a paper has been accepted by a top journal could signal that the ideas are good, and the author worth promoting. But Professor Heckman and Mr Moktan argue that the magic five journals are imperfect arbiters of quality. Some others are as widely cited. And around a third of the 20 most-cited papers, according to Research Papers in Economics, an online archive, were published elsewhere. To the extent that citations are a good measure of quality (also disputed), placing such weight on those five journals seems to overestimate the quality of some papers and underestimate that of others.

The authors also find evidence of home bias. Journals attached to certain universities are more likely to publish papers from staff there, suggesting that quality might not be the only criterion for publication.

The research makes a case for expanding the number of top-tier journals. A more

radical solution would be to encourage authors to publish in open-source repositories with real-time peer review. Some of the sciences are already moving in that direction. Many economists already publish early versions of their research as working papers, because journal articles take so long to appear, even though such papers have less impact on tenure decisions.

Is change possible? Young researchers who want to advance will still try to produce top-tier publications. Senior academics who sit on tenure boards, and came up through the system themselves, may see little reason for change. One cause for optimism is that insiders are raising the alarm: Professor Heckman is a Nobel laureate and an editor of the *Journal of Political Economy*, one of the top five. Two other Nobel laureates, Angus Deaton and George Akerlof, have also spoken about the dangers of over-reliance on those journals. But, as economists know, incentives matter. ■

need only stick around for six months a year and register as tax-resident.

Portugal is not the only EU country where foreign pensioners can find a sweet deal. France taxes some pensions taken as a lump sum at 7.5%; with judicious use of private health insurance, pensioners can also avoid paying the social charges of 9.1% normally levied on pensions. Malta exempts pensions of up to €13,200 (\$15,200) from tax altogether, with a flat rate of 15% above that. State pensions are often excluded from generous exemptions but Cyprus taxes all pensions at 5%, making it particularly attractive for retired civil servants. It also allows people to withdraw their entire pension pots as a lump sum tax-free.

Governments elsewhere are cross about being undercut. Portugal's most vocal critics are the Nordics. Finland shredded its tax agreement with Portugal in June. If Portugal does not accept a draft deal letting Finland tax most pensions drawn by its retirees there by November, it will start doing so anyway in January. It estimates that it loses a mere €3m-6m a year in revenue to Portugal, but says that as a matter of principle it can no longer tolerate "tax refugees". This is just sour grapes, says Pekka Pystynen, a retired former executive. Mr Pystynen spends his winters in his home in the Algarve and the summers at his cottage in Finland. The tax benefits were a bonus, he says, but the main draws were the weather and relaxed lifestyle.

Pensioners are important to Portugal's tourism industry, which contributed over 17% to the country's GDP in 2017. One job in five is linked to tourism. The average pension paid to Finns living in Portugal is around €3,500 a month. Since prices are a fifth lower than the euro-area average, that goes a long way. According to Sirpa Uimonen of the University of Helsinki, Finns living in the Algarve spend €14,700 a year on average, over 20% more than locals do.

Withdrawing from double-taxation agreements is rare. Denmark ended its deals with Spain and France in 2009, also because of rows about pensions. In the case of Portugal, other countries may follow Finland's lead. Sweden's finance minister has pressed to do so. More commonly, countries take matters into their own hands. France is about to start taxing French pensions that are paid abroad. And a new bilateral agreement means that Britain will soon start taxing British government-service pensions drawn in Cyprus.

Portugal's generosity to retired foreigners has been criticised by locals. They pay up to 48% on their pensions; property prices rose by 10% last year. Extra demand from foreign buyers will not have helped. One political party, the Left Bloc, has proposed closing the pensions loophole. Retired foreigners may soon have to decide whether *vinho verde* and *pasteis de nata* are enough of a draw. ■

## Pensions in Europe

# One foot in the Algarve

### Loopholes allow some pensioners in the European Union to retire tax-free

WHEN the financial crisis hammered Portugal's economy, hundreds of thousands of its people left, taking advantage of the European Union's rules on free movement to find work in countries that were hit less hard. Now Portugal is welcoming older people going in the other direction, not for jobs but for a warm, cheap retirement. Well-off baby-boomers are flocking to Lisbon, Sintra and the Algarve, drawn in part by Portugal's tax exemptions on foreign income. Under its non-habitual-

residency scheme, pensions from abroad can be drawn tax-free for a decade.

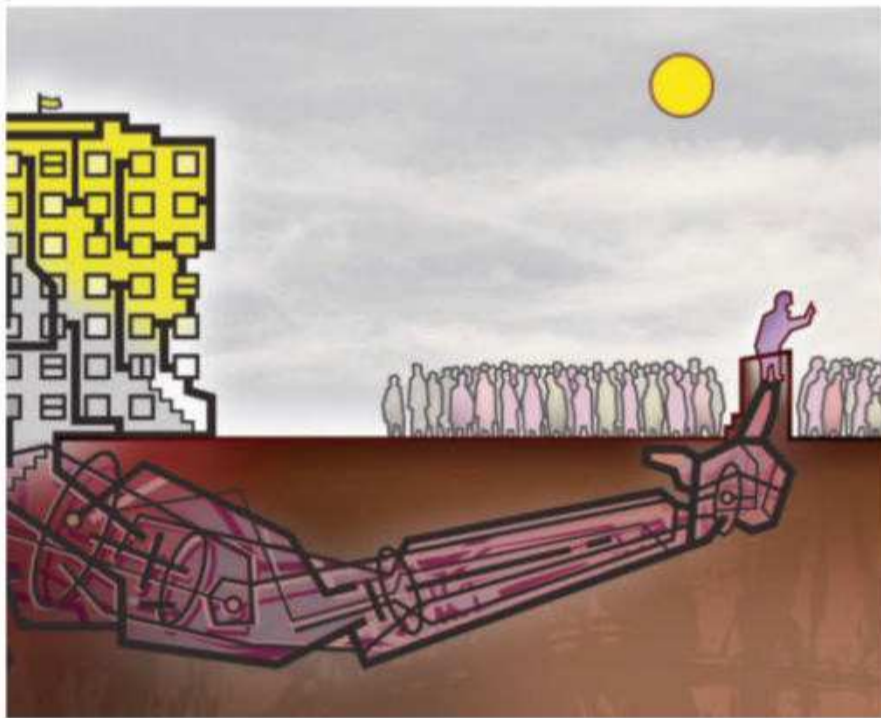
Bilateral double-taxation agreements are intended to ensure that income does not end up being taxed twice. But some countries, seeking to boost domestic demand by luring wealthy immigrants, have arranged matters so that they can avoid paying any tax on income earned outside their country of residence, such as pensions, capital gains and rent. To qualify, foreign pensioners who move to Portugal



Tax-free? I don't believe it!

# Free exchange | Bought and paid for

## Cosy relationships between firms and politicians are undermining competition



**I**T HAPPENS often enough that it scarcely elicits comment. After an election, some politicians leave government—only to reappear on the payrolls or boards of large companies. Such firms argue that they need to understand the political process and to engage in lobbying so they can extract themselves from a tangle of red tape. Tech giants, in particular, see themselves as champions of innovation and productivity within economies that have too little of either. But precisely because the biggest firms are increasingly dominant and profitable, the connections between the corporate and political worlds merit close scrutiny.

That such connections exist is not necessarily a problem. Firms that use political influence to obtain relief from stifling rules may thereby contribute to growth. Uber's ride-hailing services often flouted the spirit, and occasionally the letter, of rules governing the hired-car business. To shield itself from legal action, it required influence. To build that influence, it hired political operatives. Such ride-hailing services have increased competition in many markets and improved riders' experience.

But firms' political ties can also be used to weaken rules that protect consumers and to squash competition. In a new paper Ufuk Akcigit, Salomé Baslandze and Francesca Lotti try to distinguish between such malign purposes and benign ones in the case of Italy. They combine datasets on employment, the performance of companies and the number of patents they issue, the outcomes of local elections and companies that hire local politicians. To isolate the effect of connections, they look at politicians in office who are hired by companies (as is legal in Italy) right before close elections. In sufficiently tight races, it is essentially a matter of chance whether a company's hire winds up in the political majority (and thus in a position to help) or not. Differences in companies' performance after such elections thus provide evidence of the effect those connections have on the market.

If political influence were being used to cut through red tape, rule-bound Italy would be a good place for a link between connections and higher productivity to show up in the data. But the researchers find the reverse. The larger and more dominant companies are, the more they invest in political connections. As their market position strengthens, they engage in more political hiring but register fewer patents. Political connections appear deadly to

economic dynamism. Firms with lots of them are much less likely to go out of business; and industries with lots of politically well-connected firms see fewer new firms enter. After a close election, employment growth in firms connected to the winners is nine percentage points higher than in those connected to losers, suggesting that the "winning" firms gobble up market share.

There is no strong link between connections to politically successful parties and productivity growth, in other words. Almost all the value of cultivating politicians seems to come from a more secure market position, rather than a lighter regulatory load.

Italy is perhaps exceptional in the extent of its links between business and politicians (though the period studied by the authors starts after the Mani Pulite, or "clean hands", episode, which exposed vast political corruption). But it is not alone among advanced economies in suffering from a stagnant business environment. The past decade has seen weak growth in productivity across the rich world. In America, for example, the rate of entry of new firms has been falling since the late 1970s, as has the share of employment accounted for by young firms. Pricing power and profits have risen and the share of income flowing to workers has declined, at large firms in particular.

Corporate political spending in America is hard to track, given the many routes by which firms can exercise influence and the explosion of "dark money" donations and spending since 2010, when the Supreme Court decided that corporate political spending counts as free speech. Figures published on October 2nd show that more big firms are curbing their political spending, and disclosing a larger share of what they spend. But both campaign spending and measurable corporate outlays on lobbying have soared since 2000.

It may be inevitable that ties between government and the corporate world are growing tighter. Sectors where the government plays a big role, such as health care and education, account for a rising share of output. And the network effects underpinning the dominance of platforms such as Facebook and Amazon ensure that they play an important social and economic role: the more people rely on them, the more attractive it becomes for others to do the same. This naturally draws regulators' gaze, particularly as the effects of such dominance become clearer. Tech firms then seek to defend themselves in turn.

### Pol position

This helps explain political spending by firms, but does not mean it should be excused. There is ample evidence that lobbying fuels rent-seeking. An analysis of tax reforms in America in 2004 found, for example, that firms which spent money lobbying for special tax benefits enjoyed a return on their investment of roughly 22,000%. Another analysis found that financial institutions that spent more on lobbying benefited disproportionately from bank bail-outs during the financial crisis.

To a growing extent, the productivity gap between technologically advanced firms and laggards suggests anti-competitive behaviour rather than the superior innovative capacity of top firms. Productivity-enhancing innovations are supposed to spread, raising growth and incomes. That they no longer seem to accomplish this reflects barriers to competition that are supported by powerful firms, including non-compete clauses, overly tight intellectual-property rules and an accommodating attitude to acquisitions by market leaders. It seems ever clearer that, when corporations open their wallets to politicians, the public loses. ■



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The 2018 Nobel science prizes

# Trophy hunting

**This year's awards were for a new approach to treating cancer, improvements to laser technology and evolutionary approaches to biochemistry**

EARLY October is a nerve-racking period for the world's top scientists. Though few will admit it, many who have done important work hope at this time of the year for a phone call, often in the middle of the night, that will tell them they are invited to an early Yuletide celebration in Stockholm. There are other, more lucrative, prizes around, and the trio of physics, chemistry and physiology or medicine that Alfred Nobel outlined in his will as suitable scientific subjects for reward is thought by some to be out of date. But the prestige of being a Nobel laureate remains undiminished.

This time around the physiology prize went to James Allison of the University of Texas and Tasuku Honjo of Kyoto University, in Japan, "for their discovery of cancer therapy by inhibition of negative immune regulation". The fact that remissions from apparently terminal cancer, though rare, do happen from time to time had long led some to dream that it might be possible to harness the body's immune system to attack malignancies. The immune system is a network of cells which defends against parasites and pathogens. Yet decades of effort to encourage it to assault cancer effectively as well, an idea called immunotherapy, led to nothing. These many failures had, by the 1990s, caused most people and firms to abandon the field.

Dr Allison was one of the few who nev-

er lost hope. He was particularly interested in a protein called CTLA-4. This is found on the surfaces of some T-cells, one of the main types of cell in the immune system. By 1994, when he was at the University of California, Berkeley, he and others had discovered that CTLA-4 puts a brake on T-cells' ability to respond to cancer. In response he developed an antibody that blocks the protein, preventing this braking action. Thus unchained, T-cells can respond to tumours by attacking them. Tumours in mice vanished when they were given these CTLA-4-blocking antibodies.

On the other side of the Pacific, Dr Honjo had, since 1992, been researching a different immune-system protein. In 1999 he showed that this protein, PD-1, worked like CTLA-4 in that it seemed to damp down the immune system. When the gene encoding it was switched off, mice would develop autoimmune disease—a sign of an over-active immune system. Again, blocking the protein's activity seemed a promising anti-cancer strategy. Dr Honjo was so convinced that he pushed until he found a biotechnology firm that would try to develop his work into a treatment.

Eventually, a trickle of research started on molecules that work as inhibitors of these two "checkpoint" proteins, and in 2010 the field came of age when Bristol-Myers Squibb, a drug company, released

results from a trial of an anti-CTLA-4 antibody on patients with malignant melanoma. The results were astonishing. It was the first medicine able to improve survival from this disease.

Today, research into checkpoint inhibitors is booming. Molecules that affect PD-1 have proved more popular with drug companies, because the side-effects connected with CTLA-4 are trickier to handle. More than 1,100 PD-1-related trials are under way. Immunotherapy is now the hottest field in oncology and one that is likely, over the next five to ten years, to transform the way that many cancers are treated.

**Dynamite with a laser beam**

The physics prize was awarded to a trio of researchers for improvements to lasers. One share went to Arthur Ashkin, who worked at Bell Laboratories (though he is now retired), honouring his invention of optical tweezers. These are tiny laser beams that can be used to hold minuscule objects, such as biological cells, viruses or even individual atoms. They work because—as James Clerk Maxwell suggested in 1862 and Pyotr Lebedev proved in 1900—the photons that make up light carry momentum. This means they exert pressure on any surface exposed to them.

Dr Ashkin's first invention was essentially the opposite of the tractor beams common in science fiction. Rather than pulling an object towards the laser emitter, he showed that he could use radiation pressure to push it away. Refinements soon followed. Laser beams are more intense in the middle. That generates a force which, counter-intuitively, tends to move the particle back towards the centre of the beam, trapping it there. The addition of a microscopic lens, to focus the laser light even fur-



ther, generates a pull force to oppose the push. The result is a device that can hold an item steady, and even move it about in three dimensions.

It sounds complicated, and working through the maths is not for the faint-hearted. But the Nobel committee demonstrated the basic principle with the aid of a hair dryer and a ping-pong ball. Anyone who can remember physics from school will recall that a hair dryer can levitate such a ball by trapping it within the current of hot air. Dr Ashkin's method has since been used in many areas of science, from probing the structure of tiny molecular machines in cells to assembling chemical compounds one atom at a time.

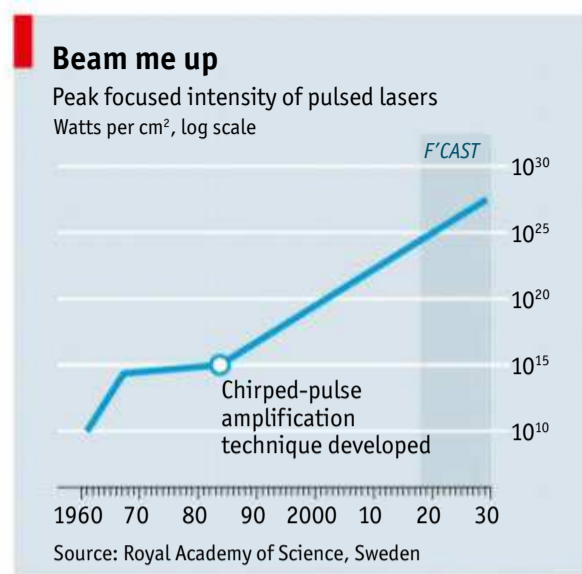
The other two shares of the physics prize honoured a different contribution. They were awarded to Donna Strickland (who thereby became only the third female physics laureate) and Gérard Mourou for their work on boosting the power that lasers can achieve.

After their invention in 1960, lasers' maximum intensities rose quickly, increasing almost 100,000-fold by 1970. At that point, though, progress stalled (see chart). It only got going again when Dr Strickland (who worked on the problem for her PhD thesis at the University of Rochester, in New York state) and Dr Mourou (who was her supervisor) came up with the idea of chirped-pulse amplification.

The difficulty with generating high-intensity laser beams was that they damaged the machines used to make them. Once again, the details of the solution are fiendish. But its essence is simple—take a short-duration laser beam and make it last longer. The same amount of energy spread over a longer time leads to a lower maximum power. The resulting beam can then be amplified further without frying any sensitive components. The final stage is to compress the amplified beam back to its initial, short duration. That gives it an extremely high power. Modern lasers can, very briefly, reach a peak power of a petawatt. That is about 1m times more than is generated by a nuclear power station.

High-power, short-duration lasers have all sorts of uses. The Nobel committee chose to focus on the familiar example of eye surgery, in which a laser beam is used to sculpt the surface of the eye in order to correct short-sightedness. Other uses include everything from industrial machining, via new types of particle accelerator, to the ability to probe the behaviour of matter on ultra-short timescales. Not bad for a PhD thesis.

The chemistry prize, too, was divided. Half went to Frances Arnold of the California Institute of Technology, “for the directed evolution of enzymes”. The other half is shared by George Smith of the University of Missouri and Sir Gregory Winter of the Laboratory of Molecular Biology, in Cam-



bridge, “for the phage display of peptides and antibodies”. But the real winner is evolution, for all three laureates harnessed its power to make proteins more useful for medicine and chemistry.

### A revolution through evolution

Dr Arnold, who studied mechanical and aerospace engineering as an undergraduate, won her half for making synthetic enzymes (proteins that catalyse chemical reactions) by “directed evolution”. She started, as any engineer would, by attempting to redesign enzymes—making changes that, she reasoned, should improve their catalytic powers. This proved too difficult.

Like all proteins, enzymes are chainlike molecules made up of hundreds or, often, thousands of links called amino acids—a type of molecule that comes in 20 varieties in living things. In the 1990s Dr Arnold, faced with the bewildering number of possibilities this generates for top-down redesign, decided to abandon her approach and turned instead to evolution.

She had been trying to modify subtilisin, an enzyme that chops up other proteins, so that it would work in dimethylformamide (DMF), a solvent. That is an environment far removed from the watery cytoplasm of a cell. She set about introducing, at random, various mutations into the gene that encodes subtilisin, to produce thousands of different versions of that gene. Next, she inserted these modified genes into bacteria to produce thousands of tweaked forms of subtilisin.

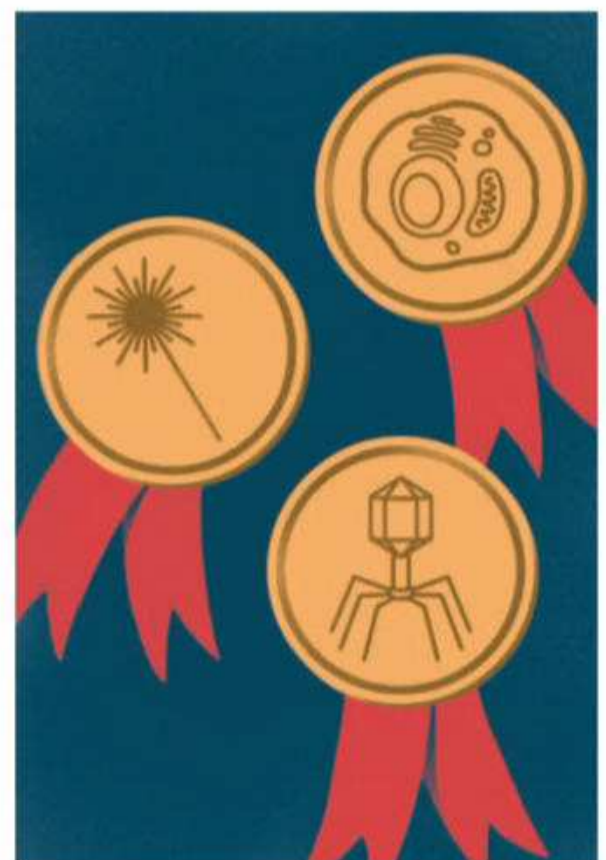
She then assessed which of these enzymes were able to break down casein, a milk protein, in DMF. Then she selected the best for a further round of random mutation and screening. And so on. After the third round of this process, she found a variant of subtilisin with ten amino-acid substitutions that worked 256 times better in the solvent than the original enzyme did. Since her breakthrough, researchers (including Dr Arnold herself) have used this “directed evolution” to tailor enzymes to make drugs and biofuels.

Directed evolution was also behind Dr

Smith's and Sir Gregory's contributions. Dr Smith invented phage display, a technique that can be used to drive the evolution of new proteins. It works by adding an extra gene to a bacteriophage (a virus that infects bacteria). Bacteriophages reproduce by hijacking the bacterial protein-making machinery. The infected bacteria then churn out thousands of copies of the original virus—with the addition, in this case, of the protein encoded by the extra gene.

Dr Winter (as he then was) soon realised that phage display could be used to direct the evolution of antibodies, which are proteins tailored to attach specifically to other proteins (usually belonging to parasites and pathogens) in order to gum those proteins up and mark the cells they are part of for destruction by the immune system. He created bacteriophages with billions of different antibodies on their surfaces and searched for those that liked to stick in this way to TNF-alpha, a protein which causes inflammation in autoimmune diseases. The best candidates were then recycled into another round of such “fishing” and the result, after several rounds, was an antibody that binds tightly to TNF-alpha.

In 1989 Dr Winter and his colleagues founded a firm called Cambridge Antibody Technology to produce this protein, which they called adalimumab. It is now marketed by Abbott Laboratories, a large drug company, as a treatment for rheumatoid arthritis and inflammatory bowel disease. Dr Winter's knighthood followed in 2004. Adalimumab's success has spurred efforts to make antibodies to attack tumours, Alzheimer's disease and lupus. Alfred Nobel's will specified that the prizes were to be given for work that was “for the greatest benefit to mankind”. This year the awarding committees seem to have got that right. ■



## Marine biology

## Invisibility cloaks

MONTEREY

## Sea creatures fight bioluminescence with the blackest materials known

THE ocean is dark and full of terrors, and the black dragonfish is the darkest of them all. Its surface, new measurements reveal, is as black as the blackest material known—the result of an abyssal arms race.

“The trick to being really dark is to control the scattering of light,” says Sönke Johnsen of Duke University, in North Carolina, who studies the dragonfish. “You have to let light into a material and let it bounce around a lot.” Black velvet, for instance, appears darker than other fabrics because photons (the particles of light) skip between its fine hairs and do not escape. Similarly, Vantablack, the least reflective artificial material, traps photons in a forest of carbon nanotubes standing on their ends. It absorbs 99.965% of visible light. Objects coated in it seem to disappear, leaving behind an inky silhouette.

Karen Osborn of the Smithsonian National Museum of Natural History, in Washington, DC, noticed a similar effect when she tried to photograph deep-sea fish, many of which are coated in a fragile black film that has to be removed before a picture can be taken. Under a scanning electron microscope, she discovered that this film is made of millions of microscopic melanin granules shaped like drug capsules, capped by a thin gelatinous layer.

The absorbing effect of the film is so great that instruments calibrated in the usual way cannot detect any light reflected from the fish at all. Dr Osborn’s attempts to measure the light inside an empty pitch-black room yielded the same result. Eventually, she and her colleagues worked out that the dragonfish reflects just one in every 2,000 photons incident upon it—an absorbance of 99.95%. Similar measurements hold true for a whole range of fishes brought up from the abyss.

In the deepest depths of the ocean, what light could these animals be trying to avoid? The photic zone, which is bathed in sunlight during the day, and starlight and moonlight at night, reaches down a few hundred metres. Yet blacker-than-black fish are found much deeper than that. The black dragonfish, for instance, lives up to 2,000 metres beneath the surface.

The deep ocean has other sources of light than astronomical bodies, though. Three-quarters of marine organisms off the coast of California produce their own, and that is probably true in most oceans, says Steve Haddock of the Monterey Bay Aquarium Research Institute. Recently, Dr



A dragonfish unveiled

Haddock brought back the first full-colour high-definition videos of bioluminescence in the abyss. At a meeting in Monterey, in September, he offered a preview. Sea cucumbers, normally pale and beige, rippled with waves of blue bioluminescence. A shimmering gold viperfish, when disturbed by Dr Haddock’s remotely operated submarine, suddenly switched its lights on, covering every detail in its skin. A jellyfish displayed swirling blue pinwheels. A brittleworm glowed yellow.

Dr Haddock hopes his new submarine-borne camera will grant him a better understanding of how animals use bioluminescence in the deep. Some predators, for instance, employ glowing lures to attract prey. Others produce pulses of light to illuminate their targets—in which case, from the prey’s point of view, having an invisibility cloak has obvious advantages.

Some organisms use bioluminescence as a defence mechanism. Lighting up an attacker can make it more vulnerable to the attentions of others. And there are times when switching the lights on is a better camouflage than absorbing light.

Watasites lanternfish are generally hunted by predators that strike from below. It may seem surprising, therefore, that among the light-producing cells distributed across their bodies they have a set that point downward from their bellies towards the sea floor. They also, however, have light-sensing cells pointing upwards on their backs. At the meeting in Monterey José Paitio, of Chubu University in Japan, described how the two sets of cells work together. The dorsal ones sense the colour and intensity of light filtering downwards. The ventral ones respond to that signal, generating exactly the amount of light required to blend in, so that the fish disappears from view when seen from underneath. A truly bright idea. ■

## Astronomy

## New moon

## Exoplanets should have exomoons. Two researchers may have spotted one

WRITERS of science fiction have long assumed that the galaxy is teeming with alien planets. They were correct, but it was only in the past few decades that science has been able to confirm this. The first exoplanet was discovered in 1992, but the floodgates really opened in 2009, with the launch of *Kepler*, a planet-hunting space probe. Thousands have since been found. Statistics suggest that every star in the galaxy—and, presumably, the universe—has at least one.

*Kepler*’s fuel is now almost exhausted, and the probe is nearing the end of its life. But a paper published by Alex Teachey and David Kipping in *Science Advances* suggests that data it has already collected may confirm another science-fiction assumption—that alien planets have alien moons. In a way, this is not surprising. Few astronomers would have bet against the existence of exomoons. But they might have been sceptical that *Kepler* was sensitive enough to spot any. What’s more, the moon that Drs Teachey and Kipping propose is strikingly strange.

To find their moon, the two researchers sifted through data from 284 different exoplanets that *Kepler* had spotted. The probe works by monitoring hundreds of thousands of stars, watching for tiny, repeated dips in their brightness caused by a planet moving in front of the star’s disk. A planet with a moon should produce a subtly different signal, with the moon causing a second, much smaller dip just before or just after the one caused by the planet. Spotting such tiny flickers is on the edge of *Kepler*’s capabilities. Nonetheless, Dr Teachey and Dr Kipping found one promising-looking planet, with the unromantic name of Kepler-1625b.

That was intriguing enough for them to be awarded a chunk of coveted observing time on the Hubble Space Telescope, to take a closer look. The Hubble has a much bigger mirror than *Kepler*, and so should be able to generate a firmer signal. After 40 hours of observation, and after putting their data through the statistical wringer to try to remove any possible sources of bias, such a signal is exactly what they think they have found.

Only big moons would cause enough of a dip in brightness to be detectable with today’s instruments. And, with the important caveat that the room for uncertainty is large, Kepler-1625b’s proposed moon seems indeed to be a real whopper. Dr Kip- ▶

ping thinks it is at least as massive as Earth itself. Its diameter seems to be about four times greater, roughly that of Neptune. Its parent planet is comparably hefty—more massive even than Jupiter, the solar system's biggest world.

Intriguingly, there are hints that the newly found moon's orbital plane may be tilted with respect to its parent planet's orbit around the system's star. The only moon in Earth's solar system with a similar arrangement is Triton, a satellite of Neptune. Rather than forming in place, Triton is thought to have been captured by Neptune from the Kuiper Belt, a sort of cosmic junkyard beyond Neptune's orbit. And it is just possible that things are stranger still. The moon's parent star is elderly, and is in the process of swelling into a red giant. Dr Kipping speculates that one explanation for the moon's giant size might be that the dying star is heating the moon's atmosphere, causing it to expand and increasing the moon's effective diameter.

### Mark the date

Assuming, that is, that the moon is real at all. To nail this question down, Dr Teachey and Dr Kipping hope to be granted more time on the Hubble next May, when—if their previous observations were correct—the planet and its putative moon are next due to swing in front of their star. Separately, they are hoping to use the Keck telescope, in Hawaii, to try to measure the wobble that the moon's parent planet induces in its star. That would give them a better sense of just how massive it is.

There may be more to come. The two researchers think they have found a second promising target lurking in *Kepler*'s data. And theory can offer a useful guide as to

where else to look. Many of the exoplanets discovered so far are so-called “hot Jupiters”—gas giants that orbit close to their stars (a configuration unknown in Earth's solar system). Theorists believe such worlds must have formed farther out from their stars before being flung inward, perhaps by a close encounter with another planet. That game of gravitational billiards would also strip any moons away from such a planet. Better to look at “cool Jupiters”—those planets that, like Jupiter itself, orbit their stars at more sensible distances. Only a handful of these are known from the *Kepler* data, says Dr Kipping, but “we'd like to use the Hubble to observe all of them, every time they transit.”

If everything goes according to plan, the

study of exomoons may follow the pattern seen with exoplanets, where an initial trickle turns rapidly into a flood. A probe called the Transiting Exoplanet Survey Satellite (TESS) was launched in April. TESS is designed to observe stars much closer to Earth than those watched by *Kepler*. If it can observe for long enough, it may turn up more candidate exomoons. Follow-up observations of anything that TESS finds would be greatly aided by its comparative nearness. And the Hubble is expected to be joined in 2020 by the budget-bustingly expensive, extremely late and very capable James Webb Space Telescope, which will carry the largest mirror ever flown into space. The moons are out there. Finding them is only a matter of time. ■

### Hoax science

## Get real!

### Another set of fake papers takes aim at social science's nether regions

“DOG parks are Petri dishes for canine ‘rape culture,’” wrote Helen Wilson, of the Portland Ungendering Research Initiative, in her study published in May this year. Her write-up describes how gender interactions in dog parks mirror the interactions and biases of human society. Female dogs, the paper said, are a relatively oppressed class compared with male dogs, and are subjected to threats of canine rape. It argued that the parallels with human society offered insights into how men might be trained out of sexual violence and bigotry. (Literally leashing men might be politically unfeasible, but perhaps metaphorically leashing them would help?)

In the eyes of the publishers of *Gender, Place & Culture*, an academic journal, Ms Wilson's findings were worthy of the highest regard. They included them in a special selection of 12 papers to mark the journal's 25th anniversary. There was just one small glitch. Ms Wilson, her institution, her study and her findings were all the creative brain-spawn of three writers, philosophers and self-styled “thinkers” hellbent on exposing what they see as a broken branch of sociology.

Starting in mid-2016, Helen Pluckrose, James Lindsay and Peter Boghossian wrote 20 entirely fictitious research papers and submitted them to respected journals. Titles included “Stars, planets and gender: a framework for a feminist astronomy” and “Going in through the back door: Challenging male straight homophobia and transphobia through receptive penetrative sex toy use”. This latter noted that straight men rarely use sex toys for anal penetration and argued that perhaps if they did, this would in-

crease their liberal, feminist and trans-friendly views.

Ms Pluckrose, Mr Lindsay and Mr Boghossian join a long list of gadflies who have successfully conned journals into publishing ridiculous made-up findings, beginning with Alan Sokal, a physicist at New York University, who submitted a hoax paper to *Social Text* in 1996. In 2009 Philip Davis of Cornell University published one that was nothing but computer-generated nonsense. And in 2014 another computer scientist wrote and published a paper entitled “Get me off your fucking mailing list”, composed entirely of that phrase repeated from opening paragraph to closing line. Others have similarly used humour and creativity to expose the faulty checks and balances of academic publishing.

For Ms Pluckrose, Mr Lindsay and Mr Boghossian the joke was up when the dog-park paper caught the attention of journalists, who quickly found Ms Wilson to be non-existent. The paper was retracted. This week the trio revealed that of their 20 made-up papers, seven were published, seven were in review when the dog paper was exposed, and just six went nowhere.

Their aim, they say, was to expose the problems with what they term “grievance studies”, a sub-category of race, gender, fat and sexuality studies in which poor science is undermining the real and important work being done elsewhere. It may be that the academics they have in their sights are immune to irony, which is no doubt seen as a manifestation of an elitist, patriarchal comedy culture that excludes the differently humorous. But it is worth a try.



Visions of a distant world

Anne Frank's diary

## Dear Kitty

The best-known document of the Holocaust is a misunderstood masterpiece

AT FIRST no one wanted to publish the diary. Editors doubted readers would be interested in the musings of a Jewish teenager who died in the war. In America Alfred A. Knopf, Inc. rejected the manuscript on the grounds that it was a “dreary record of typical family bickering, petty annoyances and adolescent emotions”.

Otto Frank, a survivor of Auschwitz and the diarist's father, carried the book everywhere in the months after he learned his wife and two daughters had perished in Nazi camps. Dignified yet haunted, his eyes rimmed red from crying, he urged friends and strangers to read passages from the text his youngest child, Annelies, had left behind. He felt a universal message of redemption for the post-war world could be found in her view that “beauty remains, even in misfortune”. Eventually, in 1947, he persuaded a Dutch publisher to print 1,500 copies. “I had no idea of the depths of her

**Anne Frank's Diary: The Graphic Adaptation.** Text by Anne Frank. Adapted by Ari Folman. Illustrations by David Polonsky. *Pantheon*; 160 pages; \$24.95. *Viking*; £14.99

thoughts and feelings,” Otto later said of the daughter he discovered in the diary's pages. “It was a revelation.”

Seventy years later, tens of millions of copies of “The Diary of a Young Girl” are in circulation in dozens of languages. Anne Frank, who was 15 when she died, is the world's most renowned victim of genocide; she has become a secular saint, an international symbol of courage amid adversity. Her book is among the most frequently read by prisoners in America. Nelson Mandela, who read it on Robben Island, said it “kept our spirits high and reinforced our confidence in the invincibility

of the cause of freedom”.

Meanwhile the attic in Amsterdam where the Franks hid with several other Jews has become a shrine-like museum. Anne herself lives on as an asteroid and a character in a Philip Roth novel. The diary has spawned countless adaptations, including a Broadway play, several films, a ballet and a musical. Now comes a graphic version by Ari Folman and David Polonsky, a duo responsible for “Waltz with Bashir”, a mesmerising animated film about Israel's war in Lebanon in 1982.

#### Where the diary ends

Anne's book deserves the attention. It is a marvel. To call it a diary is misleading; rather it is a work of literature, consciously composed by a preternaturally gifted young writer. She wrote the first draft for herself between June 1942 and August 1944, but her final months in hiding were spent editing and polishing her entries in the hope they would one day be read by others. The result is at once lively and sombre, funny and philosophical, bleak and buoyant. The book bursts with youthful longing and adolescent angst, with the effervescence of first love and the vitriol of family strife. It is about a girl who becomes a woman and a writer coming into her powers. It is a coming-of-age story set in extraordinary times, and an account of the war as seen by a persecuted Jew with a radio. To call it precocious is an understatement; it is a document of singular vitality, made inefably poignant by its author's fate.

Structured as letters to an ideal confidant named “Kitty”, the diary transforms readers into trusted companions. Few are left unmoved by the girl who, while living off mouldy potatoes and the memory of fresh air, and as bombers whizzed past, wrote: “I still believe, in spite of everything, that people are truly good at heart.” The book became by far the best-known narrative of the Holocaust. Yet its widespread embrace lets everyone off easily.

The diary ends abruptly, just before Nazis stormed the “secret annexe” and sent its inhabitants first to Westerbork, a nightmarish transit camp for Dutch Jews, and then to Auschwitz and Bergen-Belsen. It was there, not in the attic, where Anne experienced the worst horrors of the Holocaust. Soldiers shaved off her beloved hair and tattooed her arm; witnesses say she was skeletal, covered in sores and infected with



► scabies and typhus when she died in Bergen-Belsen in the spring of 1945, days after the death of her sister Margot. British troops liberated the camp weeks later. As Elie Wiesel, a Nobel laureate and Holocaust survivor, said: “Where her diary ends, mine begins.”

The fact that her complex testament has been seen as an all-purpose fable of irrepressible hope reflects its marketing. Otto Frank, the book’s first censor, removed a number of passages in which his daughter either wrote about sex, expressed her religious faith or described her “contempt” for her mother. (Only in 1991, 11 years after his death, were the deleted sentences restored.) A German translation in 1950 cut some of the hostile references to Germans, turning Anne’s experience into a more generalised struggle against oppression.

The hit Broadway show of 1955—and the film based on it—popularised the diary as the heart-warming tale of a doomed yet adorably cheerful teenager with some big ideas about tolerance and mankind’s virtues. That Anne was murdered specifically for being Jewish was finessed to maximise her story’s appeal. When the show was revived in 1997, the writer Cynthia Ozick seethed that the tragedy had been “infantilised, Americanised, homogenised, sentimentalised; falsified, kitschified, and, in fact, blatantly and arrogantly denied.”

### Thunder approaching

The new graphic version was commissioned by the Anne Frank Foundation in Basel, which says it is a way “to bring the diary into the 21st century”, particularly for young people. At a time when Holocaust denial and flippancy flourish on the alt-right and elsewhere, that is a sound aim.

Mr Folman, who adapted the text, and Mr Polonsky, the illustrator, have approached the project with due respect and humility. The result is faithful to the spirit and often the language of the diary, with passages that capture Anne’s sharp sense of humour, as well as her frustrations with her mother, her agitation with her sister (with whom she feels unfavourably compared), her sexual curiosity, fleeting infatuations, dark moods, mortal fears and internal conflicts. Some of her most profound entries are printed in full: “I see the world being slowly transformed into a wilderness, I hear the approaching thunder that, one day, will destroy us too,” she writes on July 15th 1944.

Mr Polonsky’s beautiful artwork offers a charming and convincing view of Anne on the page. Still, any adaptation is destined to suffer by comparison with the original, which provides a chance to inhabit Anne’s glittering imagination. She is the author, not a mere character, and she guides readers through her cloistered world with tremendous skill. When, in the opening pages, she says she has “a throng

of admirers who can’t keep their adoring eyes off me”, she announces herself as a fabulist as well as an observer. Illustrations inevitably turn her nuances into something more concrete. Anne was a writer; her proper medium is words.

“I know I can write,” she scribbled in her diary. Her skill was a comfort and consolation during those long hours in hiding (“the products of my pen are piling up”). Perhaps this graphic edition will introduce her to the next generation of readers. Ideally they will recognise that the finest pictures are the ones Anne Frank herself will draw in their heads. ■



### An eventful life

## The lion’s roar

**Churchill: Walking with Destiny.** By Andrew Roberts. Allen Lane; 1,152 pages; £35. To be published in America by Viking in November; \$40

**I**N HIS six-volume history, “The Second World War”, Winston Churchill recalled his thoughts on becoming prime minister in May 1940: “I felt as if I were walking with destiny, and that all my past life had been but a preparation for this hour and for this trial.” He had no illusions about his task, or about the threat faced by Western civilisation. By putting into spellbinding words his confidence in victory—if only Britain could stand alone for long enough—he gave his compatriots something nobody else could have instilled: hope.

The theme running through Andrew Roberts’s terrific new biography is this acute sense of destiny, first manifest when Churchill was a teenager. Despite almost abusive neglect by his parents—the daz-

zling but self-destructive Conservative politician Lord Randolph and his beautiful, rich American wife—Churchill saw in himself the possibility of greatness. Inspired by the example of his ancestor the first Duke of Marlborough, he set about constructing a career that would turn this inkling into a reality. Even during his so-called “wilderness years” in the 1930s, when Churchill found himself out of government for almost the first time since 1906, and scorned for his warnings about appeasing Hitler’s Germany, he continued to lay the foundations of his future wartime leadership.

By drawing on many previously untapped sources, Mr Roberts has produced a more complete picture of his subject than any previous biography. His certainly knocks into a cocked hat Boris Johnson’s boisterously self-referential effort of a few years ago. The case it makes for Churchill’s greatness is incontestable. More unusually, the author makes him lovable. The vulnerability stemming from his lonely childhood; his frequently self-deprecating wit (Churchill’s jokes are often genuinely funny); his generosity towards his most bitter political foes; his loyalty to a close circle of often quite unlikely friends; and his unfailing courage, both physical and moral, are all immensely attractive.

Yet Mr Roberts does not gloss over the many examples of terrible judgment that littered Churchill’s career before (and even after) becoming prime minister, errors which created a widespread perception that, while brilliant, energetic and matchlessly eloquent, he was also unreliable, excessively passionate, even dangerous. The charge sheet is long: his opposition to votes for women (later regretted); as First Lord of the Admiralty during the first world war, pressing on with the Dardanelles operation long after it should have been abandoned; sending the brutal Black and Tans into Ireland as war secretary; re-joining the Gold Standard as chancellor of the exchequer in the 1920s; backing the awful Edward VIII during the abdication crisis (also later regretted); vainly resisting Indian self-government (Churchill held conventional Victorian views about the superiority and obligations of the “white races” that he never truly recanted). And so on.

Over-confident of his prowess as a strategist, he made serious mistakes during the second world war, too. He failed to foresee either Japan’s entry into the conflict or its fighting capacity. He convinced himself that Italy’s mountainous spine, defended by crack German divisions, might constitute a “soft underbelly” to attack.

But he got the three biggest things right: the threats posed by Prussian militarism before 1914, by Soviet communism after 1945 and by Nazism in between. As Mr Roberts observes: “The important point about Churchill in 1940 is not that he stopped a German invasion that year, but that he ►►

► stopped the British government from making peace.” An administration led by his rival Lord Halifax would have attempted exactly that, with the support of most of the Tory party.

Churchill could claim important domestic accomplishments in his long political career as well. As a “one nation” Tory who joined the Liberals, he worked with Lloyd George to introduce social protections that alleviated the condition of the poor in Edwardian Britain. Later, as prime minister, he helped to lay the foundations for the modern welfare state. Throughout his life, he had the wisdom to urge magnanimity towards the defeated, whether to South African Boers or Germany after both world wars. At home, after a display of beligerent enthusiasm for breaking the General Strike of 1926, he went on to establish cordial relations with union leaders.

### Advance Britannia!

But it was his use of language that made and makes Churchill extraordinary. As he put it: “I was not the lion, but it fell to me to give the lion’s roar.” Mr Roberts wisely quotes from any number of debates, letters, articles and books. Although the style can seem dated, the cadence of the sentences and the power of the words are such that this reviewer found himself reading passages aloud, often with a catch in the throat. In 1953 Churchill was deservedly awarded the Nobel prize for literature. The sheer quantity of the writing is as remarkable as the quality. Mr Roberts calculates that he published 6.1m words in 37 books—more than Shakespeare and Dickens combined—and delivered 5m words in public speeches. The contrast with Donald Trump’s vulgar tweets and Theresa May’s robotic phrases is dispiriting.

Inevitably, this book will be scoured by those seeking to enlist Churchill on one side or other of the Brexit argument. Mr Roberts, an ardent Brexiteer himself, slyly hints that the statesman would have agreed with him because he did not want Britain to be a part of the federal Europe that he called for after the war.

Perhaps, but there is a counter-argument. Churchill was both a romantic and a realist about national power. He observed the decline in Britain’s clout at the Yalta conference with Roosevelt and Stalin. He was not against pooling sovereignty for a purpose, as in 1940 when he briefly proposed a union between Britain and France. He could well have concluded that, shorn of the empire he loved, Britain would exercise less influence in the world and (crucially for him) be of less importance to America outside the European Union than in it. He would certainly have been saddened to see how far his country has fallen, though perhaps not surprised by the incompetence of the political class that brought it to this plight. ■

### Literary history

## Big Easy reading

NEW ORLEANS

### A 300-year-old city in books

**D**RUNK, dishevelled and remorseful, Stanley Kowalski throws back his head and howls at his wife: “Stellahhhh!” Every March contestants gather in Jackson Square, New Orleans, to recreate this scene from “A Streetcar Named Desire”—ripping their t-shirts, pouring the contents of hip-flasks over themselves and dropping to their knees. The competition is the finale of a festival that honours the play’s author, Tennessee Williams, who called the city his spiritual home.

Ten minutes’ walk away, on Canal Street, is a bronze statue of an overweight man in a deerstalker hat. It is a likeness of Ignatius J. Reilly, the misanthropic hero of “A Confederacy of Dunces”; for Ignatius, New Orleans is an abode of “jades, litterbugs and lesbians”, but the world outside it is a “wasteland”. People come to the statue to pay tribute to this incorrigible voice of the Big Easy, and to his creator, John Kennedy Toole, who committed suicide before his book was published.

New Orleans is 300 years old this year. It has been celebrating its literary history for 100 of them—cultural tours were offered as early as the 1920s—but especially since the 1990s, when the Ignatius statue was erected and the shouting competition was inaugurated. Locals dress up as their favourite fictional characters during Mardi Gras and attend vampire balls that nod to Anne Rice’s novels at Halloween. Some of the hotels are literary attractions in their own right. The Monteleone has featured in scores of stories; its Carousel Bar was a favourite haunt of Truman Capote and Eudora Welty. So are some of the bookshops, such as Faulkner House Books in Pirate’s Alley, named after William Faulkner, a former resident. New Orleans helped to transform him from an obscure poet into a No-

bel laureate, just as it turned plain-old Thomas Williams into Tennessee.

If transformation is one of the themes that pervades the city’s literature, another is diversity. Like many ports, New Orleans has always been a melting pot: Frenchmen, Spaniards, Creoles, African slaves, Native Americans, free people of colour and waves of immigrants commingled, on the streets and on the page. “Les Cenelles”, the first anthology of poetry by Americans of colour, was published there in 1845. As literature migrated from French to English in the aftermath of the Louisiana Purchase, novelists used the community’s nuances to explore racial inequalities in the South, in books such as George Washington Cable’s “The Grandissimes”, published in 1880. Kate Chopin explored the limits of female roles and desires in 19th-century Creole society in “The Awakening” (1899).

In the 1920s the *Double Dealer*, a literary magazine, was launched in New Orleans as a voice for modernist literature, and to show that the South was not a cultural backwater. It included African-American and women’s writing and early work by Faulkner and Ernest Hemingway. Against a soundtrack of the jazz age, authors took up residence in the romantic decay of the French Quarter; the writer Sherwood Anderson hosted Parisian-style salons for the likes of Carl Sandburg and Gertrude Stein. In his introduction to “New Orleans: The First 300 Years”, Lawrence Powell describes how this “Dixie Bohemia” inaugurated “a tradition of literary slumming that has scarcely abated”.

### Lost in the flood

In the post-war decades the Beat generation passed through: Jack Kerouac immortalised his stay with William Burroughs and their visit to the French Quarter in “On the Road” (1957). The city “at the washed-out bottom of America”, Kerouac wrote, was “burned in our brains” before his party got there. In “The Moviegoer”, Walker Percy’s existential novel of 1961, the war-veteran narrator, Binx Bolling, perambulates around New Orleans and its cinemas in a quest for meaning.

The bygone days of piracy, plantations ►►



Marlon Brando and Kim Hunter do Stanley and Stella

▶ and the old red-light district inspired historical fantasia; the grandiose cemeteries and practitioners of voodoo nurtured tales of the supernatural, witches and vampires. Meanwhile the latter-day mean streets cultivated characters such as Dave Robicheaux, the hardboiled protagonist of James Lee Burke's mysteries. Later arrivals showed up in fiction, too. In 1993 Robert Olen Butler won a Pulitzer for "A Good Scent from a Strange Mountain", a collection of stories about Vietnamese immigrants in Louisiana.

In 2005 Hurricane Katrina hit, the levees broke and most of New Orleans was

flooded. People lost everything. But, as Susan Larson, author of "The Booklover's Guide to New Orleans", recounts, in time "fresh literary energy emerged from the fact that every New Orleanian had a story". Writing was a form of civic therapy. Dave Robicheaux returned to battle post-Katrina crime. New characters are changed irrevocably by the storm, such as T.C. in Margaret Wilkerson Sexton's "A Kind of Freedom". Katrina became a prism through which to ponder the issues that have always concerned the city's chroniclers: race, history, madness, identity, survival and death.

Today, as in the past, writers are drawn to the freedom, exuberance and tolerance of eccentricity. New Orleans embraces them while they are alive and reveres them when they are gone; writers, in turn, have helped to sear its legend into the imaginations of America and the world. But if the material is as rich as ever, the challenge to portray it freshly is steep. It is hard to better Alice Dunbar-Nelson's view of carnival from 1895: "A madding dream of colour and melody and fantasy gone wild in an effervescent bubble of beauty that shifts and changes and passes kaleidoscope-like before the bewildered eye." ■

## Johnson | Bubble and squeak

### Women's voices are subjected to much greater scrutiny than men's

“**I**N A WORLD...”, a film from 2013, is about, of all things, the voice-over industry—specifically, the warm, masculine voices that lend a ponderous authority to film trailers and advertisements. Lake Bell, an actor, plays the daughter of a legendary voice-over man; she wants to break into the industry herself, but faces sexism at every turn. Ms Bell has a rich and deep voice of her own, but she is also a gifted mimic. A bubbly young woman with a squeaky high voice stops to ask her: “Do you know where I can get a smoothie around here?” Ms Bell expertly mimics her tone in reply.

The scene highlights two vocal features associated with young women: vocal fry and uptalk. Uptalk, as the name suggests, is the rising intonation that makes statements sound like questions? And vocal fry—often said to be typical of Kim Kardashian, an American celebrity—happens at the ends of words and phrases when a speaker's vocal chords relax, giving the voice a kind of creaky quality (a bit like something frying in a pan).

From these descriptions, an alien observer would be bemused to learn that these harmless phenomena drive some people to scorn, or even anger. But they do. When Christine Blasey Ford testified to the Senate Judiciary Committee that Brett Kavanaugh, Donald Trump's nominee to the Supreme Court, had sexually assaulted her, some viewers were so infuriated by her speaking style that they denounced it on Twitter: “Christine Blasey Ford's little girl voice...vocal fry, and uptalk worse than clubbed toenails down a chalkboard.”

The complaint goes like this: since uptalk uses the intonation of a question for a statement, it makes the statement sound uncertain, and its speaker weak. Additionally, since higher voices are character-



istic of children, using uptalk seems like a voluntary abdication of authority. And vocal fry, for its part, is criticised as a put-on sexy, fake-femme-fatale affectation. The rise of both is said to constitute an epidemic of “sexy baby voice”.

But vocal fry is found among all sorts of speakers. It just tends to be noticed more often among purportedly vapid young women. Even in the scene where she mocks vocal fry, Ms Bell lets it slip briefly in her own voice as well: at the moment of a distracted “uh”, her pitch is much deeper than her young interlocutor's, but that “uh” displays unmistakable fry. And men fry all the time, too. Critics of the fry-panic have discovered it in the back catalogues of George W. Bush, Kurt Cobain (who was the lead singer for Nirvana, a grunge-rock band), and Ira Glass (an American radio host). None are known as sexy babies.

Moreover, vocal fry is, in a way, uptalk's technical opposite. It tends to happen

when speakers are relaxing their voices to try to make them sound deeper than they naturally are. Women seem to be damned whatever they do. Speak loudly and they are deemed shrill; speak softly and they are meek. A high voice is unserious. Low-frequency vocal fry is off-limits too. If Ms Blasey Ford had an especially deep voice, she would no doubt be described as an unfeminine battle-axe.

This treatment is all the more remarkable given that Ms Blasey Ford's adversaries at the hearing were abysmal vocal performers. Chuck Grassley, the chairman of the Judiciary Committee, rambled badly through his prepared opening statement: hardly the authority associated with powerful men. Mr Kavanaugh's voice ran the gamut from shouty to tearful, but even among those who criticised his performance, few noted its vocal qualities. And if anyone could be dismissed as shrill, it was Lindsey Graham, another (male) Republican senator, who called the proceedings “the most unethical sham since I've been in politics” in his distinctively high and nasal timbre.

There is no escaping the fact that some voices sound more pleasing than others. And there is no quick way around society's belief that deep voices convey authority; men have been more powerful than women for all of known history. It may be good practical advice to tell women who want to get into the voice-over industry—or indeed others that have been historically dominated by men—to use firm and deep voices if they want to impress. They might also take care to avoid the distraction of vocal fry, while simultaneously ensuring that they don't sound too mannish. Women, in other words, are required to walk a thin line when they speak in public, a no-room-for-error performance never expected of men.

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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†	Oct 3rd
United States	+2.9 Q2	+4.2	+2.9	+4.9 Aug	+2.7 Aug	+2.5	3.9 Aug	-442.8 Q2	-2.6	-4.8	2.96	-	-
China	+6.7 Q2	+7.4	+6.6	+6.1 Aug	+2.3 Aug	+2.1	3.8 Q2§	+67.8 Q2	+0.5	-3.6	3.47§§	6.88	6.64
Japan	+1.3 Q2	+3.0	+1.1	+0.6 Aug	+1.3 Aug	+0.9	2.4 Aug	+198.9 Jul	+3.8	-3.8	0.08	114	113
Britain	+1.2 Q2	+1.6	+1.3	+1.0 Jul	+2.7 Aug	+2.4	4.0 Jun††	-97.5 Q2	-3.4	-1.7	1.56	0.77	0.75
Canada	+1.9 Q2	+2.9	+2.3	+3.2 Jul	+2.8 Aug	+2.3	6.0 Aug	-53.4 Q2	-2.6	-2.3	2.55	1.28	1.25
Euro area	+2.1 Q2	+1.5	+2.1	-0.1 Jul	+2.1 Sep	+1.7	8.1 Aug	+471.0 Jul	+3.4	-0.7	0.48	0.87	0.85
Austria	+2.3 Q2	-4.0	+2.9	+4.8 Jul	+2.2 Aug	+2.1	4.8 Aug	+10.9 Q2	+2.2	-0.3	0.57	0.87	0.85
Belgium	+1.4 Q2	+1.6	+1.5	-2.3 Jul	+2.3 Sep	+2.2	6.5 Aug	+0.1 Jun	-0.3	-1.1	0.84	0.87	0.85
France	+1.7 Q2	+0.6	+1.7	+1.8 Jul	+2.2 Sep	+2.1	9.3 Aug	-9.0 Jul	-0.9	-2.4	0.82	0.87	0.85
Germany	+1.9 Q2	+1.8	+1.9	+1.2 Jul	+2.3 Sep	+1.8	3.4 Aug‡	+320.6 Jul	+7.9	+1.7	0.48	0.87	0.85
Greece	+1.8 Q2	+0.9	+2.0	+1.9 Jul	+1.0 Aug	+0.9	19.1 Jun	-2.5 Jul	-1.2	-0.2	4.43	0.87	0.85
Italy	+1.2 Q2	+0.8	+1.1	-1.3 Jul	+1.5 Sep	+1.4	9.7 Aug	+58.4 Jul	+2.4	-2.0	3.32	0.87	0.85
Netherlands	+3.1 Q2	+3.3	+2.8	+1.9 Jul	+2.3 Aug	+1.7	4.8 Aug	+95.1 Q2	+10.1	+1.3	0.53	0.87	0.85
Spain	+2.7 Q2	+2.3	+2.7	+2.8 Jul	+2.2 Sep	+1.8	15.2 Aug	+17.6 Jul	+1.1	-2.7	1.35	0.87	0.85
Czech Republic	+2.7 Q2	+2.9	+3.0	+10.3 Jul	+2.5 Aug	+2.2	2.7 Aug‡	+1.5 Q2	+0.6	+1.0	2.09	22.3	22.1
Denmark	+1.5 Q2	+1.0	+1.3	+7.4 Jul	+1.0 Aug	+1.1	3.9 Aug	+19.7 Jul	+7.2	-0.7	0.42	6.46	6.34
Norway	+3.3 Q2	+1.5	+1.6	-2.3 Jul	+3.4 Aug	+2.3	4.0 Jul††	+28.0 Q2	+7.4	+5.4	1.93	8.18	7.99
Poland	+5.1 Q2	+4.1	+4.6	+5.0 Aug	+1.8 Sep	+1.8	5.8 Aug§	-0.7 Jul	-0.7	-2.0	3.25	3.72	3.68
Russia	+1.9 Q2	na	+1.6	+2.8 Aug	+3.1 Aug	+2.9	4.6 Aug§	+59.7 Q2	+5.1	+0.3	8.64	65.6	57.9
Sweden	+2.4 Q2	+3.1	+2.7	+2.3 Jul	+2.0 Aug	+2.0	6.1 Aug§	+13.4 Q2	+3.8	+0.9	0.63	9.01	8.18
Switzerland	+3.4 Q2	+2.9	+2.7	+8.7 Q2	+1.2 Aug	+1.0	2.6 Aug	+71.7 Q2	+9.9	+0.9	0.09	0.99	0.97
Turkey	+5.2 Q2	na	+3.8	+7.9 Jul	+24.5 Sep	+15.3	10.2 Jun§	-54.6 Jul	-5.7	-3.4	19.35	6.02	3.57
Australia	+3.4 Q2	+3.5	+3.2	+3.4 Q2	+2.1 Q2	+2.1	5.3 Aug	-41.8 Q2	-2.6	-0.9	2.67	1.40	1.28
Hong Kong	+3.5 Q2	-0.9	+3.4	+1.6 Q2	+2.3 Aug	+2.2	2.8 Aug††	+13.8 Q2	+4.3	+2.0	2.40	7.84	7.81
India	+8.2 Q2	+7.8	+7.4	+6.6 Jul	+3.7 Aug	+4.6	6.4 Aug	-49.5 Q2	-2.4	-3.6	8.11	73.2	65.3
Indonesia	+5.3 Q2	na	+5.2	+9.0 Jul	+2.9 Sep	+3.4	5.1 Q1§	-24.2 Q2	-2.6	-2.6	8.22	15,075	13,540
Malaysia	+4.5 Q2	na	+5.0	+2.5 Jul	+0.2 Aug	+0.9	3.4 Jul§	+11.2 Q2	+2.6	-3.3	4.08	4.14	4.23
Pakistan	+5.4 2018**	na	+5.4	+0.5 Jul	+5.1 Sep	+5.4	5.9 2015	-18.1 Q2	-5.8	-5.4	10.50†††	124	105
Philippines	+6.0 Q2	+5.3	+6.6	+11.8 Jul	+6.4 Aug	+5.1	5.4 Q3§	-5.1 Jun	-1.4	-2.8	7.42	54.2	51.1
Singapore	+3.9 Q2	+0.6	+3.5	+3.3 Aug	+0.7 Aug	+0.6	2.1 Q2	+64.6 Q2	+19.7	-0.7	2.51	1.38	1.36
South Korea	+2.8 Q2	+2.4	+2.8	+2.5 Aug	+1.4 Aug	+1.6	4.0 Aug§	+74.0 Jul	+4.5	+1.0	2.38	1,119	1,145
Taiwan	+3.3 Q2	+1.6	+2.6	+1.3 Aug	+1.5 Aug	+1.7	3.7 Aug	+84.5 Q2	+13.1	-0.9	0.88	30.7	30.4
Thailand	+4.6 Q2	+4.1	+4.1	+0.7 Aug	+1.3 Sep	+1.2	1.0 Aug§	+49.0 Q2	+9.3	-2.9	2.57	32.4	33.4
Argentina	-4.2 Q2	-15.2	-2.3	-7.0 Aug	+34.2 Aug	+33.6	9.6 Q2§	-35.4 Q2	-4.3	-5.6	11.26	37.5	17.3
Brazil	+1.0 Q2	+0.7	+1.5	+2.0 Aug	+4.2 Aug	+3.8	12.1 Aug§	-15.5 Aug	-1.0	-7.0	9.21	3.85	3.16
Chile	+5.3 Q2	+2.8	+3.9	-1.8 Aug	+2.6 Aug	+2.4	7.3 Aug§††	-3.6 Q2	-2.0	-2.0	4.51	659	640
Colombia	+2.5 Q2	+2.3	+2.7	+3.5 Jul	+3.1 Aug	+3.3	9.2 Aug§	-10.6 Q2	-2.8	-1.9	6.98	3,013	2,948
Mexico	+2.6 Q2	-0.6	+2.1	+1.3 Jul	+4.9 Aug	+4.8	3.3 Aug	-19.7 Q2	-1.8	-2.3	7.95	18.8	18.3
Peru	+5.4 Q2	+12.5	+4.1	+1.0 Jul	+1.3 Sep	+1.4	6.3 Aug§	-3.2 Q2	-1.7	-3.1	na	3.31	3.27
Egypt	+5.4 Q2	na	+5.4	+5.3 Jul	+14.2 Aug	+17.0	9.9 Q2§	-6.0 Q2	-2.4	-9.7	na	17.9	17.6
Israel	+3.9 Q2	+1.8	+3.6	+1.5 Jun	+1.2 Aug	+1.1	4.2 Jul	+7.5 Q2	+1.9	-2.9	2.01	3.63	3.53
Saudi Arabia	-0.9 2017	na	+1.0	na	+2.3 Aug	+2.6	6.1 Q1	+44.4 Q2	+7.4	-3.4	na	3.75	3.75
South Africa	+0.4 Q2	-0.7	+0.7	+1.8 Jul	+4.9 Aug	+4.8	27.2 Q2§	-12.1 Q2	-3.5	-3.6	9.09	14.4	13.7

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 Oct 3rd	% change on one week	% change on Dec 29th 2017	
			in local currency	in \$ terms
United States (DJIA)	26,828.4	+1.7	+8.5	+8.5
China (Shanghai Comp)	2,821.4	+0.5	-14.7	-19.3
Japan (Nikkei 225)	24,111.0	+0.3	+5.9	+4.6
Britain (FTSE 100)	7,510.3	nil	-2.3	-6.1
Canada (S&P TSX)	16,072.1	-0.6	-0.8	-3.1
Euro area (FTSE Euro 100)	1,184.4	-0.9	-2.1	-5.9
Euro area (EURO STOXX 50)	3,405.5	-0.8	-2.8	-6.6
Austria (ATX)	3,395.3	+0.4	-0.7	-4.6
Belgium (Bel 20)	3,745.4	nil	-5.8	-9.5
France (CAC 40)	5,491.4	-0.4	+3.4	-0.7
Germany (DAX)*	12,287.6	-0.8	-4.9	-8.6
Greece (Athex Comp)	666.8	-5.0	-16.9	-20.1
Italy (FTSE/MIB)	20,736.0	-4.2	-5.1	-8.8
Netherlands (AEX)	552.9	+0.1	+1.5	-2.5
Spain (IBEX 35)	9,361.1	-1.7	-6.8	-10.4
Czech Republic (PX)	1,107.3	+0.6	+2.7	-2.0
Denmark (OMXC B)	900.7	-0.6	-2.8	-6.8
Hungary (BUX)	37,212.9	+3.4	-5.5	-12.7
Norway (OSEAX)	1,071.4	-0.1	+18.1	+18.1
Poland (WIG)	59,192.5	-0.4	-7.1	-13.3
Russia (RTS, \$ terms)	1,196.0	+3.0	+3.6	+3.6
Sweden (OMXS30)	1,665.1	+0.4	+5.6	-4.1
Switzerland (SMI)	9,175.2	+1.0	-2.2	-3.6
Turkey (BIST)	97,187.8	-2.0	-15.7	-46.9
Australia (All Ord.)	6,265.2	-0.7	+1.6	-6.4
Hong Kong (Hang Seng)	27,091.3	-2.6	-9.5	-9.7
India (BSE)	35,975.6	-1.6	+5.6	-7.9
Indonesia (IDX)	5,867.7	-0.1	-7.7	-16.9
Malaysia (KLSE)	1,796.3	-0.1	nil	-2.3
Pakistan (KSE)	40,560.2	-0.9	+0.2	-10.9
Singapore (STI)	3,267.4	+0.9	-4.0	-6.8
South Korea (KOSPI)	2,309.6	-1.3	-6.4	-10.5
Taiwan (TWI)	10,863.9	-1.0	+2.1	-0.9
Thailand (SET)	1,742.0	-0.5	-0.7	nil
Argentina (MERV)	32,245.6	-5.0	+7.3	-46.1
Brazil (BVSP)	83,273.3	+5.9	+9.0	-6.1
Chile (IGPA)	27,161.3	+0.3	-2.9	-9.4
Colombia (IGBC)	12,594.3	+2.2	+9.7	+8.7
Mexico (IPC)	48,993.2	-1.2	-0.7	+3.6
Peru (S&P/BVL)*	19,823.4	+1.1	-0.8	-2.8
Egypt (EGX 30)	14,313.2	-2.0	-4.7	-5.3
Israel (TA-125)	1,499.5	+0.4	+9.9	+5.2
Saudi Arabia (Tadawul)	8,008.6	+1.5	+10.8	+10.8
South Africa (JSE AS)	55,171.5	-2.5	-7.3	-20.0

The Economist poll of forecasters, October averages (previous month's, if changed)

	Real GDP, % change				Consumer prices % change		Current account % of GDP	
	Low/high range		average		2018	2019	2018	2019
	2018	2019	2018	2019				
Australia	2.8/3.4	2.3/3.5	3.2 (2.9)	2.8 (2.7)	2.1	2.2	-2.6	-2.4 (-2.6)
Brazil	1.2/2.0	1.9/3.5	1.5 (1.6)	2.4 (2.2)	3.8	4.3 (4.2)	-1.0	-1.3 (-1.4)
Britain	1.2/1.4	0.9/1.9	1.3	1.4	2.4	2.1	-3.4 (-3.5)	-3.3 (-3.2)
Canada	2.0/3.2	1.7/3.7	2.3	2.2	2.3 (2.2)	2.1	-2.6 (-2.5)	-2.3
China	6.5/6.7	6.0/6.6	6.6	6.2 (6.3)	2.1	2.4 (2.3)	0.5 (0.6)	0.3 (0.5)
France	1.5/1.8	1.5/2.0	1.7	1.7 (1.8)	2.1 (2.0)	1.6 (1.5)	-0.9 (-1.1)	-0.9 (-1.1)
Germany	1.7/2.2	1.6/2.4	1.9 (2.0)	1.9 (2.0)	1.8	1.8 (1.7)	7.9 (7.6)	7.5 (7.2)
India	6.6/7.7	6.8/7.6	7.4 (7.3)	7.3	4.6	4.9 (4.8)	-2.4	-2.6 (-2.4)
Italy	1.0/1.3	0.9/1.5	1.1 (1.2)	1.1 (1.2)	1.4	1.5 (1.4)	2.4 (2.5)	2.1 (2.3)
Japan	0.8/1.3	0.6/1.4	1.1	1.2	0.9	1.2	3.8	3.8 (3.9)
Russia	0.7/2.0	1.0/1.9	1.6 (1.7)	1.5 (1.7)	2.9 (3.0)	4.5 (4.3)	5.1 (4.3)	5.0 (3.6)
Spain	2.6/2.9	1.0/3.0	2.7	2.2 (2.3)	1.8 (1.7)	1.6	1.1 (1.4)	1.0 (1.3)
United States	2.7/3.1	1.6/3.3	2.9	2.5	2.5	2.3	-2.6 (-2.7)	-2.9
Euro area	1.9/2.3	1.5/2.2	2.1	1.8	1.7	1.6	3.4	3.1 (3.2)

Sources: Bank of America, Barclays, BNP Paribas, Citigroup, Commerzbank, Credit Suisse, Decision Economics, Deutsche Bank, EIU, Goldman Sachs, HSBC Securities, ING, Itaú BBA, JPMorgan, Morgan Stanley, RBS, Royal Bank of Canada, Schroders, Scotiabank, Société Générale, Standard Chartered, UBS. For more countries, go to: Economist.com/markets

Other markets

	Index Oct 3rd	% change on one week	% change on Dec 29th 2017	
			in local currency	in \$ terms
United States (S&P 500)	2,925.5	+0.7	+9.4	+9.4
United States (NASComp)	8,025.1	+0.4	+16.2	+16.2
China (Shenzhen Comp)	1,441.5	-0.4	-24.1	-28.2
Japan (Topix)	1,802.7	-1.0	-0.8	-2.1
Europe (FTSEurofirst 300)	1,506.5	-0.2	-1.5	-5.4
World, dev'd (MSCI)	2,183.6	-0.3	+3.8	+3.8
Emerging markets (MSCI)	1,033.3	-1.2	-10.8	-10.8
World, all (MSCI)	523.4	-0.4	+2.0	+2.0
World bonds (Citigroup)	923.1	-0.9	-2.8	-2.8
EMBI+ (JPMorgan)	793.7	+0.3	-5.1	-5.1
Hedge funds (HFRX)	1,261.0 <sup>§</sup>	+0.1	-1.1	-1.1
Volatility, US (VIX)	11.5	+12.9	+11.0	(levels)
CDSs, Eur (iTRAXX) <sup>†</sup>	69.0	+2.1	+53.0	+47.0
CDSs, N Am (CDX) <sup>†</sup>	59.3	-2.8	+20.8	+20.8
Carbon trading (EU ETS) €	21.2	+4.7	+160.6	+150.4

Sources: IHS Markit; Thomson Reuters. \*Total return index. <sup>†</sup>Credit-default-swap spreads, basis points. <sup>§</sup>Oct 1st.

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The Economist commodity-price index

	2005=100		% change on	
	Sep 25th	Oct 2nd*	one month	one year
<b>Dollar Index</b>				
All Items	138.4	139.8	+1.4	-3.9
Food	141.2	143.3	+1.4	-4.1
Industrials				
All	135.5	136.1	+1.4	-3.8
Nfat	126.7	125.6	-6.2	-2.8
Metals	139.3	140.6	+4.6	-4.2
<b>Sterling Index</b>				
All items	191.2	195.8	+0.2	-2.0
<b>Euro Index</b>				
All items	146.0	150.4	+1.4	-2.3
<b>Gold</b>				
\$ per oz	1,202.6	1,207.1	+1.2	-5.3
<b>West Texas Intermediate</b>				
\$ per barrel	72.3	75.2	+7.7	+49.2

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 agricultural.

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NASA  
Author, "One Orbit"



**ELLEN STOFAN**  
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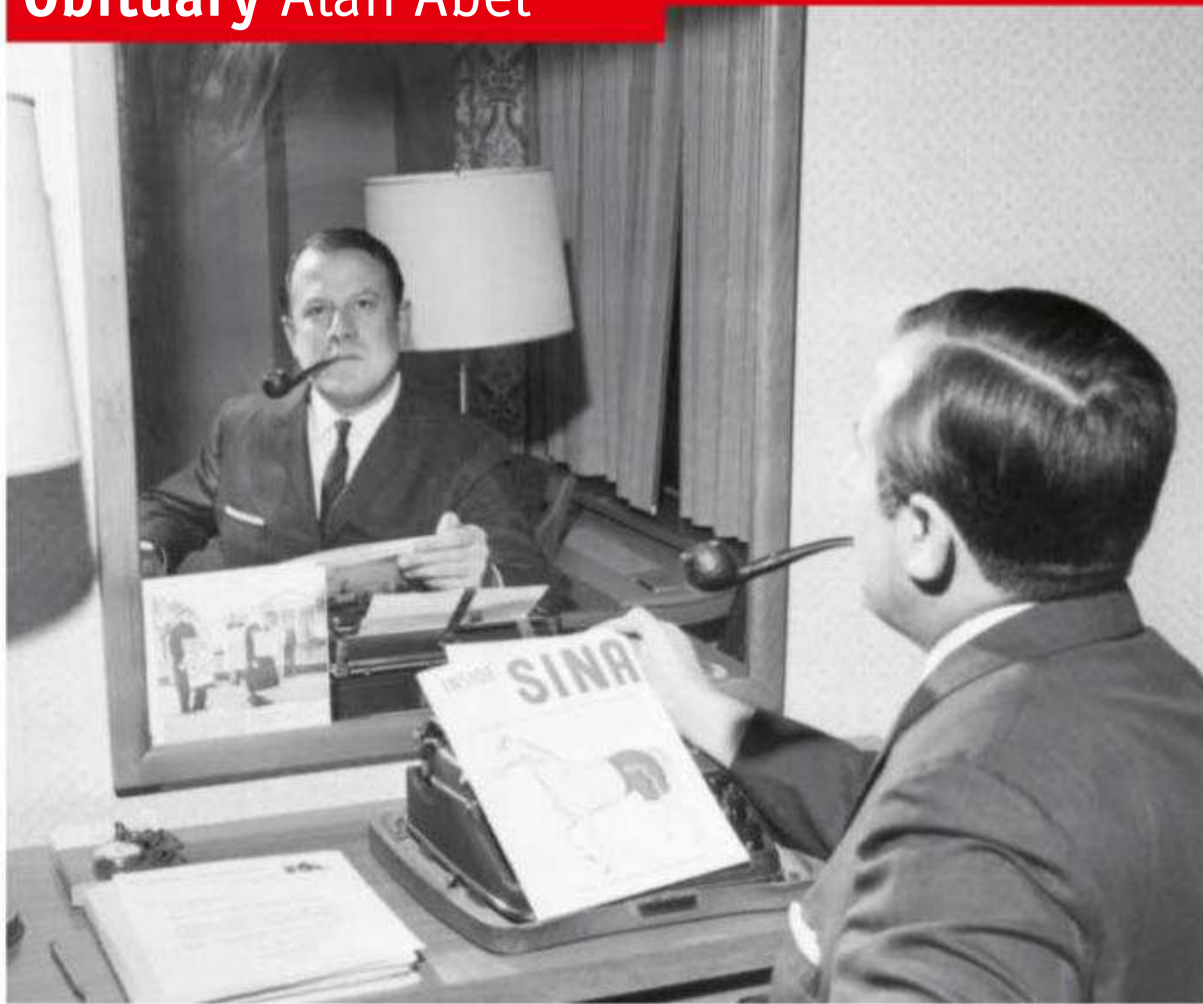
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## One born every minute

**Alan Abel, hoaxer-in-chief, died on September 14th, aged 94**

SINCE there are few folk more gullible than editors and reporters desperate to fill the front page, an invitation covertly devised by Alan Abel was sure to pull them in. The venue was often some swank hotel, with food and liquor served. And the guest would fit the fever of the moment. In 1972 journalists packed in to see Howard Hughes, the reclusive billionaire, who appeared scarved in bandages to announce that he was going to be frozen cryogenically, and would emerge when the stockmarket peaked. In 1974 they were summoned to hear a former White House employee play the missing 18½ minutes of the Watergate tapes on an impressively cumbersome, but mute, machine. Two years later 150 pressmen elbowed each other frantically to meet Deep Throat, the source of Watergate secrets, who to their surprise mostly spent the conference arguing with his wife, and left in an ambulance.

Perhaps the best event was in the Omni Park Central in Manhattan in 1990 to announce the winner of the \$35m jackpot in the New York State Lotto. All the press came. Champagne flowed as Charlene Taylor, a pretty cosmetologist from Dobbs Ferry, announced that she would spend the money to install restrooms on the subway. Dollar bills were thrown from the window to increase the crowd. The party

was on the fourth floor so that journalists would race down the stairs to spread the wild excitement, and they did: “\$35M AND SHE’S SINGLE!” cried the *New York Post*.

Mr Abel’s targets were not only foolish hacks and lazy fact-checkers—as well as the scalpers who ran the Lotto—but anyone eager to censor what the press could say or show. Hence his Society for Indecency to Naked Animals (SINA, founded 1958, president, G. Clifford Prout), inspired when he found himself stuck in traffic in Texas by a cow and bull having sex on the highway. For the sake of public decency, he recommended shorts for any creature taller than four inches or longer than six, and encouraged people to report neighbours taking naked pets for walks. The society got serious coverage on the “Today Show” and from Walter Cronkite, gained 50,000 members (said its founder) and, though exposed after four years, ran on and on.

### Betta with Yetta

Americans, he sometimes sighed, were a nation of sheep. If he looked up at the sky, people round him did. When his father put “Limit—two per customer” on hard-to-shift items in his general store in Coshocton, Ohio, they sold in a minute. But he was on Everyman’s side. He suggested a plastic arm should be sewn on people’s spines, to

give them a tripod to sit on while in line. He put up ads in the subway (“Squid for sale. Harmless and lovable”), to add interest to weary lives. His book “Don’t Get Mad, Get Even”, told poor saps how they could legally retaliate when clods kept dumping on them. In 1964 and 1968 he ran the campaigns of Yetta Bronstein, a cab driver’s wife from the Bronx (aka his own wife, Jeanne), for the presidency. Yetta offered bagels for votes, the chicken-soup comfort of a Jewish mother in the White House, and a cabinet staffed with people who had failed in life but learned to live with it. She also proposed putting truth serum in the Senate drinking fountain.

Her manager’s career was somewhat crazy, as many pointed out. He was in fact a first-rate jazz drummer, and could almost have made a career in that. But being Count von Blitzstein, Rufus Thunderberg, Dr Harrison T. Rogers or Martin Swagg junior proved much more fun. He had the sort of serious plain face people couldn’t be sure whether they had seen before, which was useful. The press moved more slowly in those days, which was useful too. It wasn’t hard to create a little havoc and, at times, administer a kick in the intellect.

There was certainly no money in it. His elaborate planning—official press releases, bookings of hotel suites, dedicated phone lines—was expensive. Cheques sent to SINA, one for \$40,000, were fondled but returned. A few angels helped, as did his band of merry pranksters, actor friends. Several were filmed attending Omar’s School for Beggars, founded during the recession of the 1970s to teach the art of creative panhandling with good clothes and nice manners. It made Omar rich; he appeared on tv, hooded, with an enormous cigar. Strangely it brought nothing to the rusty railroad caboose in the woods where Mr Abel plotted, with pencil and plain pad, what he might do next.

And then in 1980 he died. His skis were found in the shape of a cross at Robert Redford’s resort in Sundance, Utah. An undertaker gathered up his few belongings, his wake was announced, and an actress playing his wife called the *New York Times*. The *Times* ran an eight-inch obituary, two inches longer than for the guy who invented the six-pack. It then had to retract it when, miraculously, he rose again.

If he had waited another decade or two he could have enjoyed one of his Euthanasia Cruises, which offered the chance to expire in luxury. He could have boarded a three-masted sloop, *The Last Supper*, at Fort Lauderdale, enjoying dancing, gambling and one-on-one therapy from beautiful social workers, until the ship listed gently to one side in international waters. He had already made the voyage, as a reporter with a rare round-trip ticket. And some reporters would believe anything. ■

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