

# The Economist

The dire Strait of Hormuz

Which Boris would Britain get?

Facebook's weird new currency

Reigning cats and dogs

JUNE 22ND - 28TH 2010

# Texaformia

A glimpse into America's future



# The Economist

Thursday, June 20, 2019

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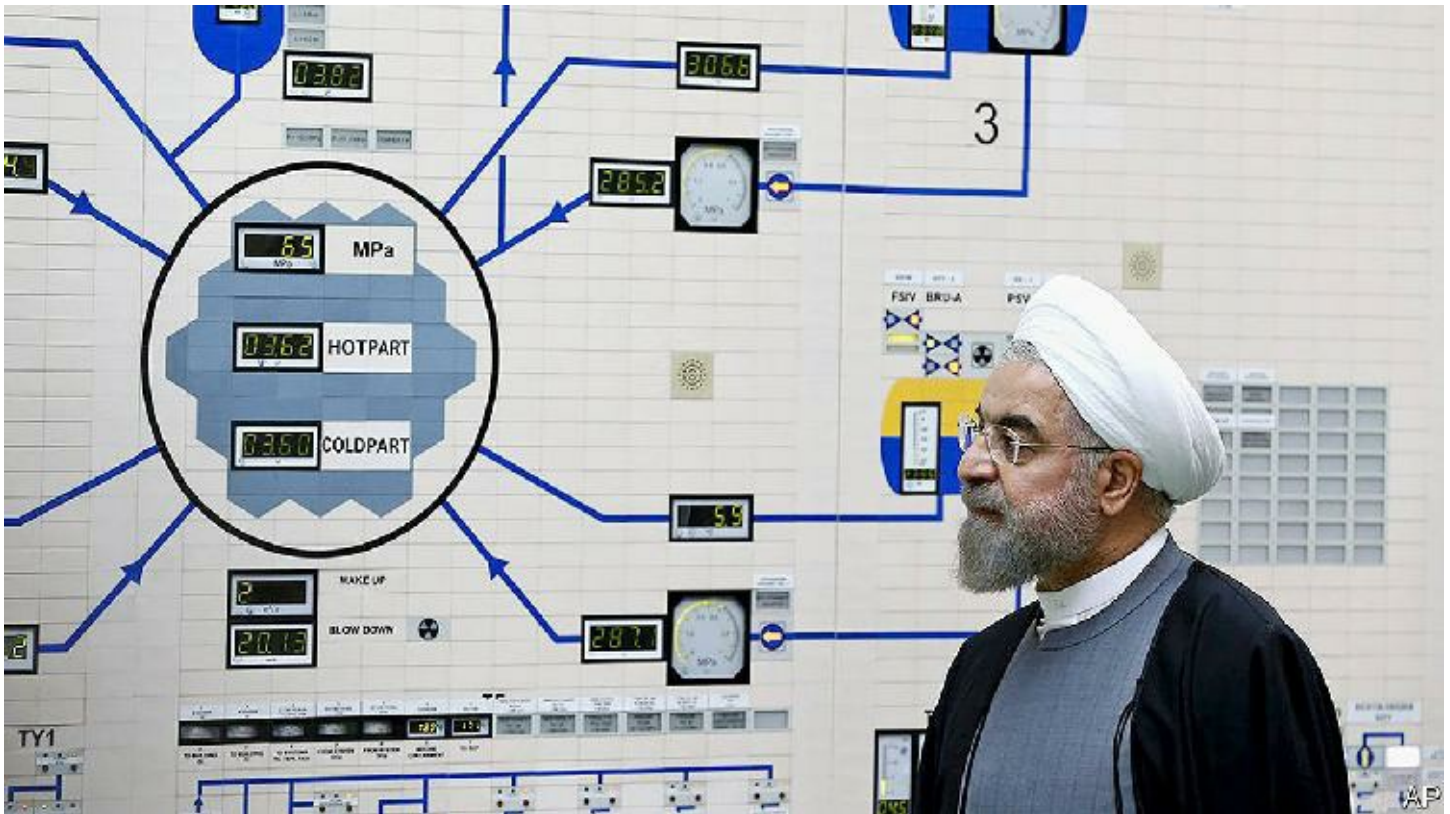
## The world this week

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Politics this week. Business this week. KAL's cartoon.

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## Politics this week



Jun 22nd 2019

**Iran** said it would soon exceed the limits on nuclear fuel that are part of a deal it signed with America and other powers in 2015. It may also begin enriching uranium to levels closer to those of a bomb. America, which pulled out of the deal last year, said Iran was behind the recent attacks on two commercial ships in the Strait of Hormuz and sent 1,000 more troops to the region. America confirmed that Iran shot down one of its drones. See [article](#).

**Muhammad Morsi**, the only democratically elected president of Egypt, died. Mr Morsi took office in 2012, after the Arab spring. But he was deposed in a coup in 2013 and thrown in prison along with other leaders of the Muslim Brotherhood. He was in court on charges of espionage when he died of a heart attack. Mr Morsi's supporters claim that he received inadequate care for health problems. President Abdel-Fattah al-Sisi, the coup's leader, has crushed dissent. See [article](#).

The prime minister of **Israel**, Binyamin Netanyahu, cut the ribbon on a new town in the Golan Heights named after Donald Trump. Earlier this year Mr Trump recognised Israel's control over the territory, which it captured from Syria in 1967. Critics noted that the town, called Trump Heights, has no buildings or funding. Meanwhile, Mr Netanyahu's wife, Sara, admitted to misusing state funds on catering. See [article](#).

A UN special rapporteur called for an investigation into the Saudi crown prince, Muhammad bin Salman, over the killing of **Jamal Khashoggi** at the Saudi consulate in Istanbul last year. Her report concluded that the journalist was "the victim of a deliberate, premeditated execution". Meanwhile, a Saudi teenager who faced a possible death sentence on charges related to attending anti-government protests was instead given a 12-year prison sentence.

Gunmen killed dozens of people in two Dogon villages in central **Mali**, the latest in a series of tit-for-tat attacks by Dogon and Fulani militias.

At least 161 people were killed amid ethnic violence in north-eastern **Democratic Republic of Congo**. The fighting between herders and farmers has forced 300,000 people to flee, complicating efforts to contain the spread of Ebola.

**Four more years?**

**Donald Trump** launched his re-election campaign at a rally in Orlando. The central belt of Florida is highly competitive in presidential elections and the state is the biggest electoral prize among the swing states. In a TV interview Mr Trump claimed to have “done more than any other first-term president ever”. For good or bad he didn’t say; the electorate will get to decide that next year. See [article](#).

**Patrick Shanahan** pulled out of the (snail’s pace) confirmation process to be defence secretary, after the press dug up details about a violent domestic incident involving his son. Mr Shanahan has been acting defence secretary since January. Mr Trump quickly nominated Mark Esper, the army secretary, to replace him. See [article](#).

**Evading justice**

Investigators in the **Netherlands** charged three **Russians** and a **Ukrainian** with shooting down a Malaysian Airlines plane in 2014 over east Ukraine, killing all 298 people on board. International arrest warrants have been issued for the men, but since Russia has refused to co-operate with the inquiry, it seems highly unlikely they will ever face justice. See [article](#).

**Berlin’s** local government imposed a five-year freeze on rents, in an attempt to curb their soaring cost.

# Vaccines

% agreeing they are safe

Selected regions, 2019

■ Strongly   ■ Somewhat



Source: Wellcome Trust

The Economist

A report from the Wellcome Trust, a charity, covering 140 countries discovered that only 80% of people trust **vaccines** to some degree. Surprisingly, rich countries have the least faith in vaccinations. Just 36% of people in

western Europe “strongly agreed” that vaccines are safe; those in South Asia were the most positive, with 85%. Scepticism in countries like France, where 33% think vaccines are unsafe, is not new, but with countries falling below “immunity thresholds”, cases of measles and meningococcal diseases are rising.

#### Left in the dark

A **blackout** left almost all of Argentina, Uruguay and parts of Paraguay without power for much of a day. Authorities are still investigating but say a cyber-attack is unlikely. The problem started when electricity surged along a transmission line in the north-east of Argentina. Power was gradually restored to tens of millions of people by late evening.

Sandra Torres, a former first lady, and Alejandro Giammattei, a former director of prisons, came top in the first round of **Guatemala’s** presidential election. The election was marred by accusations of unfairness: two of the most popular candidates were disqualified. The run-off is in August. See [article](#).

**Brazil’s** senate overturned a decree signed last month by President Jair Bolsonaro to expand citizens’ rights to own and carry guns. The decree, which paves the way for some 19m Brazilians to apply for carry permits, remains valid unless it is also rejected by the lower house. Many congressmen hope to quash it, but the powerful gun and farm lobbies will fight to keep it.

#### People power

Up to 2m people marched in **Hong Kong** to protest against a proposed extradition law that could see its citizens and visitors alike being carted off to the Chinese mainland for trial. It was the biggest demonstration yet amid a wave of dissent that has shaken the territory’s authorities. Carrie Lam, Hong Kong’s leader, apologised for the extradition bill and said it was “unlikely” that it would become law soon. Many locals would like her to resign. See [article](#).

Xi Jinping, **China’s** president, began a state visit to **North Korea**. It was the first time he had called on Kim Jong Un, the North’s dictator, (although Mr Kim has come to China to meet Mr Xi several times). The summit has been interpreted as a reminder to America that it will need China’s help to bring talks with North Korea on disarmament to a successful conclusion.

The four main reservoirs serving the Indian city of **Chennai** ran completely dry, leaving many homes and businesses without water. The city government has been drilling extra boreholes and sending water tankers to parched neighbourhoods.

Donald Trump blasted a news outlet on Twitter for exaggerating the length of an interview with him. But he lashed out at the wrong ABC, tagging the Australian Broadcasting Corporation instead of the American Broadcasting Company. The Aussie ABC responded with an image of a **cheery talking koala**.

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## Business this week

Jun 22nd 2019

**Facebook** announced plans for a new global digital currency, to be named **Libra**. Supported by almost 30 companies so far, including Uber, Visa and Vodafone, Facebook hopes to allow users to send money across borders for little cost, and to provide financial services to the 1.7bn people around the world without a bank account. The company wants to launch Libra next year, but even if it can persuade customers to use the currency, it must first negotiate a maze of regulatory pathways. Facebook should expect some pushback from the authorities, given its troubling record on privacy issues. See [article](#).

Mario Draghi said that the **European Central Bank** would “use all the flexibility within our mandate” if the euro zone’s inflation outlook did not improve. The doveish comments from the ECB’s president triggered a sharp fall in the euro. That didn’t please Donald Trump, who tweeted that “Mario D” was manipulating the currency. Mr Draghi retorted: “We have our remit”. See [article](#).

### Meddling in monetary policy

At its latest meeting the **Federal Reserve** left interest rates unchanged, but signalled it would clip them in the months ahead. Mr Trump had wanted an immediate cut. He has stepped up his criticism of the Fed, saying it has been “very disruptive”, and has reportedly asked for advice about whether he can sack Jerome Powell as chairman, raising more questions about how far the president will go to interfere with its independence.

India raised **tariffs** on 28 American goods in retaliation for the Trump administration’s decision to remove the country’s trade privileges in a row over protectionism. The list of American exports targeted include almonds and apples, for which India is a big market.

Ren Zhengfei, the boss of **Huawei**, said the company will lose \$30bn in revenue because of America’s ban on telecoms equipment made by the Chinese tech giant. He didn’t say how he arrived at the figure.

**PG&E** reached a settlement with local governments in California affected by wildfires sparked by the power-provider’s equipment. It is to shell out \$1bn, \$270m of which will go to Paradise, a town largely destroyed in last year’s Camp Fire. It is the company’s first big settlement since seeking bankruptcy protection in January; more will come.

**Odebrecht** filed for bankruptcy protection, the biggest-ever such filing in Latin America. The Brazilian construction company is at the centre of a corruption scandal that has brought down some of Brazil’s leading politicians. It blamed the scandal for its bankruptcy, as well as Brazil’s “economic crisis”. It will operate normally while it restructures its debt; Brazil’s state-run banks are expected to lose out.

The Canadian government gave its approval for expanding the **Trans Mountain Pipeline**, which transports crude oil from Alberta to shipping terminals in Vancouver. The additional pipeline would increase Trans Mountain’s capacity by two-thirds, but is bitterly opposed by greens and some indigenous groups.





The art world was taken aback by the news that Patrick Drahi, a French telecoms tycoon, is buying **Sotheby's** for \$3.7bn. The auction house, founded in London in 1744 but now with headquarters in New York, has been a publicly listed company for 31 years. With Mr Drahi taking it private, Sotheby's hopes to build the layers of its digital business, such as more online-only art sales and matching prospective buyers with particular works. See [article](#).

**Stephen Schwarzman**, one of the founders of Blackstone, donated £150m (\$190m) to **Oxford University**, the biggest gift to a British institution of learning in modern times. The private-equity investor said the money would help research into artificial intelligence, which governments “are utterly unprepared to deal with”. Last year he promised to give \$350m to MIT.

The race among drug companies to acquire firms developing new cancer treatments produced another takeover, as **Pfizer** agreed to buy **Array BioPharma** in an \$11.4bn transaction.

#### A vaping hole

San Francisco looked set to become the first big American city to prohibit the sale of **electronic cigarettes**, after the board of supervisors voted unanimously to ban the product (a second vote is needed). Juul, which dominates the e-cigarette market, is based in San Francisco; it is mustering a campaign against the decision.

A few days after new rules came into force in Britain that ban “harmful gender stereotypes” in advertising, a women's **sex-toy startup** in New York launched a lawsuit against the city's transport authority for refusing to carry its ads. Dame Products points to the fact that the subway displays ads for a wide-range of sex-related products, including one for erectile dysfunction treatment that features a phallic-shaped cactus.

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KAL's cartoon



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Kal

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## Leaders

### [The Conservative leadership: Which Boris would Britain get?](#)

Which Boris would Britain get?.

### [California and Texas: Texafornia dreaming](#)

Texafornia dreaming.

### [Facebook's new cryptocurrency: Click here to buy Libra](#)

Facebook wants to create a global currency.

### [Unrest in Hong Kong: China's chance](#) [Pet theories: Reigning cats and dogs](#)

To restore calm in Hong Kong, try democracy. Pets have gained the upper paw over their so-called owners.

**The Conservative leadership****Which Boris would Britain get?**

Britain's probable next prime minister cannot resist playing to the crowd. In today's ugly politics that is ominous



Jun 20th 2019

THE BREXIT monster unleashed three years ago this weekend has already devoured two British prime ministers. David Cameron surrendered hours after the referendum result was announced on June 24th 2016. Theresa May began confidently but soon found herself cornered. Conservative MPs have drawn up a shortlist of candidates to replace her as their leader and thus as prime minister; party members will make a decision by the end of July. The overwhelming favourite among both MPs and activists is Boris Johnson.

But which Boris Johnson? The former foreign secretary, who is looked on with a mixture of amusement and contempt in European capitals, has assumed different guises at different times. As mayor of liberal, cosmopolitan London in 2008-16 he preached the virtues of immigration and the single market. As a leading light in the Leave campaign he effortlessly switched to criticising migration and warning of the dangers of Turkish membership of the European Union, which he had previously advocated. Now, in his bid for the votes of right-wing Tory party members, he talks up the prospect of leaving the EU with no deal—"fuck business" if it gets in the way—and joking that women in burkas "look like letterboxes".

Depressingly, the con trick is working. Despite valiant campaigns by more moderate candidates, Mr Johnson is the person to beat in the members' vote. Much less clear is how he would behave in office. As the Brexit saga drags on, Britain is growing ever more polarised. In a starkly divided country, which gallery would Mr Johnson choose to play to?

The way in which the next prime minister is being selected does not make it any easier to guess what is in store. Rather than face a general election, the leader is picked by 160,000 paid-up Tory activists, who long for Brexit

more than almost anything else. A poll this week found that large majorities would leave the EU even if it did “significant damage” to the economy, broke apart the union with Scotland and Northern Ireland or “destroyed” the Conservative Party itself. Candidates have not drawn up detailed manifestos; Mr Johnson, in particular, has been uncharacteristically shy, avoiding most chances to debate with other candidates or be quizzed by journalists.

His lack of a guiding philosophy ought to be a weakness. But in these topsy-turvy times it has become central to his success (see [article](#)). Because he is all but empty of political convictions, people use him as a repository for their own. Hardcore Brexiteers have seized on the idea that he will leave with no deal if the EU refuses to offer better terms by October 31st. Remainers whisper to themselves that surely he is a liberal at heart, who would not do anything truly dangerous—and might even call a second referendum in one of the gravity-defying acts of showmanship at which he excels. That his words mean almost nothing is taken by both sides as a sign that he might eventually do what they hope, regardless of what he has promised in the past.

This is foolish, and reminiscent of the coalition that backed Donald Trump for president. Some believed Mr Trump’s outlandish promises (a border wall with Mexico, a trade war with Canada), while others thought them part of an act not to be taken literally—and went on to receive a nasty shock. This is not the only similarity between the two blond bombshells. As well as narcissism, idleness and a willingness to take advantage of others, they share a flair for arguing that black is white and vice versa. Britain does not yet suffer from America’s malaise, in which supporters of different parties cannot even agree about basic facts. But a government led by Mr Johnson, who freely contradicts himself and makes being caught out into a great joke, would lead Britain further down that path.

The best case for Mr Johnson is that he might use his skill as a salesman and his way with words to hawk the Brexit deal, or something much like it, to a Parliament that has three times rejected it. Mrs May fell 58 votes short on her final attempt. Both Labour and the Tories have since become much more scared of what Brexit is doing to their supporters, who are flocking to the Liberal Democrats and the Brexit Party respectively. It is conceivable that Mr Johnson—freshly elected, popular in his party and as magnetic as Mrs May is wooden—might persuade enough MPs to change their minds. The idea of him choosing a referendum on the deal so as to break the logjam in Parliament, as this newspaper would like, is far-fetched. But then, so much about him is.

Alas, the case against Mr Johnson is more plausible. He is not a signpost but a weather vane and, at the moment, the winds in Britain are blowing in a dangerous direction (see [Briefing](#)). The sudden rise of the populist Brexit Party, which came first in last month’s European election and now leads the polls with its promise of a no-deal exit, is terrifying the Tories, many of whom believe the only way to neutralise its insurgency is to ape it. Since long before the referendum, the Conservative Party has been slowly evolving into one whose supporters are bound more by cultural values than economic ones. Brexit has put rocket-boosters on that trend. The next Tory leader will be under pressure to continue the metamorphosis of his party from a force for free markets into a right-wing populist outfit in the (ironically) European mould. Mr Johnson would be capable of engineering that transformation.

#### **An inverted pyramid of piffle**

Weather vane that he is, Mr Johnson would be unusually reliant on the people around him in 10 Downing Street and the cabinet for ideas, guidance and direction. By contrast with Mr Trump, who resents advice and experts, Mr Johnson is happy to delegate and let others do the work—provided he gets the glory. And whereas most mainstream Republicans at first disowned Mr Trump, thus ruling themselves out of working for him, moderate Tories are flocking to Mr Johnson’s banner, in the hope of landing a plum job in his cabinet. Many of them recognise that a no-deal Brexit would be bad for Britain—and thus, most likely, a disaster for the Conservative Party. If Mr Johnson ends up in power, it will fall to them to rein in his worst instincts. If they fail, it may not be long before the Brexit monster is chewing up and spitting out its third prime minister. ■

[would-britain-get](#)

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## Texas and California

### Texafornia dreaming

America's future will be written in the two mega-states



Jun 20th 2019

IN THE CABLE-NEWS version of America, the president sits in the White House issuing commands that transform the nation. Life is not like that. In the real version of America many of the biggest political choices are made not in Washington but by the states—and by two of them in particular.

Texas and California are the biggest, brashest, most important states in the union, each equally convinced that it is the future (see our [Special report](#) in this issue). For the past few decades they have been heading in opposite directions, creating an experiment that reveals whether America works better as a low-tax, low-regulation place in which government makes little provision for its citizens (Texas), or as a high-tax, highly regulated one in which it is the government's role to tackle problems, such as climate change, that might ordinarily be considered the job of the federal government (California). Given the long-running political dysfunction in Washington, the results will determine what sort of country America becomes almost as much as the victor of the next presidential election will.

That is partly a function of size. One in five Americans calls Texas or California home. By 2050 one in four will. Over the past 20 years the two states have created a third of new jobs in America. Their economic heft rivals whole countries'. Were they nations, Texas would be the tenth-largest, ahead of Canada by GDP. California would be fifth, right behind Germany.

Texas and California are also already living America's demographic future. Hispanics are around 40% of the two states' populations, double the national average. Both states were early to become majority-minority. In California non-whites have outnumbered whites since 2000, and in Texas since 2005. The rest of the country is not expected to reach this threshold until the middle of the century. California and Texas educate nearly a



quarter of American children, many of them poor and non-native English-speakers. Their proximity to Mexico, a country that both used to be a part of, means that as Washington procrastinates on updating America's immigration laws they must live with the consequences.

At first glance the two states seem as different as a quinoa burger and beef brisket. California is a one-party state in which elected Republicans may soon need the kind of protection afforded to the bighorn sheep. In Texas Republicans dominate the state legislature and all the statewide executive offices: no Democrat has won a statewide race there for more than 20 years. The last Democratic presidential candidate to do so was elected over 40 years ago. Texas has no state income tax. California's state income tax has a top rate of 13%, the highest in the union. Texas has loose environmental regulations. California is trying to use its economic might to force the rest of the country to adopt more stringent standards on carbon-dioxide emissions. Texas lets its cities sprawl; California has restrictive planning laws.

Take a closer look, though, and Texas looks more like a teenage California. The population of Texas has only recently reached the level California was at in the late 1980s. The Golden State was once a pro-sprawl, low-tax, Republican state, too. Republicans in Austin, who are feeling the first signs of political competition from Democrats in decades, have begun to focus their attention on the state's shortcomings such as education.

That matters because Texas's schools, like California's, perform poorly and its universities are nowhere near as good. In the Texas legislative session which ended last month, politicians focused less on abortion and bathrooms for transgender people, and instead increased funding for public schools. If more Texans managed to vote, they might encourage politicians to do something about the state's skimpy health-care provision, too.

This might suggest that, as Texas grows up, it will become more Californian. But, ideally, only to a degree—because California has not aged gracefully. It loses Americans each year while Texas gains them. Though the state government has made huge strides—a decade ago it was broke, now it has a healthy surplus and an overflowing rainy-day fund—the state has daunting social problems. Homelessness is just the most visible of them. Unemployment is persistently higher and incomes are more unequal in California than in the land of the ten-gallon hat.

California thinks of itself as a progressive bastion, but it has the highest poverty rate of any state in America. That is partly because regulation makes it so hard to build new homes, pushing housing costs up. It will take more than Google investing \$1bn in Bay Area housing to fix that. Texas, meanwhile, lets its cities march outwards as far as they wish. In this limited respect at least, Texas is the more liberal state and California the more conservative one. Americans wanting to move to where housing is cheap, taxes low and work plentiful are voting with their U-Haul trucks and heading to Texas. Just now, Texas has more room than California to innovate and to strike a balance between small government and social support.

In America's federal system no single state is a national template, and yet each holds lessons for all the others. As America's largest oil producer, Texas is exceptional. By contrast, despite its faults, California remains a magnet for highly educated migrants and a formidable factory of talent and ideas—which is why it has produced Google, Facebook, Tesla, Uber and Netflix and why, despite grumblings about creeping socialism, the big venture-capital firms and Hollywood studios stay.

America can learn from both of them. That is especially true when the federal government cannot legislate—which today means most of the time—because the ability of states to decide their own fate becomes correspondingly more important.

It is possible to imagine a mash-up of the two mega-states that takes the best of both: a freedom-loving wish to keep government out of people's private lives, a place that is friendly to business and provides opportunities for people, while also protecting the environment and funding education. California could steal Texas's expansive approach to housebuilding; Texas could imitate California's investment in outstanding universities. Americans elsewhere might be less alarmed by demographic change if they visited great cities like Houston, LA and Dallas. Call this imagined place Texafornia. ■

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## Weighing Libra in the balance

### Facebook wants to create a global currency

What could possibly go wrong?



Jun 22nd 2019

FOR YEARS Wall Street's magnates have worried that Silicon Valley's giants will shake up finance. Facebook thinks it has found a way. It will launch a digital currency, the Libra, in 2020. Mark Zuckerberg's firm has failed before to popularise a payments service. And it is an unlikely guardian of other peoples' money, given its habit of privacy abuses and evasion. But like or loathe the company, its new scheme has legs. The Libra's value will be pegged to a basket of major currencies, it will be able to handle large transaction volumes and 28 other big firms say they will join a consortium backing the currency. If Facebook's 2.4bn users adopt Libra to shop and transfer money, it could become one of the world's biggest financial entities. That would herald a consumer revolution—but could also make the financial system less stable and reduce governments' economic sovereignty.

Facebook's interest is its own survival, since a new financial utility ties in its social-media and chat customers. Still, the digitisation of finance promises to make life easier and cheaper for billions of people. In China, where digital payments are ubiquitous, people transfer money to friends and firms within a chat app for almost nothing. In America 18bn cheques are signed every year. Fees eat up 5% of a typical cross-border transfer. And a threesome of credit-card giants skims about 0.25% from the global transactions they carry, which is worth over \$30bn a year.

Many existing efforts to redesign Western finance are unreliable. Cryptocurrencies such as Bitcoin have no intrinsic value or central oversight, are vulnerable to fraud and burn up electricity and computing power. Digital-payments systems such as PayPal and Apple Pay piggyback on the debit- and credit-card system rather than undercut it. Facebook's experiment with payments, launched in 2015, was based on bank debit cards. It flopped.

Libra is designed to avoid these pitfalls. It will be fully backed by a reserve fund which holds mainly

government bonds, limiting its volatility. The currency will be administered by an independent body that will oversee a centralised database with an anonymised record of transactions. The system will be open, so that any firm is free to create digital wallets that allow customers to use Libras. Uber, Vodafone and Spotify are among the big firms that are keen to be anchor members. A kitty is being built up to offer incentives to shops and merchants to accept Libras.

What's not to like? Mr Zuckerberg's initiative, which has been cooking in Menlo Park for 18 months, has two problems (see [article](#)). First, it could disturb the stability of the financial system. America's biggest bank, JPMorgan Chase, has 50m digital clients. Libra could easily have ten times that number. Were every Western depositor to move a tenth of their bank savings into Libras, its reserve fund would be worth over \$2trn, making it a big force in bond markets. Banks that suddenly saw lots of deposits leave for Libras would be vulnerable to a panic over their solvency; they would also have to shrink their lending. And the prospect of huge sums flowing across borders will worry emerging countries with a fragile balance of payments.

That is where the second danger comes in: the Libra's governance. It will be run by a Swiss association, initially controlled by the consortium, a bit like James Bond's nemesis, SPECTRE. It will be independent of Facebook, though the social-media firm will supply lots of Libra users and could end up holding sway. Though Facebook says it is talking to regulators, the assumption seems to be that Libra can ultimately transcend governments and central banks. Facebook also promises that it will safeguard users' data. Caveat emptor.

Mr Zuckerberg used to move fast and break things. This time he is moving slowly and giving advance notice. But that cannot disguise how, though digital money has the potential to change the world for the better, it could also do a lot of harm. Governments let social media run riot. Facebook is about to discover that they will not make the same mistake with money. ■

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**China's chance****To restore calm in Hong Kong, try democracy**

The Communist Party in Beijing should have faith in its own rhetoric



Jun 20th 2019

IT WAS PROBABLY the largest political protest ever staged in Hong Kong. It may have been the biggest in China's history. Organisers reckon that about 1.9m people joined the demonstration on June 16th. Even during the unrest in Tiananmen Square three decades ago, no single protest approached that scale.

The estimate may not be reliable. But there is no disputing the impact of this display of discontent, and others leading up to it. It came only a week after another demonstration of jaw-dropping size and four days after one that escalated into Hong Kong's most violent disorder since the 1960s. The territory's government and its overlords in Beijing could not have received a clearer message that Hong Kongers distrust their own leaders, as well as the central government's (see [article](#)). Protesters are demanding that Hong Kong's chief executive, Carrie Lam, step down. Yet, even if she did, trust would still not be restored.

The unrest was triggered by a proposed law that would allow the extradition of criminal suspects from Hong Kong (where the rule of law still more or less prevails) to the Chinese mainland (where those who displease the ruling party have little chance of a fair trial). The law would also let Hong Kong's courts seize assets connected with crimes on the mainland. At a news conference on June 18th Mrs Lam apologised for her handling of the bill (but gave no indication that she would resign). Earlier, just before the latest record-breaking demonstration, she had announced that the bill would be shelved indefinitely. All this was welcome, but it is not enough.

This crisis has vividly shown how disillusioned Hong Kongers have become. It was different in 2003, when hundreds of thousands of people took to the streets in protest against a proposed anti-sedition law. Then the Communist Party had reason to hope that it could defuse the problem by allowing Hong Kong to shelve the bill, and encouraging the unpopular chief executive, Tung Chee-hwa, to resign (he did so in 2005). At the time,

many people in Hong Kong still thought that the party would eventually fulfil its pledge to give them more democracy. In the meantime they could grudgingly put up with the appointment system, which ensured that Mr Tung's successor was loyal to the government in Beijing. For his first few months in office the new man, Donald Tsang, enjoyed strong public support. Some pro-democracy politicians even felt hopeful.

Their optimism faded as the party's intentions became clearer. During the "Umbrella Movement" of 2014, when protesters staged weeks of sit-ins to press for free and fair elections to the post of chief executive, China's leaders dug in their heels. They made it plain that the "universal suffrage" Hong Kong had been promised would mean only the chance to vote for someone the party considers loyal. That is why Hong Kongers are without illusion today. They see Mrs Lam, who took over in 2017, as the party's stooge—as they will see her successor, too. Without democracy, or a credible promise of it, no leaders in the territory will be seen as legitimate, severely limiting their ability to govern.

China's leader, Xi Jinping, therefore has a stark choice. He can keep Hong Kong's political system as it is and carry on trying to stifle the freedoms that Hong Kongers otherwise enjoy. The result would be more protests and probably more violence. Businesspeople would become more jittery, and Hong Kong's reputation as a safe base from which to trade with the mainland would be at risk. Or Mr Xi can offer Hong Kong hope again, by setting out a timetable for real democratic reform. "We have to have the confidence that Hong Kong people can manage Hong Kong well," goes a mantra of China's leaders. It is time to let its people try. ■

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**Canis sapiens**

## Pets have gained the upper paw over their so-called owners

Humanity oppresses many wild and farmed animals. But its pets have it on a short leash



Jun 22nd 2019

THERE IS A range of theories about how *Homo sapiens* came to rule the planet. Opposable thumbs, cranial size, altruism and cooking all played a part, but central to the naked ape's success was its ability to dominate other species. Bovids, equids and, in particular, canids, were put to work by *H. sapiens*; felids always took a slightly different view of the matter, but were indulged for their rodent-catching talents.

As humanity has got richer, animals' roles have changed. People need their services less than before. Fewer wolves and bandits meant less demand for dogs for protection; the internal-combustion engine made horses redundant; modern sanitation kept rats in check and made cats less useful. No longer necessities, domestic animals became luxuries. Pet-keeping seems to kick in *en masse* when household incomes rise above roughly \$5,000. It is booming (see [article](#)).

The trend is not a new one. Archaeologists have found 10,000-year-old graves in which dogs and people are buried together. Some cultures—such as in Scandinavia, where canines have long been both working dogs and companions—have kept pets for millennia. But these days the pet-keeping urge has spread even to parts of the world which have no tradition of snuggling up on a comfy chair with a furry creature.

In parts of Asia where people used to regard the best place for man's best friend as not the sofa but the stewing-pot, along with some onions and a pinch of seasoning, and where cats were made into tonics, norms are changing fast. The South Korean president, Moon Jae-in, has a rescue dog, and the mayor of Seoul has promised to shut down dog butchers. China, where dogs were once rounded up and slaughtered on the ground that keeping pets was bourgeois, has gone mad for cutesy breeds like Pomeranians, whose wolfish ancestors would have swallowed them whole for elevenses. Traditionalists attending the annual dog-meat festival in



Guangxi now find themselves under attack by packs of snarling animal-lovers.

The pet business is growing even faster than pet numbers, because people are spending more and more money on them. No longer are they food-waste-recyclers, fed with the scraps that fall from their masters' tables. Pet-food shelves groan with delicacies crafted to satisfy a range of appetites, including ice cream for dogs and foods for pets that are old, diabetic or suffer from sensitive digestion; a number of internet services offer bespoke food, tailored to the pet's individual tastes.

In the business this is called “pet humanisation”—the tendency of pet owners to treat their pets as part of the family. This is evident in the names given to dogs, which have evolved from Fido, Rex and Spot to—in America—Bella, Lucy and Max. It is evident in the growing market for pet clothing, pet grooming and pet hotels. It is evident in the demand for breeds such as the French bulldog, which, tellingly, looks a bit like a human baby.

People still assume that pets must be working for humanity in some way, perhaps making people healthier or less anxious. But the evidence for that is weak. Rather, new research suggests that canines have evolved those irresistible “puppy-dog eyes” precisely to manipulate human emotions. It has worked. The species that once enslaved others now toils to pay for the care of its pets, which lounge on the sofa waiting to be taken to the grooming salon. Sentimental Americans often refer to themselves not as cat-owners but as the cat's “mommy” or “daddy”. South Koreans go one further, describing themselves as cat “butlers”, pandering to every feline whim. Watch a hapless dog-walker trailing “his” hound, plastic bag in hand to pick up its mess, and you have to wonder: who's in charge now? ■

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Letters to the editor.

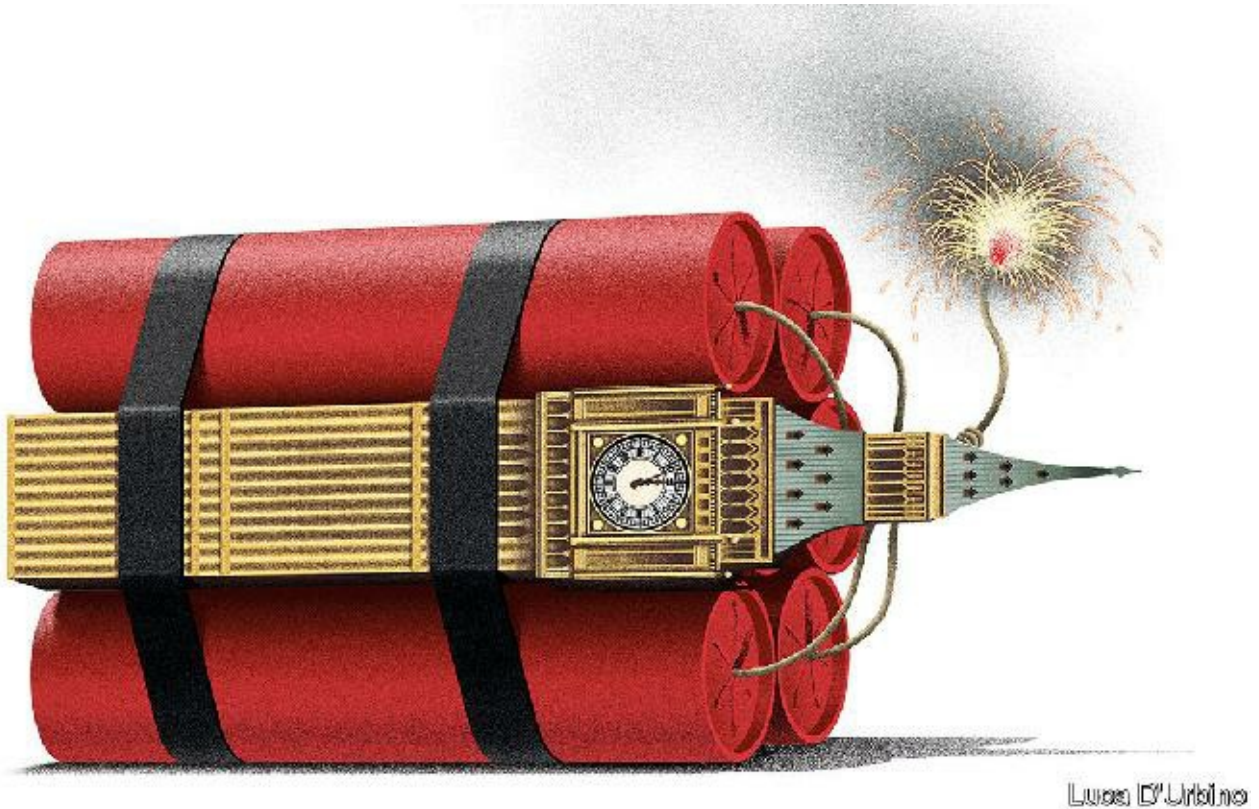
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A selection of correspondence



Jun 22nd 2019

Letters are welcome and should be addressed to the Editor at [letters@economist.com](mailto:letters@economist.com)

**The unwritten word**

You suggest that Britain may be on the brink of a constitutional crisis, and that the country's "ramshackle, easily amended constitution is vulnerable to the radicalised politics produced by three years rowing about Brexit" ("The next to blow", [June 1st](#)). However, the present crisis is also a consequence of that easily amended constitution. Constitutional tinkering by successive governments, particularly the transfer of powers to the European Union, brought about this situation.

Both the Maastricht and Lisbon treaties were significant constitutional changes. With a proper constitution, governments could not have transferred those powers to the EU without the electorate's consent. Had this consent been secured, the pressure to hold the Brexit referendum would never have developed. The people might then not have voted as they did, unequivocally and unconditionally, to leave the EU. So the fundamental basis of the constitutional crisis is not the lack of clarity over whether the executive or Parliament should prevail, but the fact that neither seem clear that the people's choice should.

A good constitution constrains the government. It anticipates amendments and makes that process difficult. If we do get a new constitution out of this mess it should make clear that the people are sovereign and it cannot be amended without their consent.

NICOLAS BEARD

*Wilsic, South Yorkshire*



Your briefing was unduly pessimistic (“The referendums and the damage done”, [June 1st](#)). Instead of the fundamentals, you focused on the fireworks of daily politics. Parliament is sovereign. That is the bedrock of our unwritten constitution. Parliament delegates power to the executive, but reclaims it when necessary. And the devolved assemblies are clearly subordinate to Parliament.

The referendum in 2016 opted for a Brexit and Parliament gave notice to the EU that we are leaving by invoking Article 50 of the EU treaty. Parliament has so far decided to reject specific withdrawal measures, but it has not voted to rescind that notice. Unless it does so, Brexit will happen. Parliament has a choice. That is fundamental constitutional democracy, not a constitutional crisis.

HODSON THORNER  
*London*

Vernon Bogdanor is rightly described in your piece as “one of Britain’s foremost commentators on the constitution”. He was also David Cameron’s tutor in politics at Oxford. May we ask the professor what he taught his pupil and what the latter learned?

ALAN MALCOLM  
*London*

#### **Flight of the Concorde**

“Faster than sound” (Technology Quarterly on aviation, [June 1st](#)) described Concorde as a vanity project that ignored issues like profitability. Whether or not it was a vanity project is a point of view, but the aircraft was designed in the 1960s to be profitable on the basis of fuel prices at the time. All the big airlines signalled their intention to purchase the plane. Unfortunately, when Concorde was about to enter service in the early 1970s OPEC quadrupled fuel prices, thereby affecting profitability.

TERRY DOYLE  
*Comox, Canada*



#### **Nigeria's economy**

Two articles on the Nigerian economy in your issue of June 1st (“[More misery ahead](#)” and “[Protection racket](#)”) were full of contradictions. You argued that energy production, consumption and prices must rise; then you reported that energy prices are too high. You then said that booming rice production is “mysteriously” culpable for rising rice imports—in another country. You also said tax revenues should increase, then criticised companies, such as cement producers, for making greater taxable profits.

There are no such contradictions in President Muhammadu Buhari’s economic policies. They are straightforward: curtail the decades-long flight of money from the country; build our own industrial base to lessen dependence on oil income; boost and diversify tax receipts through the same; and invest tax revenue in security, education and infrastructure, including power production, creating jobs for millions.

The economy and Nigerian people are thriving. Take our textile industry, which you think is near-impossible to attain growth. Last year’s Lagos Fashion Week was the largest and most well-attended showcase for the rebirth of Nigeria’s textile industry we might hope for.

GARBA SHEHU MEDI  
Press spokesman for the president of Nigeria  
*Abuja*



#### A different class

In an otherwise excellent review of a new book about Saladin, the reviewer mentions that the Royal Navy named a “British battleship” after him (“A noble enemy”, [June 1st](#)). *HMS Saladin* was a destroyer, not a battleship. Big difference.

CHARLEY SEAVEY  
*Rockport, Massachusetts*



#### **A matter of alma mater**

Bagehot described Jeremy Corbyn as a “rebellious private-school” drop out ([June 1st](#)). In fact, the Labour leader attended a state grammar school for his secondary education: Adams’ Grammar School in Newport, Shropshire. Mr Corbyn did go to a small private school for his primary education, but it would be an error to suggest that his private education was on a par with Boris Johnson and David Cameron, both of whom were educated at Eton. I can assure you that Castle House School in the 1960s would have had very little in common with Eton. Headed by the formidable and unforgettable Miss Pitchford, it had a lasting influence on those of us who went there.

CATHERINE RANDALL  
*London*



### America's national pastime

Lexington wrote about the role baseball plays in Americans' belief in their exceptionalism ([June 8th](#)). Racism, sexism and delusive pride have also plagued "the American game", but at the same time it has provided us with countless stories of hardship, triumph and faith. Take Jackie Robinson or Lou Gehrig; if baseball is more stage than sport, we need these characters now more than ever. American patriotism is problematic if not outright dangerous, but I think we can afford baseball more credit.

CAROLINE OGNIBENE  
*London*

Baseball is essentially American because it reflects traits that we value: the worth of the individual, self-assertion, proving oneself on personal merit, forgiveness (there but for the grace of God go I), tolerance (give him a break) and the support of the community.

A man steps up to bat, alone and self-reliant, the essence of meritocracy. He uses his judgment, not trying to hit every ball, but is tolerated a couple of mistakes (three strikes). Once on first base, he has proved his worth and is no longer alone; now the team works for him. And he is engaged in the community's objectives. Stealing a base is praised, because it shows daring and risk taking. Hitting a home run results in excellence rewarded.

The pitcher too behaves in ways we approve. He uses skill, imagination and strategy. He is forgiven three balls, because we are human after all.

ALEXANDER KUGUSHEV  
*Menlo Park, California*

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# Briefing

## [The British and Brexit: The new tribes](#)

How Brexit made Britain a country of Remainers and Leavers.

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**The new tribes****How Brexit made Britain a country of Remainers and Leavers**

The referendum has stamped identities on two opposing groups long in the making. Whatever the outcome of the talks, British society has a new divide



Jun 20th 2019 | KENSINGTON, MANSFIELD AND MERIDEN

MOST PEOPLE have never heard of Steve Bray. But they might recognise his face or booming voice, which intrude on millions of British homes each week. On every day that Parliament sits, Mr Bray arrives at 7.30am in a star-spangled cape at nearby College Green. His aim is to get into the background of television interviews with politicians, brandishing pro-Europe placards or to roar: “Stop Brexit!” Mr Bray has come to know his prey so well that he can recognise ministers by their cars (the home secretary has just got a new Range Rover, he reports). He will be in action on his 50th birthday at the end of the month, just after the anniversary on June 23rd of the referendum in which voters opted to leave the European Union.

Three years after the vote, Britain has been driven slightly crackers by Brexit. The government’s website hosts some 2,700 petitions on the matter, one with 6m signatories. An anti-Brexit demonstration in March was the biggest protest since the Iraq war. Poundland sells rival passport covers in old-fashioned blue (for Leavers) and EU maroon (for Remainers).

Plenty of attention has been paid to how Brexit is driving apart the countries that make up the United Kingdom; Scotland and Northern Ireland both backed Remain and bitterly resent being dragged out of the EU by the English. Less consideration has been given to what divides the two tribes of Remainers and Leavers. Even among the moderate middle, Brexit has become the biggest ideological split. Half the population identifies with a religion. Just under two-thirds feels attachment to a political party. Yet 87% identify as a Remainer or Leaver —15 percentage points more than turned out to vote in the referendum.

The curious thing is that until recently the British didn’t care much about Europe. Take Mr Bray. Before he

became the caped crusader of College Green, he was politically inactive. In polls before the referendum was called, only one person in ten considered Europe an important subject. Nor was Europe a big part of the national myth. The opening ceremony of the London Olympics in 2012 featured the Industrial Revolution, two world wars, the National Health Service, Commonwealth immigration and the Spice Girls—but not a peep about the EU. Four in ten people made up their mind about whether to back Leave or Remain only after the referendum was called.

The past three years are the story of how these attitudes towards Europe—agnostic, unemotional and in many cases only recently formed—hardened into Britain’s principal social division. How did people come to define themselves by something they had cared so little about? And what has it done to them?

#### **A country on the couch**

In his counselling room in west London, Gurpreet Singh, a psychotherapist, hears a lot about Brexit. There are the couples who are anxious about their citizenship or job security, the elderly who feel resented by their children and a lot of people who have fallen out with their in-laws. January is busy, says Mr Singh: “You’re sitting around the Christmas table and this comes up, and one can’t stay quiet.”

Political bickering isn’t new. But it is bigger over Brexit than conventional politics. A study by NatCen Social Research found that 71% of young people living at home backed the same side as their parents in the referendum. By comparison, in the general election of 2015, 86% voted the same way. (The researchers included only those who voted for the two main parties, for a fair comparison with the binary referendum.) Brexit is dividing couples, too. In the election 89% backed the same side as their live-in partner; only 79% did in the referendum. A fifth of counsellors at Relate, which helps couples on the rocks, say Brexit has contributed to bust-ups.

Prejudice over Brexit is now as strong as that over race. And, perhaps surprisingly, it is the side that talks most about “openness” that is least open to mixing with the other lot. A YouGov/*Times* poll in January found that whereas only 9% of Leavers would mind if a close relative married a strong Remainer, 37% of Remainers would be bothered if their nearest and dearest hooked up with a Brexiteer. Remainers were also more likely to live in a bubble. Some 62% said all or most of their friends voted the same way, whereas only 51% of Leavers did.

## Brexitland v Remainia

### EU referendum result

By parliamentary constituency, 2016



### Typical referendum voters

Characteristic	Remain	Leave
Average age	47.3	54.9
Dominant work status, %	Full-time (46)	Retired (36)
Income, £'000	34.3	28.9
Home owner, %	56.3	59.6
University graduate, %	33.8	17.1
2017 general election vote, %	Labour (49)	Conservative (57)
Voting intention now, %	Labour (38)	Brexit Party (28)

Sources: Chris Hanretty; poll of polls; *The Economist*

This may be because, in the words of Nigel Farage, leader of the insurgent Brexit Party, Remainers think “we’re thick, we’re stupid, we’re ignorant, we’re racist”. But a stronger reason concerns where the two tribes live. The Remain vote in England was concentrated in cities, where it piled up huge majorities (see map). The Leave vote was more evenly spread. Sixteen parliamentary constituencies voted by over 75% for Remain. Only one (Boston and Skegness) voted that strongly for Leave. James Kanagasooriam, a former Tory strategist, estimates that 500,000 people live in postcodes where more than 90% plumped for Remain, whereas only 57,000 live in ones which voted that strongly for Leave. Remainers are thus more likely than Leavers to live in real-world echo-chambers.

The uneven distribution of the vote also means that, whereas the overall result was 52:48, the median postcode backed Leave by about 59:41, according to Mr Kanagasooriam. Middle England is substantially more Brexity than Remainers may realise.

What does a 59% constituency look like? Take Meriden, a middling place in every way. A 500-year-old stone pillar on the village green marks the geographical centre of England. Incomes are almost bang on the national average of £29,000 (\$37,000) a year. Like Britain as a whole, it is at once hyper-globalised—the biggest employer is Jaguar Land Rover, which exports most of its cars—and enduringly traditional. By Meriden green, people polish their Jags in the sun outside thatched cottages.

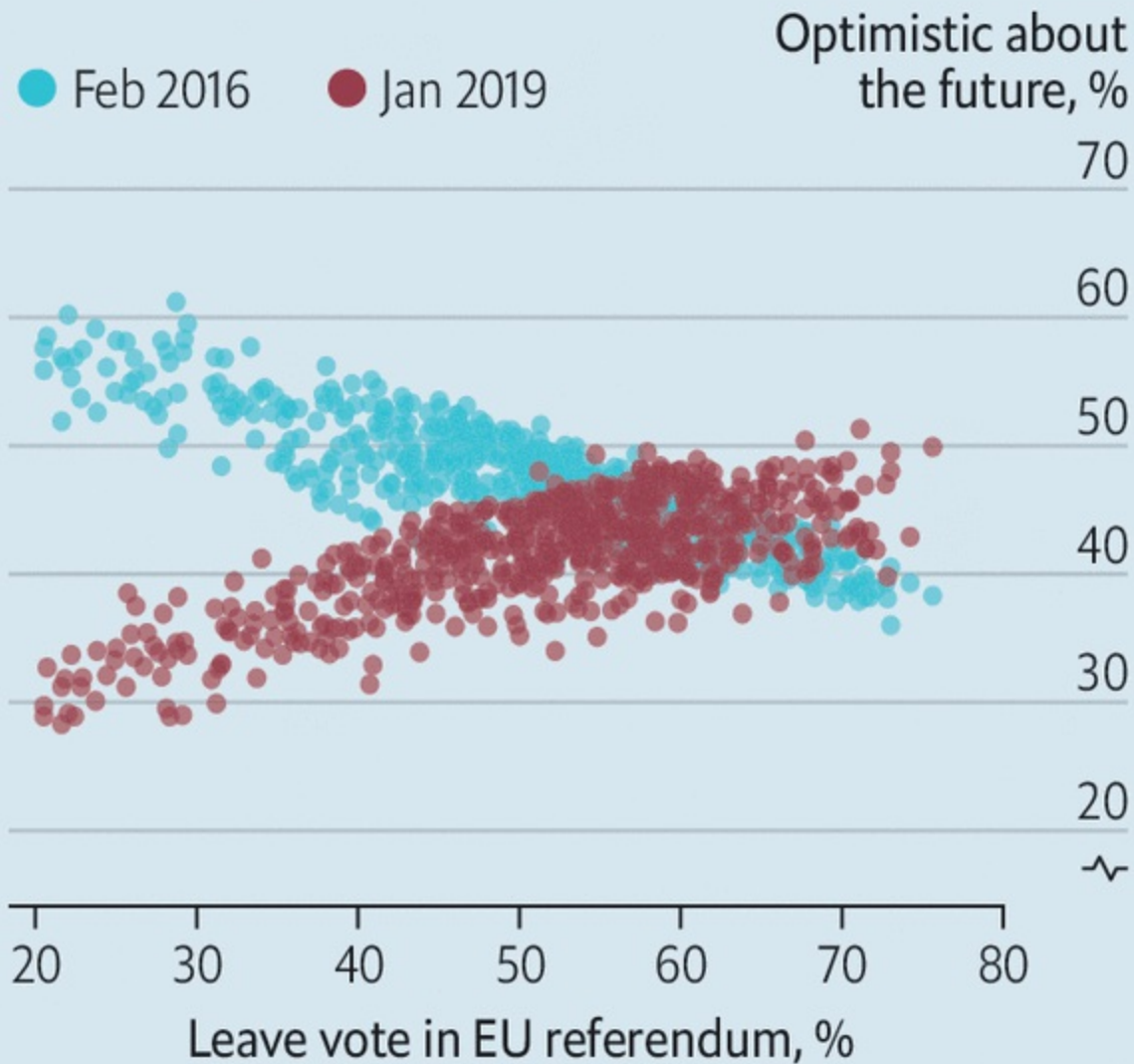
Meridians show how attitudes have hardened since the vote. “We need to get on with getting out,” says Malcolm Howell. The 54-year-old retail manager is a middle-of-the-road voter, who backed Labour during the Tony Blair years before switching to the Tories and later voting Leave. He now backs what was once considered an extreme position: leaving with no deal. “There’ll be some disturbance,” he admits, but “at least we’re as well prepared as we can be.” In last month’s European elections he switched to the Brexit Party, which came first with its promise to leave with no deal.

Remainers, too, have toughened their line. “Initially I thought, well, we’ve got to work for the least-worst option here,” says Iain Roxburgh, who among other things worries about the Portuguese carer of his 103-year-old mother-in-law. But “Theresa May hasn’t dealt with her party, she’s been led by the nose by them.” What now? “I think we should revoke Article 50 and have done with it,” he says of the legal means by which a country quits the EU.

Even in a balanced place like Meriden, the Leave and Remain tribes live separate lives. St Alphege, a ward on the western edge of the constituency in Solihull, a prosperous town with a Tesla showroom and John Lewis department store, was 57% for Remain. Five miles away Chelmsley Wood, whose tower blocks absorbed Birmingham’s post-war slum clearances, was 72% for Leave. Mr Roxburgh describes how his own social circle is somewhat segregated: at the golf club, most are for Leave. At the theatre group, nearly all are for Remain.

# Leaving happy

Britain, by parliamentary constituency



Source: Hope Not Hate

## The Economist

Despite Brexit's slow progress, not everyone is down in the dumps. The referendum gave a lasting shot of confidence to many Leave-voting places. Previously, Remainder constituencies had been far likelier to feel optimistic. Since the referendum that has been inverted (see chart). There is "a sense of 'we weren't allowed to break it, and we broke it'," says Sunder Katwala, head of British Future, a think-tank. Leavers' glee is reflected in their wallets. The Bank of England found that after the vote they increased their spending plans, while Remainders reined theirs in.

The referendum provoked an ugly spike of 50% or so in racial and religious hate crimes. But by the end of 2016 the number had returned to its trend level. The public is less hostile to immigration than before the vote, partly because inflows from the EU have drastically reduced.

Yet there is deep frustration with how things are going. The British Election Study found that 38% thought the referendum had been conducted unfairly. This is not an ordinary case of sore losers. Half as many thought the previous general election unfair. The gridlock in Parliament, where MPs have been caught between loyalty to their constituents, their party and the instruction of the referendum, has undermined faith in politics. The Hansard Society, a research body, finds that 37% believe the system needs a “great deal” of change—ten points more than the previous record, in 2010, when MPs were mired in an expenses scandal. Willingness to contact an MP has fallen; willingness to march or join a picket has risen. More than half agree that “Britain needs a strong leader who is willing to break the rules.”

Caroline Spelman, Meriden’s Conservative MP, has felt this anger. Since January she and her staff have carried panic buttons. Ms Spelman, who campaigned to remain but accepts the decision to leave, sponsored an amendment to a parliamentary motion in January designed to block a no-deal exit. A “tsunami” of emails and phone calls followed. “‘You deserve a bullet in the head,’ ‘You should hang.’ It’s not pleasant,” she says. They have referred to her children by name. “It does make you feel afraid, and that does affect what you do,” she admits. “There were definitely a couple of votes where I struggled with the dilemma of, if I vote this way, it’s going to bring more abuse down on my head and on my family and on my staff.”

The fury is an extraordinary reaction to the dry matters on which Brexit has foundered. Most voters (and many MPs) would struggle to define a customs union, yet some denounce remaining part of the EU’s trading arrangement as “treachery”. Mr Singh offers a diagnosis from the psychotherapist’s couch. When his clients argue about Brexit often they are really arguing about other things. “They could be doing the dishes, and suddenly it’s: ‘Why did you vote that way?’” Britain’s equivalent of the dirty dishes—what the country is really fighting about when it rages over the Irish backstop, Malthouse compromise or any arcane sticking point—is a broader cultural fissure, widening for decades, which the referendum suddenly exposed.

#### **The parties: over?**

For most of Britain’s democratic history, social class was the main determinant of which political tribe people joined. In the election of October 1974 (almost a dead heat between Labour and the Conservatives in terms of vote share), posher “ABC1” voters were three times likelier to vote Tory than Labour, while working-class “DE” voters favoured Labour by nearly the same ratio. Since then the link between class and party has vanished. In 2017 (another close-run election) ABC1s were nearly as likely to vote Labour as Tory, and DEs likewise.





As economic ties have frayed, cultural ones have replaced them. The clearest reflection of this is age. Until the turn of the 21st century, a 70-year-old was about as likely as a 30-year-old to vote Labour. By 2017, 30-year-olds were twice as likely as 70-year-olds to do so according to the Resolution Foundation, a think-tank. The cultural gap also shows up in a growing divide between town and country. As cities have sucked in more graduates and immigrants, they have become more strongly Labour.

The EU, which began as a coal- and steel-trading community, is not an obvious cultural battleground. Britain's

first referendum on membership, in 1975, was all about economics, with the free-market Tories piling in behind Remain while protectionist Labour backed Leave. Cultural matters took a back seat: those who thought Britain had “too many immigrants” were less likely to vote Leave than those who were pro-immigration, as Geoff Evans of Oxford University has shown. But a steep rise in immigration after eight eastern European countries joined the EU in 2004 changed the debate. Immigration became the main driver of views on Europe. At the 2016 referendum, cultural liberals on both left and right supported Remain, while cultural conservatives backed Leave.

The vote was a “moment of illumination”, says Mr Katwala. A cultural divide had been growing for decades, disguised by a party system that had not moved far from its roots in social class. The referendum did not create the new tribes, he says, but it gave them an identity. Brexit “happens to be the occasion of our culture war”.

This is having weird effects on politics. Take Kensington, where the average house costs £1.5m and Whole Foods Market sells peaches for £1.39 apiece, to customers who look as if they urgently need a McDonald’s. This corner of London was always safely Conservative. But its cosmopolitan residents voted 70:30 to remain—unlike their MP, Victoria Borwick, who strongly backed Leave. Fed up, a group of local Tories contacted a Labour councillor, Emma Dent Coad, and said they would back her if she ran. She agreed, “to give the Tories a scare”. In 2017 she won, by 20 votes.

Ms Dent Coad is an unlikely MP for Kensington. She once branded as “disgusting” the purchase of a sweater for £150 (“a food bill for a family of four!”) by the Duchess of Cambridge, who is now her constituent. Her party plans higher taxes for the rich but its softer position on Brexit has persuaded enough Kensington millionaires to put aside misgivings about its economics. Ms Dent Coad is fighting to convert them to the party’s broader cause. A recent interview with her in the *Morning Star* was entitled “What’s so scary about socialism?”. She admits that Britain’s communist daily is not stocked in many local newsagents.

As Brexit has helped Labour conquer liberal Tory territory, it has weakened its grip on culturally conservative places. In Mansfield Ben Bradley, a 27-year-old Conservative, toppled Sir Alan Meale, who had held the seat since before Mr Bradley was born. The former coal and textiles town is as naturally Labour as Kensington is Tory. It has never quite found an industry to replace the pits that were shut under Margaret Thatcher; several handsome Georgian buildings on its market square are now bars or loan shops. But the town’s 70:30 vote for Leave was enough to persuade it to switch to the Brexit-backing Tories in 2017.

Mr Bradley thinks his party could win many more seats like his if it embraced working-class voters who feel abandoned by liberal Labour. Although Brexit was a “huge, huge factor” in his election, he says long-term changes have made places like Mansfield more winnable for the Tories. The history of the pits is fading. Unionised industries that linked people to Labour have declined. “If you talk to people, the vast majority are socially conservative,” he says. A “Blue Collar Conservatism” movement, of which he is part, proposes policies such as cutting the aid budget in order to spend more at home.

#### **Culture clash**

The Brexit Party’s success has strengthened the case for courting cultural conservatives for many Tories. Boris Johnson, the front-runner in the party’s leadership contest, is doing his best to outflank Mr Farage, threatening a no-deal Brexit and comparing burqa-wearing women to “letterboxes”. This may alienate liberals who had backed the party for its pro-business policies. But as Mr Johnson reportedly said last year, “fuck business.” Similarly, a surge by the Liberal Democrats, who promise to stop Brexit, is making many in Labour argue for an explicitly pro-Remain position.

Still, there is immense caution in both parties about regrouping along cultural lines. The European election, with its turnout of 37%, is a poor guide to how a general election might go. Labour’s fudged position on Brexit has just about held up, helping it to win a by-election in Peterborough earlier this month. Jeremy Corbyn, its leader, is so obviously a cultural liberal—with his allotment, vegetarianism and endless pledges of “solidarity” with oppressed people—that the tribe may forgive his feebleness on Brexit. Moderate Tories, meanwhile, point out

that their party embraced cultural conservatism in the 2017 election, and flopped. After Brexit, some believe, the country will go back to normal.

That is doubtful. For one thing, being outside the club means endlessly talking about your relationship with it, as Switzerland has found. More important, the two tribes are united by more than Brexit. The emergence of a coalition of young, urban, university-educated liberals, and an opposing group of older, rural, school-leaver conservatives, began long before the vote. The referendum simply gave them an identity. There is no reason to think that when Brexit is over the tribes will disband. ■

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Donald Trump launches a familiar-sounding re-election campaign.

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Patrick Shanahan stands aside from the DoD. Presidential debates seldom move opinion polls.

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Andrew Yang, prophet of doom. More liberal, functional Illinois.

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Harvey Weinstein's trials.

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Elizabeth Warren, saviour of capitalism.

**Trump 2020****Donald Trump launches a familiar-sounding re-election campaign**

Identity politics, with a focus on guns, crime and immigration, is likely to dominate



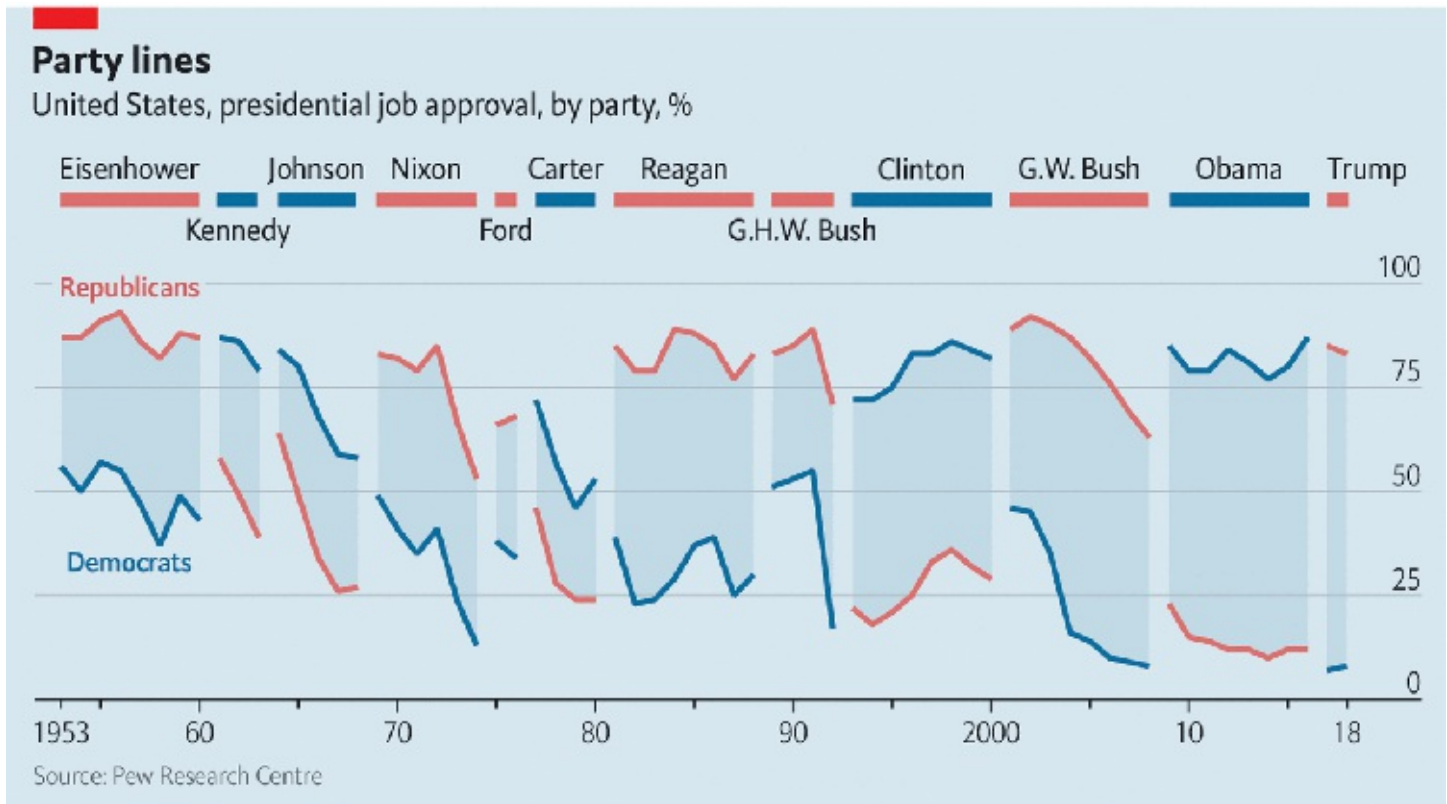
Jun 20th 2019 | ORLANDO, FL

TO DESCRIBE THE event President Donald Trump held in Orlando’s Amway Centre on June 18th as his re-election campaign launch does not do justice to its strangeness. It would also be only narrowly true, because he has never stopped campaigning. Since filing his re-election papers over two years ago, on the day he took office, Mr Trump has held over 50 “MAGA rallies” across the country, revelling in the adulation of his devoted fans. This week’s event, in the crowded, but not completely full, home of the Orlando Magic basketball team, was merely an extravagant example.

As always, Mr Trump opened with a shout-out to the independent witnesses to his pending performance, “the fake news”. (Outside the arena, a Trump supporter would shortly become the first of the new campaign to be arrested for attacking a journalist.) The president then launched into the improbable balancing act—extreme triumphalism mingled with extreme grievance—that represents both his state of mind and his political method.

He claimed to have “accomplished more than any other president” in his first two and a half years. Much of what he offered in support of that claim was dubious. He exaggerated how much border wall he is building to keep Mexicans out; he falsely represented the size of the tax cuts he signed; he repeated his mischaracterisation of tariffs as a cost on Chinese exporters, not American consumers, and so on.

He claimed to have meanwhile been labouring “under circumstances that no president has had to deal with before...the great and illegal witch-hunt”. The Mueller investigation unearthed a lot of evidence of malfeasance by the president. Yet far from being hounded, he has in fact faced remarkably little comeuppance. His Democratic opponents are averse to taking up articles of impeachment, as previous opposition politicians might have done.



The Economist

Mr Trump did not thank them for their restraint. “Our radical Democrat opponents are driven by hatred, prejudice and rage,” he cried. “They want to destroy you and they want to destroy our country.” To be pro-Trump is to be a patriot, to oppose him treason. It was nearly an hour into his prepared speech before he turned to the economy, including growth of 3% in the first quarter, rising wages and the lowest unemployment rate for half a century.

It may contravene James Carville’s maxim, but Mr Trump’s re-election campaign is not primarily about the economy. That is partly a reflection of his character, because his sense of grievance swamps his feelings of triumph. But it is also tactical. The idea that elections are decided by the state of the economy rests on an assumption that there is a critical mass of swing voters, persuadable by either side. And that mass had been dwindling for years, owing to partisanship, even before Mr Trump’s extreme divisiveness accelerated its demise. Only 51% of Americans approve of his performance on the economy, despite its rude health—and the economy is easily his strongest measure. His overall approval rating has rarely reached 46%, the share of the popular vote he won in 2016; it is now a couple of points below that. He is the only president never to have reached 50% since Gallup began polling on the issue.

These poor numbers make it hard to see Mr Trump winning any state he lost in 2016. To win again he must therefore walk the same path to an electoral college majority he trod that year—through Florida, Ohio and a trio of formerly Democratic rustbelt states, Michigan, Pennsylvania and Wisconsin. The fact that all have lots of older white people, his most reliable constituency, is why he remains competitive, despite his low ratings. Yet he has a major worry. While Florida and Ohio are becoming more Republican, the more northerly states appear to be reverting to the Democrats. And they are doing so, results in the mid-terms suggested, because the working-class voters Mr Trump recruited from the left in 2016 are cooling on him.

Four years ago he wooed them with a combination of paternalistic economic promises and white identity politics. Only the second of these may now be available to him. Having failed to provide universal free health care, bring back coal-mining and regenerate long-shuttered factory towns, among other unlikely pledges, he is now struggling to repeat them. (Mr Trump’s recent vow to unveil a new health-care plan “in about two months” carried a hint of desperation.)

Mr Trump may yet find a way to fill this void. A trade deal with China or a cut in illegal immigration could help. Yet it is likely that identity politics, in the form of fierce rhetoric on guns, crime and immigration, will dominate his campaign. Mr Trump warmed up for his appearance in Orlando by vowing to round up “millions of illegal aliens”—starting “next week”. He also refused to retract his demand for five black teenagers convicted of assaulting and raping a jogger in Central Park to be executed—though they were exonerated by DNA evidence and freed 17 years ago. Outside the Amway Centre a white chauvinist crew called the Proud Boys flashed “white power” signs at reporters.

Though these are early days, in short, it seems highly probable that Mr Trump will re-run his previous campaign. To hear him, it seems to be 2016 still. He persists in whipping up his supporters with denunciations of Hillary Clinton (“Lock her up!” they screamed in Orlando). By far the biggest uncertainty, perhaps the only one, therefore concerns who the Democrats send out to face him in her stead.

Betting markets put his chances of re-election at 50%, which reflects uncertainty about who the Democrats will pick. Though incumbency gives him a boost, absent some game-changing event Mr Trump would struggle against a strong opponent. His hopes may depend on the Democrats putting forward another dud, too weak or compromised to survive his attacks. Do not put it past them. ■

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## Secretaries wanted

### Patrick Shanahan stands aside from the DoD

This is not the usual Trump administration scandal



Jun 22nd 2019 | WASHINGTON, DC

THERE ARE three reasons people are ejected from the top echelons of President Donald Trump's administration. Either past personal failings come to light, or petty self-dealing scandals emerge while in office, or they suffer a sudden decline in the appraisal of a mercurial boss who likes a good firing now and again.

Ronny Jackson, the president's personal doctor, who was appointed to run the Department of Veteran Affairs, bowed out after allegations emerged of drinking on the job and carelessly dispensing opioids. Scott Pruitt, the former administrator of the Environmental Protection Agency, and Tom Price, the former health secretary, got the boot after their lavish spending habits—overstuffed security details, private-plane travel—caused considerable embarrassment. Rex Tillerson, the former secretary of state, and Kirstjen Nielsen, the former homeland security secretary, irked Mr Trump. And on June 18th the nomination of Patrick Shanahan, the acting defence secretary to succeed to the permanent post, imploded after details of Mr Shanahan's personal life were published by American newspapers. Mr Shanahan has been doing the job since General Jim Mattis resigned (done for by number three).

Unlike the failed nominations of Andrew Puzder as labour secretary and Herman Cain as a member of the Federal Reserve's board, or the ignominious sacking of Rob Porter, the White House staff secretary, Mr Shanahan was not accused of groping anyone. Instead there were two episodes. In the first, Mr Shanahan's wife at the time was arrested in 2010 on domestic-violence charges after she punched him in the face. In the second, in 2011, Mr Shanahan's 17-year-old son beat his mother with a baseball bat, leaving her with a fractured skull and needing surgery.

Mr Shanahan, who was in Seattle at the time working for Boeing, flew to Florida where the assault occurred and



tried to provide a legal defence for his son to spare him jail time. In the immediate aftermath of the assault he wrote a memo claiming that his son had “acted in self-defence”. He told the *Washington Post* that the characterisation was made before he had all the facts, and that he was wrong to write it. When it became clear that the news would break, Mr Shanahan travelled to the Oval Office to withdraw his nomination.

Mr Shanahan’s predicament appears agonising. His difficulties do not elicit the same moral outrage as some of Mr Trump’s other nominations did. Yet they do illuminate the problem of a patchy vetting process and an impetuous chief executive who sometimes picks people simply because they look the part. Of the 713 top posts in the government which require the affirmation of the Senate, only 455 are filled by confirmed appointees.

The Department of Defence is perhaps America’s most important ministry, particularly now tensions with Iran are high—1,000 more troops have just been dispatched to the Middle East. The temporary replacement to the previous temporary replacement is Mark Esper, a West Point classmate of Mike Pompeo, the hawkish secretary of state. Mr Esper is a supporter of dispatching troops to the southern border, which allows Mr Trump to portray illegal immigration as an invasion. If the polls are tight next autumn, expect to see Mr Esper deploy more soldiers to guard the Rio Grande. Supposing he lasts that long. ■

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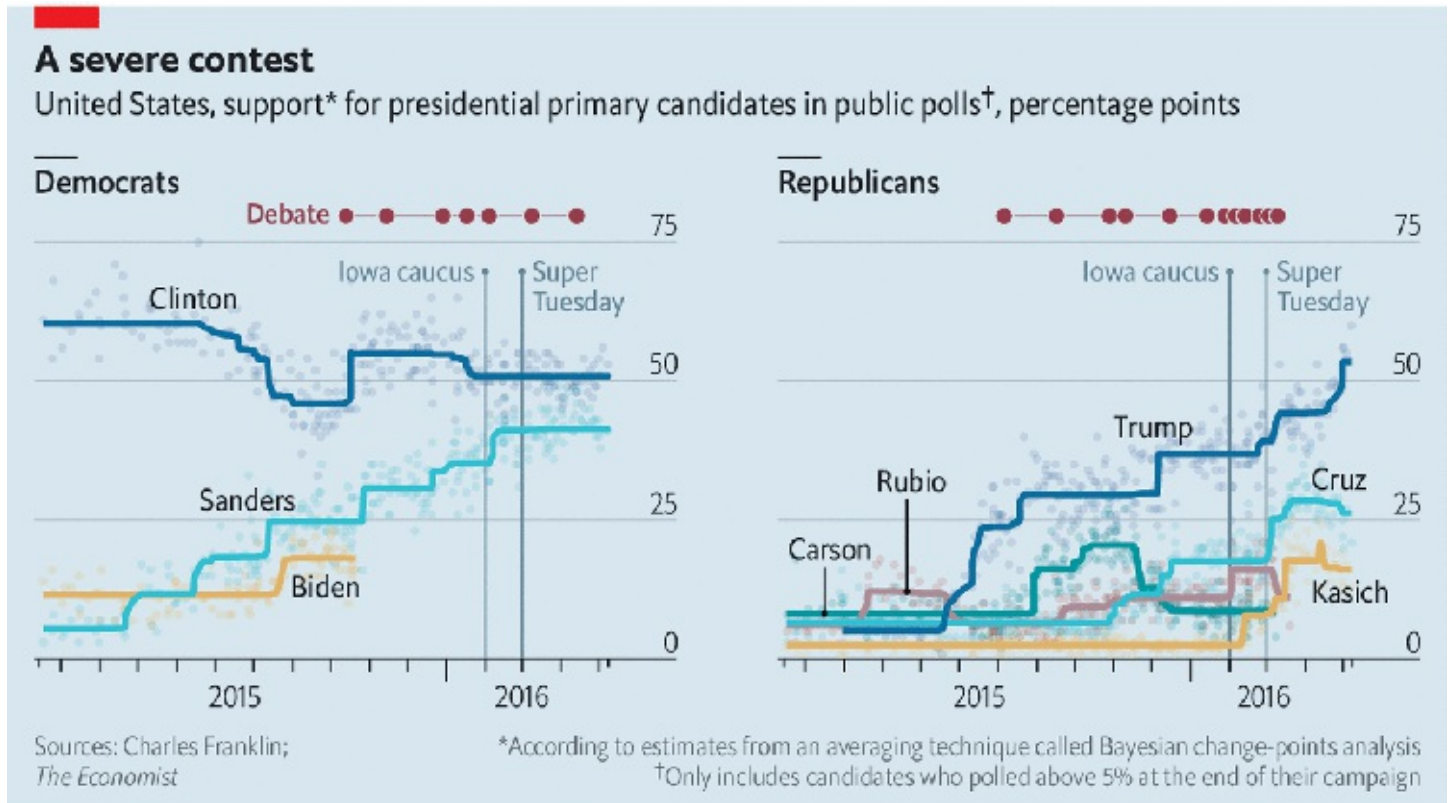
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## Primary numbers

**Presidential debates seldom move opinion polls**

Primary debates are a different matter

Jun 22nd 2019



The Economist

FOR DEVOTED election-watchers the onslaught of on-the-ground reporting and analysis from 30,000 feet that accompanies a campaign is pleasurable. But voter preferences tend to be more stable than front-page coverage, which typically consists of assorted gaffes and flip-flops, might suggest. Primary debates really do matter, though. The Democrats hold their first one in Miami next week. An increase in available polling over the decades has helped *The Economist* quantify their impact. Primary debates are responsible for changes in polling that rival the effects of the Iowa caucuses on public opinion.

General-election debates rarely move opinion polls, because voters' choices are largely dictated by their partisan allegiance. Most of those who bother to tune in have already tuned the other party out. In primary debates, though, this does not apply. Partisan allegiance will not help a Democrat choose between Senators Cory Booker of New Jersey and Michael Bennet of Colorado. Primary voters are also more receptive to arguments about policy and electability than the wider public is.

Hillary Clinton's lead in public polling increased nearly nine percentage points in the two weeks that followed the first debate of the 2016 Democratic nomination, according to data made available by Charles Franklin, a political scientist. On the other side of the aisle, Donald Trump experienced a four-point bump in the two weeks after his first debate. What happened in the years before 2016? Were the bonuses that Mrs Clinton and Mr Trump received atypical, or part of a pattern?

To find out we analysed Mr Franklin's polling data, which span all presidential primary elections from 1976 to 2016, using a technique called Bayesian change-point analysis to calculate a polling average that is not too

sensitive to outlier polls, as some other approaches are. We assume it takes about two weeks from the date of a debate for any new information arising from that debate to be reflected in public opinion and for pollsters to gather their data.

Our calculation shows that the year before a presidential election, the average change in a candidate's polling numbers in the two weeks after a debate was 6%. Debates held in the winter and spring of the election year have even larger effects (an average change of 13%), but it is hard to tell whether it was the debates that made the difference or something that happened at the same time as the debate, such as a primary election or caucus.

Admittedly most of the movement in polls after a primary debate consists of small fluctuations spread out between many candidates. Yet primary debates do sometimes cause an obscure candidate to become a star or a star candidate to implode. Compared with a regular week in the year before the election, debates are six times as likely to produce a large increase or decrease in voting intentions.

Elaine Kamarck of the Brookings Institution, the author of "Primary Politics: Everything You Need to Know about How America Nominates Its Presidential Candidates", concurs. Primary debates are one of the most important events of a campaign, and match other disruptions. "There is little difference between a debate and a dramatic event," Ms Kamarck says, adding that they are almost always consequential. With the 2020 Democratic debates kicking off next week, the 20 candidates who will appear (divided between two separate events) really do have an opportunity to change voters' minds. ■

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**Dismal Democrats****Andrew Yang, prophet of doom**

Pessimism delights primary voters



Jun 22nd 2019 | NEW YORK

ANDREW YANG, the New York entrepreneur running for the Democratic presidential nomination, cannot be accused of lacking confidence. “I only see two outcomes in this race. One, I win. Or, two, someone else wins and takes the vast majority of my ideas into the White House,” he says from his campaign headquarters in midtown Manhattan. By branding himself a doomsayer of the impending automation apocalypse, which he warns will destroy most jobs and roil society, Mr Yang has cultivated a devoted following—leapfrogging better-known candidates like Bill de Blasio, the city’s mayor, and Kirsten Gillibrand, one of New York’s senators. In such a crowded field, with roughly two dozen contenders, scoring 1% in the polls is no small feat. But becoming a serious contender is a different matter. Mr Yang hopes his break will come in the upcoming primary debate in Miami, where he will share the stage with heavyweights like Joe Biden, Kamala Harris and Bernie Sanders.

His appeal hinges on an economic anxiety that borders on outright fear. Mr Yang decided to call his campaign book “The War on Normal People”. In it he describes the advent of automation and artificial intelligence as “very scary”. He warns that millions of truck-drivers forced out of work by self-driving cars and retail workers done in by automated kiosks could riot. “If we don’t start getting ahead of that curve, we’re going to be doomed to worse than Donald Trump over time,” he says. The antidote to this impending calamity is a universal basic income (UBI) of \$1,000 a month for each and every American adult, which Mr Yang calls a Freedom Dividend, because that polls better. At times, Mr Yang’s Freedom Dividend is almost a universal panacea: it is his first answer when asked about combating poverty, spurring entrepreneurship, narrowing the racial wealth gap and reversing educational disparities between the rich and the poor.

But the idea has cross-ideological appeal—both to libertarians who think the government does least harm by

shovelling cash to people, and to bleeding hearts concerned with the plight of the poor and downtrodden. Devotees, who call themselves the Yang Gang, throng his rallies wearing hats emblazoned with the word “MATH” (for which the acronym “Make America Think Harder” has been devised).

“This is not a lefty idea,” Mr Yang says, noting that the country’s red-leaning rural interior would gain most from his proposal: “The one state that has a dividend right now is Alaska, which is a deep-red conservative state.” Alaska’s universal benefit, paid out of oil revenues, is typically less than \$2,000 per year. Mr Yang’s proposal is six times as generous—offering \$12,000 per year—and would cost roughly \$2.8trn (the entire annual budget, encompassing defence spending, Social Security, Medicare and everything else, is \$4.4trn). How this will be paid for is unclear. Mr Yang has proposed introducing a value-added tax and extracting sufficiently large sums from the tech firms automating jobs away.

Its cost does not make the Freedom Dividend an outlier in the primary debate. Most of the Democratic candidates are pitching multi-trillion plans of one sort or another. Mr Sanders wants Medicare for all (which Mr Yang and many of his competitors also endorse), while Elizabeth Warren would like to channel a few trillion towards green manufacturing, free college and universal child care (see [Lexington](#)). All these ideas would have seemed like fringy leftism to mainstream Democrats just four years ago. Mr Yang’s chief contribution might follow similar lines: he could hope to inject his ideas into the mainstream of Democratic politics.

His most valuable policy contributions may lie elsewhere, however. Mr Yang argues, more persuasively than most politicians, that he chooses his positions on data and evidence. His campaign website sports (at last count) 106 proposals, running from the consequential—imposing a tax on carbon pollution, legalising marijuana, decriminalising opioids and reforming zoning rules—to the zany, like offering free marriage counselling to all. Many of them are quite sensible.

A good few are refreshingly unorthodox too. Mr Yang has not shied away from pointing out the errors in the thinking of his competitors. He thinks a federal jobs guarantee—embedded in the widely accepted proposal for a Green New Deal—is a “well-intended but terrible idea”. The “liberal training fantasy”—turning coal miners into coders—is mere “wish-fulfilment as policy talk”. He’d like to “break the stranglehold that college has on learning” that pushes Democrats to prefer free university tuition to vocational training. He is one of the few candidates willing to publicly admit that charter schools, which are government-funded but privately run, are not abominable. “I’m pro-good school, and there are some very good charters. I think the Democrats, who are frankly just jumping into bed with the teachers’ unions, are doing our kids a disservice.” Among the ideas that an eventual White House occupant will inevitably steal from him, those would be the right ones to start with. ■

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**Whistling crayfish****More liberal, functional Illinois**

A chronically dysfunctional political system springs into life



Jun 22nd 2019 | SPRINGFIELD

ILLINOISANS HAVE long grumbled that theirs is a most dysfunctional state. Bruce Rauner, their Republican former governor, never grasped how to manage a legislature run by Democrats and struggled even to pass a budget. Chronic problems preceded him: years of reckless promises and spending left a \$134bn hole in the state's pension fund. Illinois's population has shrunk for each of the past five years. How, then, to explain the sudden outbreak of activity in Springfield?

The new governor, J.B. Pritzker, a Democrat, is enjoying balmy times. He has supermajorities in the legislature and also gets bipartisan support when Republicans like at least some measures. He has signed off on a \$40bn budget that sailed through the legislature. It is even balanced, something so rare that Mr Pritzker's Ukrainian ancestors might have likened it to a crayfish whistling on a mountain.

Lawmakers are in a perky mood for another reason: they get to influence where a separate, even juicier, dollop of official largesse ends up. The governor will soon wield his pen to sign off on a \$45bn capital-spending programme, mostly long-overdue public investments in run-down roads and bridges, renewable energy and schools. The *Chicago Tribune*, alarmed about overspending, rising taxes and pork for politicians, notes that lawmakers were also cheering pay rises for themselves.

Much of the spending is sorely needed, though. Take the state's education system. A recent survey by the Pew Charitable Trusts points out that, on average, states' outlays on schools were still 1.7% lower last year (in inflation-adjusted terms, per person) than when the Great Recession began in 2008. In Illinois things are especially grim: school spending was 22% lower than a decade before.

The capital splurge is to be funded in part by the sale of over \$20bn in bonds, and in part from several taxes that left-leaning folk, especially Chicagoans, who dominate state politics, have long sought. On July 1st the state tax on petrol will double. A sin tax on cigarettes is also up sharply. Meanwhile sports betting and other gambling is to become more widespread. Chicago will get its first casino. Credit-rating agencies gave the changes a cautious nod of welcome.

Legislators restated the state's liberal reputation by making Illinois the 11th in America to legalise the recreational use and sale of marijuana, from January 1st. It is the first to do so by legislation. The law contains measures to wipe clean the records of those previously convicted of cannabis offences. By one estimate, that will result in clearing 700,000 cases. The legalised market is expected to raise about \$90m in taxes next year, rising thereafter.

Legislators have also passed a law asserting the "fundamental right" of women to have abortions, while stating that a fertilised egg, embryo or fetus has no independent rights. In doing so, they scrapped a law from 1975 that had once imposed restrictions—such as the need for consent from a spouse—on women seeking abortions. In practice little changes from this (the old law was largely defunct), but the symbolism matters when other states are tightening their restrictions. In Missouri, next door, the state's last abortion clinic is threatened with closure.

The most significant legislative measure, however, involves a potential constitutional change. This is a proposal to scrap the state's flat tax on income, replacing it with a progressive one. To become law, voters will have to approve a ballot initiative in November 2020. The idea, initially, is that only those earning at least \$250,000 a year would pay higher taxes. Opponents warn that once a progressive tax is in place, those earning less are sure to be squeezed too.

The state is thus readying itself (oh joy) for 17 months of public debates on tax. Mr Pritzker and other proponents say the new income tax will raise revenue and cut inequality, noting that 34 states have graduated ones and get along fine. Opponents retort that Illinoisans are already among the most heavily taxed of all Americans, and warn that the changes will spur wealthy people to leave, sapping growth. Who will prevail? Mr Pritzker's luck may last a bit longer. But Illinois has a habit of chewing up and spitting out governors. ■

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**Court in the act****Harvey Weinstein's trials**

The case that started #MeToo demonstrates the difficulty of making sexual-assault accusations stick



Jun 22nd 2019

“THIS CASE is testing the presumption of innocence in our country,” Harvey Weinstein’s then defence lawyer, Jose Baez, told reporters last January, cameras shuttering as the movie mogul shuffled out of a New York courthouse. For a man who, the state attorney-general says, required his drivers “to keep condoms and erectile dysfunction injections in the car at all times” that is undeniably true.

But the justice system’s ability to hold those accused of sexual crimes to account is also being tested. The low conviction rates for rape and sexual assault are often blamed on under-reporting. Less than a quarter of estimated sexual assaults are reported to police. No such excuse exists in the Weinstein case. Since late-2017 he has been accused by more than 90 women of acts ranging from harassment to rape. The main villain of #MeToo has lost his company, reputation, wife and some hair. But, bar an ankle tracker, he retains his liberty and much of his fortune. It is not at all clear that the justice system will take either.

Most of Mr Weinstein’s accusers are not going to court. Expired statutes of limitation or other legal hurdles prevent some; others do not wish to go through a gruelling public trial. Well over a dozen are suing for damages through civil procedures, though. The New York attorney-general has also filed a civil-rights suit against Mr Weinstein, his brother and their former company for endangering employees. And the 67-year-old faces criminal charges for allegedly attacking two women in 2006 and 2013. If found guilty Mr Weinstein, who denies all charges of non-consensual sex, could spend decades in prison. His much-delayed criminal trial is set for September 9th. It may be delayed again after Mr Baez asked the court to excuse him from the case, making him the second member of Mr Weinstein’s defence team to walk away in quick succession.

Women in America, Britain and Canada are suing for damages related to what one of their lawyers calls



“Weinstein events” involving allegations such as rape, assault, false imprisonment (for instance, holding a woman while he masturbated) and career sabotage. They are going after not just Mr Weinstein, but also the companies that employed him: Miramax, Disney and The Weinstein Company (TWC). At TWC his contract included an unusual clause which listed escalating financial penalties for using company resources to pay someone off if he acted “improperly in violation of the Company’s Code of Conduct”.

In May rumours appeared in the media of an imminent “global settlement” for \$44m that would close most civil suits. TWC is currently going through the bankruptcy process and some attorneys, such as Elizabeth Fegan, who represents several plaintiffs in a class action, believe this is the best hope for getting compensation.

Several accusers, including actresses Ashley Judd and Rose McGowan, quickly distanced themselves from any rumoured settlement. Part of the problem was the amount, less than half of the \$90m that had been suggested in early 2018, nearly a third of which would be reserved for the legal fees of Mr Weinstein’s co-accused directors and board members. Going after Mr Weinstein’s enablers has been a priority for financial reasons as well as moral ones. “At the end of all of this, given all his legal fees, we expect that Mr Weinstein himself will be relatively asset light,” says Ms Fegan.

#### **But will he do time?**

For those seeking the sort of justice that involves steel bars, Mr Weinstein’s criminal trial will be the one to watch. It has been marred by delays and false starts. Charges relating to a third woman were dropped after a police blunder, something Mr Weinstein’s lawyers argue taints the whole case. The remaining five criminal charges are serious. They concern a woman who claims Mr Weinstein forcibly performed oral sex on her in 2006 and a woman who says he raped her in 2013. The crimes he is accused of include predatory sexual assault—a class A felony—rape in the first degree and rape in the third degree.

Proving such charges beyond a reasonable doubt, the burden of proof in a criminal court, will be hard. “The case will probably centre around ‘forcible compulsion’ or, for the least serious offence, whether the victim clearly expressed ‘non-consent,’” predicts Margo Kaplan of Rutgers University. She believes New York’s broad definition of consent is particularly “victim-unfriendly”. The assumption that women by default always consent to sex unless they are forced or clearly state otherwise makes rape hard to prove in many jurisdictions, prosecutors less likely to pursue charges, and convictions of watered-down charges more likely.

More important than the letter of the law will be the mood of the jury. Cultural norms determine judgments in rape cases far more than legal definitions, found Dan Kahan, a professor in law and psychology at Yale, in a 2009 study. Working in Mr Weinstein’s favour is the fact that he is on bail, which studies have shown greatly increases his chances of acquittal. Beyond that, “his chances now directly relate to his lawyers’ ability to impeach the credibility of his accusers,” predicts Daniel Hochheiser, a criminal defence attorney.

Their job may be about to get harder as the court considers whether other women should be allowed to testify about Mr Weinstein. This strategy, aimed at demonstrating a pattern of abuse, was successful in helping convince the jury at the Bill Cosby retrial last year of the comedian’s guilt. For several women it was also cathartic. But it is controversial and Mr Weinstein’s lawyers have fought hard against it. One problem for prosecutors in sexual-misconduct cases is that each accusation tends to be treated as a one-off, which makes it far easier for the defence to argue it was a “he said, she said”. Settlements with gag-clauses make it yet harder to give a jury more context.

Just as most civil cases are dismissed or settled before trial, so over 95% of criminal cases are either thrown out or settled with a plea-bargain before trial. Lack of resources or the hope of a shortened sentence can push poorer and younger suspects into taking a plea, but are less likely to persuade Mr Weinstein. The prospect of facing not just two isolated women but a couple of platoons may push him towards a deal, should one be offered. Yet given the high-profile nature of the case, and the severity of the charges, insiders predict that the prosecutor is unlikely to do so and would prefer to roll the dice in trial. ■

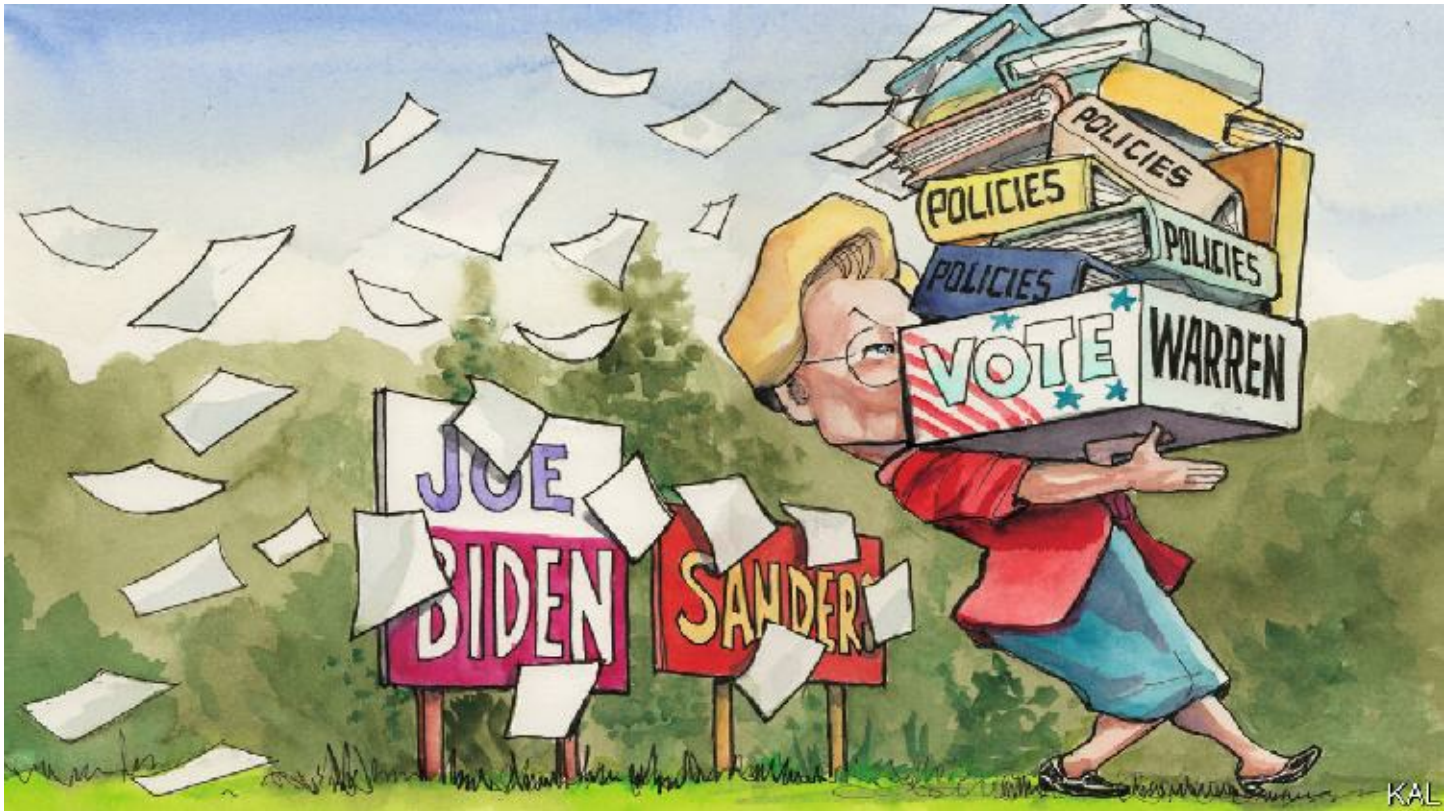
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**Lexington****Elizabeth Warren, saviour of capitalism**

The senator from Massachusetts's strong primary campaign suggests that ideas still matter



Jun 22nd 2019

THERE IS A revealing tradition of apostasy in American politics. Ronald Reagan's disingenuous claim never to have left the Democratic Party ("It left me") helped him woo millions of blue-collar Democrats. Hillary Clinton's decision to downplay her early Republicanism, by contrast, signalled her lack of ambition to win votes from the other side. That Donald Trump switched camps at least five times before entering the Republican primary suggested his disloyalty to any party. Elizabeth Warren's gravitation from right to left, and the use she is making of it in her increasingly fancied presidential campaign, is another telling case.

Unlike Mrs Clinton, she is leaning into her Republican past. Her stump speech, which Lexington heard in a sun-dappled New Hampshire garden last week, opens with a description of her conservative upbringing in Oklahoma: her three brothers in uniform, her frugal parents. It testifies to her experience, rare in a former Harvard law professor, of working-class concerns and the heartland, even if she escaped both long ago. Yet she remained a registered Republican into her late 40s.

Many Democrats would find that embarrassing. Yet Ms Warren, who entered politics over a decade later, after making a name for herself as a critic of Wall Street after the financial crisis, has no need to prove her left-wing credentials. She has used her conversion story to help distinguish herself from Bernie Sanders, her rival on the left, and to try to broaden her appeal.

She stuck with the Republicans, she has said, because she believed their claim to be the best market managers. Unlike the socialist from Vermont, she says she is a "capitalist to my bones". She left the right after researching surging individual bankruptcies, which turned out to be caused not by fecklessness, but ill health and other misfortunes. Why were so many hardworking people like her parents living so precariously? she asked. And

why were companies, their soaring profits suggested, more protected?

Like Mr Sanders, she considers the economy to be not merely skewed, but rigged in the corporate interest. Stagnant wages, rising economic insecurity, outsourced jobs are a product of “who government works for”, she said in New Hampshire. But where Mr Sanders promises a revolution, her proposals are more measured, detailed and various. Indeed Ms Warren, who in a couple of recent polls was ahead of Mr Sanders, in second place behind Joe Biden, has unveiled more policies than her main rivals put together.

Her signature proposal is a wealth tax of two cents on the dollar on assets over \$50m. She optimistically claims this would raise \$2.75trn in a decade, a windfall she would splurge on progressive priorities including universal free childcare, free public college fees and writing off college debt. That is Sanders-esque, with a tonal difference. Unlike Mr Sanders, whose recent entry into the “millionaire class” seems not to have lessened his dislike of rich people, Ms Warren claims not to begrudge them their success. She just wants them to chip in more (“Two cents—just two cents!” is one of her slogans) to help expand opportunity (which is another).

Believe that or not, her other main proposals are regulatory fixes that are far-reaching and radical but mostly within the Democratic mainstream. Channelling the spirit of her hero Theodore Roosevelt, she vows to curb lobbying, campaign-finance extravagance, carbon emissions and much else. She has hedged her support for Mr Sanders’s promise of Medicare for all.

Setting aside the merits of her proposals, her focus on policy is clever politics, and unusual. Mrs Clinton’s loss to a candidate with no serious policies, though she had reams of them, has deterred most Democratic candidates from issuing detailed proposals. Mr Biden, the front-runner, has two policies, including a cut-and-paste climate plan. Ms Warren apprehends that Mrs Clinton failed not because she had too many policies, but because she had no theme to make sense of them. Her commitment to saving capitalism from the capitalists is an answer to that.

Her wonkishness also helps her deal with specific weaknesses. It has revised her former image as a one-trick pony, banging on about Wall Street. It has moderated her reputation as a left-winger. It has made Mr Sanders look lightweight by comparison. It has also helped neutralise an impression, exacerbated by sexism no doubt, that she is rather hectoring. “She reminds me of my sister-in-law,” said one of her listeners in New Hampshire guiltily. “But she knows what she’s talking about.” Mrs Clinton’s supporters were often unwilling to acknowledge her weaknesses as a campaigner. If Ms Warren’s are more willing, it is because she also has strengths.

She may well supplant Mr Sanders as the main threat to Mr Biden from the left. Whether she could woo enough moderate voters to mount a serious challenge is harder to predict. It is certainly possible. Yet such voters are mainly concerned with beating Mr Trump, and may consider Ms Warren too left-wing for that, which would be reasonable. Or they might consider her too like Mrs Clinton, as a woman in her 60s, which would not be.

#### **The sin of apostasy**

That suggests Ms Warren’s ideas may get less attention than they deserve on the left. Meanwhile they are being studied by reform-minded Republicans, grappling with the rejection of conservative verities that Mr Trump represents. Tucker Carlson of Fox News described Ms Warren’s industrial policy as “like Donald Trump at his best”. Senator Marco Rubio wrote a column applauding its aims, while concluding that a “radical progressive movement” would not fulfil them. This illustrates a paradoxical feature of the political divide: a combination of intellectual flux and partisan rigidity.

Despite her past Republicanism, Ms Warren could not win votes on the right without repudiating her party in some way; by opposing mass immigration, for example. Yet her critique of American capitalism is quietly inspiring conservative thinkers. It is an odd time, when ideas cross parties more easily than people. ■

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Guatemala holds a dispiriting election.

**Chaos and progress****Despite turmoil, Brazil is starting to fix its pension system**

Congress has taken charge of the most important economic reform



Jun 22nd 2019 | SÃO PAULO

JAIR BOLSONARO, Brazil's president, likes romantic metaphors. "Our marriage is stronger than ever," he said in May, after the press speculated that he was at odds with the economy minister, Paulo Guedes. "The marriage ended with no hard feelings," he said this month after sacking Carlos Alberto dos Santos Cruz, a minister who had said that others in government should be more careful on social media—thus outraging Bolsonaro fans who tweet about the virtues of military rule and the horrors of homosexuality.

When Mr Bolsonaro took office in January investors thought he might let Mr Guedes, a free marketeer, reform the unaffordable pensions system, liberalise the economy and restore robust growth. Scandals, and the president's rocky relationships with congress and his own deputies, have spoiled that mood. In mid-May Mr Bolsonaro forwarded an opinion article to his WhatsApp contacts saying that congress was making Brazil "ungovernable". For the first time more Brazilians disapproved of his government than supported it. The currency, the real, reached an eight-month low. Rumours of impending impeachment spread. June brought the resignation of the respected director of the state development bank, Joaquim Levy, and leaks that embarrassed the justice minister, Sérgio Moro. "The government is a crisis factory," said Rodrigo Maia, the business-friendly president of the lower house of congress.

Uncertainty is holding the economy back. GDP contracted by 0.2% in the first quarter, the first time it has shrunk since a severe recession ended in 2016. A mining disaster in January and a downturn in neighbouring Argentina were partly to blame. Economists are likely to revise downward their gloomy prediction that growth will be less than 1% this year. Capital Economics, a consultancy, calls the 2010s a "lost decade" for Brazil.

Despite the chaos surrounding Mr Bolsonaro's administration odds have improved that congress will reform the

pension system, a precondition for resurrecting investors' confidence and therefore growth. Pensions gobble up 44% of federal spending, or 8.5% of GDP. Brazil's pension programmes are shockingly indulgent. They allow workers to retire in their mid-fifties and let widows and widowers receive their spouses' full benefits, which encourages May-September marriages. Brazil spends seven times as much on its oldest citizens as it does on programmes for the youngest, such as education. The regional average is four.

This is harming Brazil's future growth. Without reform, pension spending will double as a share of GDP by 2060. Public debt has jumped from 52% of GDP in 2013 to 78% now, and would soon surpass 90%. The plight of state and municipal governments is especially bad. Seven of the 27 states say that they can't pay salaries.

On May 23rd Mr Bolsonaro proposed a "pact of understanding" with leaders of both houses of congress and the president of the supreme court to co-operate on pensions reform and other pro-growth measures. In fact, he has ceded control to the legislature. The congressman in charge of the lower-house committee dealing with pensions recommended changes to the government's draft on June 13th. The committee is expected to vote on his plan by the end of the month. Then it will go to the full house. Since the reform requires amendments to the constitution, both the house and the senate must approve it twice with three-fifths majorities.

The congressional proposal would save the federal government about 900bn reais (\$230bn) over ten years by raising the retirement age for most workers, to 65 for men and 62 for women, increasing contributions and closing loopholes. It is less ambitious than Mr Guedes's plan, which aims to save 1.2trn reais. It is more generous to the poorest and oldest pensioners and to rural workers. It scraps the idea of shifting gradually from a pay-as-you-go system to one based on individual savings accounts. It does not include government workers for the states and municipalities. Mr Guedes grumbled that the committee had "aborted" his reform. Its plan overstates the money it would save, he says.

His verdict may be unduly harsh. Most analysts think that the congressional plan would save enough to reassure investors. "The day after pensions reform passes will be the start of a new Brazil," says Luiz França of the Brazilian Association of Real Estate Developers. "We all have a 400m- or 500m-real project sitting in a drawer waiting for the economy to pick up," says Carlos Jereissati, the CEO of Iguatemi, a chain of luxury shopping centres.

By itself, pension reform may not restore the economy to health. Though encouraging investment, it could also hurt consumer spending, since workers will need to save more for retirement, says Antonio Spilimbergo of the IMF. Italy's economy took a hit because it enacted pension reform only after a long wait and during a downturn. Cuts in other spending, needed to comply with a 20-year freeze enacted by Brazil's previous government, are weighing on growth this year. Mr Jereissati is keeping his millions in the drawer until he sees a year of growth of 2% or higher.

Another concern is that dysfunction in Brasília will impede other reforms. To privatise state firms and cut import tariffs, the government will have to battle special interests. Mr Bolsonaro will need the co-operation of congress to revamp the tax system and reduce the public-sector wage bill. A pension reform "might get the party started", says Tony Volpon, an economist at UBS, a bank. "But we're one Twitter storm away from this all going to hell." ■

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**Bello**

## Can Colombia's President Iván Duque find his feet?

The young leader needs to emerge from his sponsor's shadow



Jun 22nd 2019

THE LONG war between the state and the communist guerrilla army of the FARC may be over, but governing Colombia is no cakewalk. The ELN, another nominally Marxist outfit, still threatens, as do violent drug-traffickers and dissidents from the FARC. Geography sometimes conspires against development. Last month a mountainside collapsed, taking with it part of a new motorway linking Bogotá with the south-eastern lowlands. The government is helping more than 1.3m Venezuelans who have fled their country in the past three years.

These and other problems face Iván Duque, who became president last August. Aged 42, he appealed to Colombians as a fresh face, keen on technology and creative industries and with a mantra of “legality, enterprise and fairness”. Though he is part of South America’s swing to the right, he is not Brazil’s Jair Bolsonaro. He accepts unquestioningly the decisions of courts and of congress. He worries about deforestation and climate change. “Our migration policy is based on fraternity and not xenophobia,” he says, and he clearly means it.

But he was elected for the conservative party of Álvaro Uribe, an embittered former president. Mr Duque has often seemed trapped in the political battles of Colombia’s recent past. These centre on the peace agreement of November 2016 between his predecessor, Juan Manuel Santos, and the FARC. Under this, some 13,000 guerrillas disarmed; the FARC’s new political party gained ten temporary seats in congress; and the government promised rural development. Guerrilla leaders (and army commanders) are supposed to confess their war crimes to a special peace tribunal and then face temporary “restrictions on liberty”.

Mr Duque thought the agreement too soft but as president has pledged to carry it out. Its core provision is succeeding: the vast majority of the former guerrillas have returned to civilian life. “We can’t afford to fail in that,” Mr Duque told *The Economist*. Beyond that, the arguments start.

Critics accuse the new government of doing too little for rural development, which is essential to make the most of peace and avoid another war. That may be true, but Mr Duque retorts that he has done more in less time than his predecessor. He points to locally agreed development plans for 16 formerly conflict-ridden areas that are under way. He says his government has so far issued titles for 300,000 hectares of rural land.

Then there is the peace tribunal. Mr Uribe's supporters fear that it is biased in favour of the FARC. That seemed to be borne out last month when the tribunal freed Jesús Santrich, a FARC commander whom American authorities accuse of trafficking cocaine after the peace deal. An attempt by Mr Duque's government to subject FARC commanders to tougher terms by partially rewriting the peace agreement was rejected last month by congress and the constitutional court. It would be better to broaden the tribunal's membership. An official says he sees an opportunity for that. If the supreme court reverses the tribunal's decision and extradites Mr Santrich, who sits in congress, that could reduce tensions within Mr Duque's political base.

Another inherited headache is that coca production rose in Mr Santos's final years, exacerbating turf wars over cocaine exports. "You can't build a lasting peace with 200,000 hectares of coca," says Mr Duque. His government wants the constitutional court to lift a ban on spraying the crop with herbicide. "Spraying is not a silver bullet," he says. "But it has to be a tool. Some areas of coca are protected by landmines and snipers."

Mr Duque's main challenge is to develop clear policies of his own. They should start with security. Much of the countryside remains unsafe. Some 135 demobilised guerrillas have been murdered. Community leaders are also being killed. Colombia needs to rethink security policy for a post-FARC era, with greater use of intelligence and civilian co-operation. The new army commander, General Nicacio Martínez, issued orders that seemed to encourage his forces to increase the body count—a throwback to a controversial policy under Mr Uribe. There is no evidence that killings have risen. But that approach is misguided.

Mr Duque "has yet to find his own feet," says Malcolm Deas, a British historian of Colombia, who suggests that he formalise his relationship with Mr Uribe, for example by confining it to scheduled meetings. He could complement that by developing his own political base in the centre. He has time to become a good president. But the clock is ticking.

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**The next pink tide****How 25 countries in the Americas could end up allowing gay marriage**

That is how many constitutions mandate equality



Jun 22nd 2019

PEOPLE WAVED rainbow flags in the streets of Quito. Gay couples kissed. They were celebrating the decision on June 12th by Ecuador's constitutional court to legalise same-sex marriage. Ecuador is now the eighth country in the Americas to take that step. Its constitution explicitly defines marriage as a union between a man and a woman. The court therefore had to rule that one part of the constitution—which holds that citizens are entitled to equal treatment under the law—outweighs the part that defines marriage.

Less than a third of Ecuadoreans support gay marriage, a poll in 2017 found. Conservatives ask why unelected judges should dictate to a whole country what a family means. In a dissenting opinion four of the nine judges in Ecuador said that the legislature, not the court, should resolve the constitutional contradiction.



- St Kitts & Nevis
- Antigua & Barbuda
- Dominica
- St Lucia
- Barbados
- St Vincent & the Grenadines
- Grenada
- Trinidad & Tobago

### Recognition of same-sex relationships, June 2019

- Marriage
- Civil unions
- Not recognised/banned
- Any same-sex sexual activity illegal

Sources: ILGA; *The Economist*

In the biggest Latin American countries attitudes are more tolerant than in Ecuador. In Argentina, Brazil and Mexico, support for gay marriage exceeds 50% (as it does in Chile and Uruguay). In the rest of Latin America and the Caribbean it is near or below Ecuador's level. Ecuador is not the only country with laws that explicitly forbid gay marriage (see map). Honduras's constitution bans it. The constitutions of six countries besides Ecuador refer to marriage as a union between a man and a woman. Some Caribbean countries have laws that make homosexual acts illegal.

Even where laws and attitudes are hostile campaigners for gay rights are making and winning legal arguments. By *The Economist's* count, 25 of the 35 countries in the Americas have constitutions with equal-treatment clauses. The American Convention on Human Rights, to which 23 countries are party, has such a clause. In 2015 the United States Supreme Court legalised same-sex marriage on the grounds that to deny gay people the rights and privileges of marriage is to deny them equal treatment. Colombia's constitutional court made a similar ruling. In January the Inter-American Court of Human Rights said that the convention's equality clause required its signatories to permit same-sex marriage.

In some countries, politicians are putting up a fight. Paraguay's president, Mario Abdo Benítez, campaigned in last year's election on a promise to veto legislation to allow same-sex marriage. Both of the remaining candidates in Guatemala's presidential election oppose gay marriage.

Ecuador's ruling will encourage campaigners to continue challenging even the most formidable obstacles to same-sex marriage. This year they filed a case to overturn Honduras's constitutional ban. When Latin Americans talk about a "pink tide", they usually mean the spread of leftwing politics. In future, they may mean the increasing freedom of gay people to wed whom they love. ■

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After the comedian

## Guatemala holds a dispiriting election

It promises little progress for the country that sends more migrants to the United States than any other



Jun 22nd 2019 | GUATEMALA CITY

MANY GUATEMALANS searching for change prefer the border to the ballot. In the four years since Jimmy Morales won the country's last presidential election, 635,000 Guatemalans have been picked up by border agents in Mexico and the United States. A candidate who won that many votes in the first round of elections on June 16th would have made the run-off to succeed him. Those who stayed were given little reason to believe that the election would improve a rotten political system, whose failures include a child-malnutrition rate that is among the world's highest.

Few people embody that system better than the two candidates headed for the second round on August 11th. Sandra Torres, a former first lady, won 26% of the vote. Joining her in the run-off will be Alejandro Giammattei, who has run without success for mayor or president in every election since the end of the civil war in 1996. He got 14% of the vote. The run-off could be close.

The election had fleetingly offered hope. Among the strongest candidates had been Thelma Aldana, a former attorney-general, who made her name pursuing wrongdoers in co-operation with the International Commission Against Impunity (CICIG), established by the UN in 2007. In 2015 their investigations of corruption led to the resignation and arrest of then-President Otto Pérez Molina, to big anti-corruption demonstrations and to the election of Mr Morales, a former comedian who called himself "neither corrupt nor a thief".

CICIG accused Mr Morales of financing his campaign illegally. He refused to extend CICIG's mandate, which ends in September. Ms Aldana decided to run for the presidency to defend her anti-graft project. But in March the government charged her with embezzlement and tax fraud. She has been in El Salvador ever since. That plus other disqualifications left 19 candidates.

Ms Torres is a formidable politician. During the presidency of her then-husband, Álvaro Colom, from 2008 to 2012, ministers who wanted something done sought her approval, not his. She created Guatemala's first conditional cash-transfer programme, Mi Familia Progresiva, which reached nearly 1m households. Rural Guatemalans remember it with gratitude.

Urban voters dislike her. This year a recording was leaked of Ms Torres seemingly agreeing to receive 40m quetzales (\$5.2m) in undeclared campaign donations from a construction magnate. She denies wrongdoing. Some voters say she divorced her husband because wives of ex-presidents are barred from running for the office.

To be sure of avoiding jail she will need to beat Mr Giammattei, a former boss of Guatemala's prisons. He promises to crack down on crime. He was locked up in 2008 for his alleged role in the extrajudicial killing of 11 inmates, but was later acquitted.

Guatemalans who yearn for the rule of law are despairing. Ms Torres promises to hold a referendum on CICIG's future, though it will have shut down by the time the next president takes office.

Mr Morales, who has achieved little, may end his presidency with a flourish. On June 17th President Donald Trump tweeted that Guatemala was "getting ready" to sign a safe-third-country agreement. The United States could then refuse asylum to migrants from outside Guatemala who pass through it. That will strike Guatemalan voters as ironic. Their country does not feel safe to many of them. ■

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**Chaebol in the dock****South Korea's left-wing president loses his zeal to humble big business**

But lawsuits from American hedge funds are putting him on the spot



Jun 22nd 2019 | SEOUL

MOON JAE-IN could not have been clearer. In his inaugural address as South Korea's president, in 2017, he promised "the cozy relationship between political and business circles will completely disappear." He would force powerful conglomerates, known as *chaebol*, to reform and "boldly break from the malpractices of old days". He was alluding, among other things, to the sprawling corruption scandal that had prompted the impeachment of Park Geun-hye, his predecessor.

Prosecutors have indeed harried the *chaebol* under Mr Moon. Ms Park is serving a long prison sentence for a range of corruption charges. A former health minister was sent to jail for pressing the national pension fund to support a merger in 2015 which cemented Samsung's founding family's control over the group. Lee Jae-yong, Samsung's day-to-day boss (in the place of his ailing father), has also spent time in prison for his alleged role in getting the pension fund to approve the merger. Although an appeals court overturned Mr Lee's conviction for bribery last year, prosecutors have appealed to the Supreme Court.

Corporate-governance campaigners say that Samsung manipulated the terms of the merger between Samsung C&T, a trade, construction, fashion and resorts group, and Cheil Industries in 2015. They say it inflated the value of Samsung Bioepis, an affiliate of Samsung BioLogics which at the time was part of Cheil, to the detriment of investors in C&T. The point, they say, was to allow Mr Lee to cement his control over the group without facing a large inheritance-tax bill. Last year a financial regulator found that Samsung BioLogics did indeed inflate the value of Bioepis by \$3.9bn, though it did not opine on the motive for this. (Samsung is appealing.)

Since then, prosecutors have stepped up their investigation into the possible involvement of senior Samsung executives both in the alleged accounting fraud and in subsequent attempts to conceal evidence related to the

fraud and to the succession plan that it purportedly facilitated. In May prosecutors ripped open the floorboards in a BioLogics factory and found a stash of electronic devices which they say contain important evidence. They have arrested eight managers from Samsung BioLogics and Samsung Electronics, the group's most valuable company, whom they suspect of manipulating evidence. Earlier this month they spent hours interrogating Chung Hyun-ho, the president of Samsung Electronics and Mr Lee's closest aide, about his involvement in the plans. They may soon summon Mr Lee himself.

Yet Mr Moon seems increasingly willing to embrace Samsung. In late April he visited a Samsung factory near Seoul, the capital, to launch a national semiconductor strategy. It was the president's first official visit to a domestic Samsung facility since he took office. Cameras captured him smiling warmly while shaking hands with Mr Lee. Mr Moon said he applauded Samsung's "ambitious" spending plans, which the administration would "actively work to aid". That is just the sort of view Mr Moon used to criticise: that the *chaebol* are national champions deserving of political support.

#### Phases of the Moon

The president's change of heart looks mainly motivated by economics. His policy of trying to create "inclusive" growth by boosting wages and small firms has yet to pay off. Last year GDP grew by 2.7%, the slowest pace in six years. A big rise in the minimum wage initially led to job losses, undoing much of the benefit for unskilled workers, the OECD reckons. Ahead of a legislative election in April, the government is under pressure to show economic gains. "In the short term, the easiest way to do that is to go to the *chaebol* for help," says Kim Woo-chan of Korea University.

That may also explain the government's attitude in a related case. The prosecutors' zeal has encouraged activist investors in Samsung c&t, who felt hard-done-by when the Cheil-c&t merger went ahead. Elliott, an American hedge fund best known for buying distressed debt, is suing the government for damages under KORUS, a free-trade deal with America. It alleges that the government's decision to support the merger, and the subsequent collapse in c&t's share price, cost it more than \$700m. Another fund has followed suit.

The justice ministry, which acts as the defendant, argues that the claim is based on hearsay and that the country has no case to answer. That is understandable: it would be a public-relations disaster for a left-wing government like Mr Moon's to agree to a multimillion-dollar payout to a prowling hedge fund. But it is a tricky stance to maintain, given the convictions of former officials for influence-peddling in the case. If the ongoing proceedings claim more scalps, the government's position will become more awkward still.

Park Ju-gun of CEO Score, a corporate watchdog thinks prosecutors will struggle to prove that Mr Lee or his associates ordered the accounting fraud or were instrumental in destroying evidence—charges they deny. But even if the prosecutors fail, says Park Sangin of Seoul National University, they may unearth enough new evidence for the Supreme Court to decide to send Mr Lee's bribery case back to a lower court. That court will then have to reconsider the reduction of his sentence in light of the new evidence. It is possible it may restore his original conviction.

That would put Mr Moon under pressure from conservatives and business lobbyists to return to the old practice of pardoning erring *chaebol* leaders for the good of the nation. The president will be hoping it never comes to that. ■

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**Banyan****Why India's south confounds the otherwise all-conquering Narendra Modi**

Southerners are not as keen on cows, caste or Hindi



Jun 22nd 2019

AFTER ITS crushing election victory last month, Narendra Modi's government moved fast on one front. It unveiled a draft education policy which aimed to make the study of Hindi, the main language of the "cow belt" of northern India, compulsory in schools in non-Hindi speaking states. But then Mr Modi did a—*for him*—untypical thing: he quickly withdrew the proposal after it prompted instant uproar in the south.

The episode was illuminating. Mr Modi's Bharatiya Janata Party (BJP) dominates the cow belt. It has made inroads into eastern parts of the country that are not traditional strongholds. But the brouhaha over Hindi shows how the south still dances to a different tune, one the BJP has not yet mastered.

In Kerala, Andhra Pradesh and Tamil Nadu (with 72m inhabitants, the south's most populous state), the BJP won not a single parliamentary seat. Voters in Tamil Nadu even punished its local ally, the AIADMK. In Telangana, recently hived off from Andhra Pradesh, the BJP won only four seats, just one more than its national rival, the Congress party. Only in Karnataka, where the BJP has long sought to build a base, did the party manage a decent showing. That was thanks partly to north Indian migrants to the tech hub of Bangalore; partly because of a loyal following in northern Karnataka among Lingayats, a large Hindu sect; and partly out of voters' disillusionment with the parties in power at the state level, to which the BJP provides the main opposition. In all, south India claims 130 seats in parliament. The BJP won just 29 of them.

The south, and perhaps Tamil Nadu above all, remains another country. Its distinctive history feeds a sense of exceptionalism. The local Dravidians, as opposed to the "Aryan" people of north India, are both proud of their ancient history and consider themselves to have been deprecated by India's largely northern nation-builders.

Distinctions live on. In the north, Muslims suspected of killing cows get lynched. In the south, beef is widely eaten and when the Supreme Court banned *jallikattu*, a Tamil form of bull-baiting, hundreds of thousands turned out in protest. The south has long been readier than the north to agitate against the strictures of caste. Southerners are more relaxed about religion: Banyan's driver in Chennai patronised various Hindu temples but went to church too. The most religiously strident are as likely to be atheists. Nearly every town in Tamil Nadu boasts a statue of the great social reformer E.V. Ramasamy, or Periyar. He used to burn images of the Hindu god Rama, at whose supposed birthplace the BJP wants to build a temple.

Greater prosperity than the north reinforces southern exceptionalism. But above all, the exceptionalism coalesces around language. A Tamil political identity was forged as far back as 1937, during the first agitations, led by Periyar, against the compulsory teaching of Hindi. Renewed language protests in 1965, when students set fire to themselves, paved the way for the DMK, a spin-off of Periyar's movement, to win state power.

Since then, power has alternated between it and the AIADMK, another splinter. Given the significance of language, no wonder titans of the Tamil film industry long dominated the state's politics, a saga just as melodramatic as those screened in cinemas. Muthuvel Karunanidhi, a screenwriter, poet and wearer of colossal sunglasses, died only last year, at the age of 94. He managed to outlast his arch-enemy, Jayalalithaa, who now rests next to him on Chennai's Marina beach. (She liked to say that she was the only one who could slay Mr Modi.) Today, at least three younger Tamil film stars fancy their chances as successors. But, as A.R. Venkatachalapathy of the Madras Institute of Development Studies puts it, if a Bollywood star were to walk down a street in Chennai, he wouldn't get a second glance.

Can the south remain immune to Mr Modi's northern nationalism, embodied in the slogan "Hindi-Hindu-Hindustan"? Pranav Kuttaiah of the Centre for Policy Research in New Delhi argues that, in the face of the BJP's ideological onslaught, the identities of many south Indians are hardening around their state and its principal language—Tamil in Tamil Nadu, Malayalam in Kerala, Kannada in Karnataka. In other words, the BJP's identitarian politics are spawning imitators across the south. That does not do much to advance the respect for diversity which Dravidians used to advocate in response to northern chauvinism.

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**Swine on the line****African swine fever spreads to South-East Asia**

It will be just as hard to stop there as it has been in China



Jun 20th 2019 | SINGAPORE

THERE ARE few dishes that a typical Filipino, Thai or Vietnamese would not consider improved by the addition of pork. What better to stuff a squid with, or garnish a bowl of steaming noodles, or simply spit-roast and scoff? No wonder, then, that South-East Asia is home to more than 83m pigs. But the outbreak of African swine fever that has swept through China in recent months is now spreading across the region. Its governments are likely to find it no easier than China's to contain the disease, which is harmless to humans but typically fatal to pigs.

Swine fever first crossed the border from China into Vietnam in February. It has gradually worked its way south, and in April spread to Cambodia (see map). Thailand fears it is next. In fact, the disease could already be there or elsewhere: experts worry that monitoring and reporting are patchy.



Pigs catch the disease from each other, from contaminated surfaces, from ticks and from food (slop containing infected pork or pig's blood). There is also a risk that farmed pigs may be infected by wild ones, and vice versa. Those transporting not just live pigs, but also pork, across borders risk introducing swine fever to new areas. Meanwhile, pork prices have jumped more than 40% compared with a year ago and analysts expect overall inflation to rise in Vietnam and Cambodia as a result.

Culling swine is one of the main ways officials hope to curb the disease. Vietnam has slaughtered 2.5m pigs, twice as many as China. Bans on the import of pigs and pork are another tactic. But many of the region's pig farms are tiny, as in China. Their owners cannot afford to erect special fencing or buy commercial feed. The temptation, if they suspect their pigs are infected, is to kill or sell them quickly and quietly, to save themselves from financial ruin. Although the Vietnamese government compensates farmers who report sick pigs that are subsequently culled, the fear of slow or low payments can still put farmers off.

Fortunately, international co-ordination, especially between governments and companies in South-East Asia's pork industry, has been impressive, says Wantanee Kalpravidh of the Food and Agriculture Organisation, a UN agency. She lauds a scheme to send Thai pork to Cambodia to meet demand at affordable prices—on carefully cleaned and monitored vehicles—to discourage the smuggling of possibly contaminated meat from Vietnam. Somkuan Choowatanapakorn of Charoen Pokphand Foods, a big Thai agribusiness that handles lots of pork, says the company has “taken steps already” to train farmers to recognise and respond to the disease's symptoms. He adds that contingency plans for an outbreak are also in place.

Despite such efforts, the scale of the porcine plague in China means that South-East Asia will probably struggle with it for as long as its neighbour does. A working vaccine is still a long way off. It is hard to see what can save the region's bacon. ■

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**A sticky wicket****For India and Pakistan, cricket is war by other means**

And Pakistan is losing



Jun 22nd 2019 | DELHI

IT IS HARD to imagine a more stressful job than Sarfaraz Ahmed's. As captain of Pakistan's national cricket team, he must brave bruising encounters with India, a far bigger country that happens to be just as mad about the sport, and a bitter rival off the pitch, too. The team leader must also weather Pakistani fans, who at the drop of a catch or fall of a wicket can shower love or dump torrential scorn with equal gusto.

These days the job is harder than ever. This is not only because the four-yearly World Cup is under way, featuring ten national teams. Nor is it just because tensions with India have been riding especially high since February, when a terrorist bombing in Indian-held Kashmir sparked a tit-for-tat military escalation with Pakistan that brought the neighbours to the brink of nuclear war. In recent times Indian cricket, much like the Indian economy, has inexorably pulled ahead of the Pakistani game, propelled by higher revenues, hugely fatter salaries, more professional management and keener promotion of young talent.

The pressure on Team Pakistan has in fact been mounting for years. The last—and only—time it won the World Cup was in 1992. The national captain then, and consequent national hero, is now Pakistan's prime minister, Imran Khan. This sets a rather high bar for Mr Ahmed. To make things worse for the Pakistani captain, on the fateful morning of June 16th, shortly before his team faced off against India, Mr Khan tweeted some advice. Should Pakistan win the coin toss at the start of the match, he insisted, it should definitely choose to bat first.

Mr Ahmed ignored the advice, only to watch India effortlessly crush his team. But the shock of ending 89 runs behind, and being left ninth out of ten in the tournament ranking, turned out to be merely the opening act in a long humiliation. Enraged by footage of the unfortunate captain failing to stifle a yawn during the match, and by rumours that his team had been gorging on fast food instead of training like the athletic Indians, Pakistan fans



have heaped opprobrium on Mr Ahmed.

“When I die I want Sarfaraz to lower me into the grave so he can let me down one more time,” wailed one tweet, to which came a tart response: “But he might drop you.” On Facebook, Pakistanis shared videos that contrasted scenes of the India captain, Virat Kohli, lifting ponderously huge weights, against a cheap television advertisement where Mr Ahmed appeared, dancing to a jingle promoting a chocolate-covered betel concoction.

Needless to say, Indians enjoyed a fanfare of gloating. This subsided with unusual speed, however, as cricket fans took instead to sharing the self-deprecatory jokes coming over the border. But if ordinary Indians proved ready to concede that Pakistanis might be good chaps after all, politicians were not so generous. The pointed congratulations tweeted by Amit Shah, India’s new home minister, equated India’s win to its air force’s bombing of an alleged terrorist training camp in Pakistan in February: “Another strike on Pakistan by Team India and the result is the same.” A spokesman for Pakistan’s army, Asif Ghafoor, responded with equal humourlessness. India may excel at cricket, he conceded, but in the recent military exchange had missed its target, failed to stop a Pakistani counterstrike, destroyed one of its own helicopters by mistake and seen one of its own pilots shot down and captured. Howzat! ■

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**Blood and soil****Filipino farmers are fighting—and dying—for land to till**

Decades of half-hearted redistribution have not brought peace to the island of Negros



Jun 22nd 2019 | BACOLOD, NEGROS OCCIDENTAL

THE MAN brushes away tears. He survived a massacre of nine sugarcane workers in October, he explains, simply because he had popped away to charge his mobile phone. The victims were part of a larger band of labourers who, fed up with endless legal wrangling over the redistribution of land from a plantation called Hacienda Nene, decided one day to start cultivating part of it. The murders took place that very night. The authorities say they suspect communist insurgents, implying they killed their own to generate sympathy for their cause. The survivor scoffs at this, arguing that it is landowners who benefit from the intimidation of the landless. “The irony is that the people feed those who kill them,” he remarks bitterly.

Since 2016, according to the National Federation of Sugar Workers (NFSW), an activist group, 69 agricultural labourers have been murdered on Negros, an island where around 300,000 workers produce about half of the Philippines’ sugarcane. Workers are supposed to earn around 300 pesos (\$5.75) a day. In practice, activists say, they often receive 100 pesos or less. And from planting in April until the harvest in August—the *tiempo muerto* or dead time—they often earn nothing at all. Redistribution of land from big estates to landless peasants should provide a way out of this penury. Indeed, the constitution enshrines the just distribution of farmland as a fundamental goal of the state. Yet progress is slow and agitation for more vigorous reform often deadly.

Under the Comprehensive Agrarian Reform Programme, adopted in 1988, tenant farmers and landless agricultural labourers were entitled to apply to the government for land of their own. The land was to come from acquisitions—forcible if need be—from the owners of big estates, who were supposed to keep only five hectares of land, plus three more for each heir. Between 1987 and 2016 the government spent 286bn pesos on the programme. It distributed 4.8m hectares of land to 2.8m beneficiaries. Although the programme was supposed to end in 2016, the government is still working on a big backlog of cases, with some 600,000 hectares

still to be parcelled out, much of it on Negros.

President Rodrigo Duterte, who came to power three years ago, promised faster action. Initially he picked an agricultural activist to head the Department of Agrarian Reform, delighting poor farmers. But a congressional committee full of landowners blocked the appointment.

The problem is partly administrative. Myriad government agencies and departments have struggled to work together to determine who should receive land and what it is worth. Records are patchy and landowners—naturally—resistant. Loopholes abound which allow the rich to keep their land. They are exempt, for example, if they can claim to be using their land for aquaculture, ecotourism or keeping livestock, according to Rolando Rillo of the NFSW. Another loophole involves using agricultural land for construction projects—a process Mr Duterte has said he wants to make easier.

Moreover, even when redistribution goes ahead, beneficiaries can struggle. It can be hard to earn a living from just a single hectare of sugarcane—the size of plot many farmers on Negros have received. Some cannot afford inputs such as seed and fertiliser, let alone install irrigation systems. Successive governments have not kept promises to provide money and technical support. The NFSW estimates that 70% of redistributed land from sugarcane plantations on Negros has been leased back to the original owner.

Nonetheless, land reform has done some good. A study from 2015 found that households that had benefited from redistribution had higher incomes. In 2009 the World Bank found “some significantly positive welfare impacts on its beneficiaries”.

Other counter-poverty schemes, however, are more effective. When it comes to improving the wellbeing of the rural poor, “conditional cash transfers blow all other programmes away,” says Roehlano Briones of the Philippine Institute for Development Studies. And land reforms seem to foment conflict. The authorities contend that the activists who campaign for it are closet communists who recruit farmers to the New People’s Army (NPA), a 50-year-old insurgent group which America labels as terrorist. One activist admits: “There’s some crossover.” There are perhaps 300-400 NPA guerrillas on Negros, ranged against some 2,000 soldiers.

The president has started a campaign to pacify the island. “It’s much, much worse under Duterte,” says the former head of a farming co-operative near the town of Toboso, describing a recent spate of night raids by soldiers on his hamlet. On-again-off-again peace talks with NPA leaders have not stemmed the fighting.

Through locked gates in Bacolod, the biggest city on Negros, an activist says that he and his family have talked about how likely he is to be killed. He expresses optimism, however, that whenever his murder comes, it will at least serve to inspire other campaigners. ■

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# China

## [Unrest in Hong Kong: Carrie on, for now](#)

A policy U-turn puts Hong Kong's leader in a precarious position.

## [Chaguan: America, as seen from Beijing](#)

A fly-on-the-wall account of what China tells American bigwigs.

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Carrie on, for now

## A policy U-turn puts Hong Kong's leader in a precarious position

Massive protests in the territory have been a setback for China's leaders, too



Jun 20th 2019

JUST AS HONG KONG was digesting the impact of what may well have been its biggest street protest since China took over the territory in 1997, another far bigger one happened. Organisers said 1.9m people joined the second of these demonstrations—a turnout that was all the more remarkable given that the government, less than a day earlier, had made a humiliating U-turn to placate the protesters. Critics of the Communist Party's tightening grip on Hong Kong feel they have gained a rare advantage. The leadership in Beijing has suffered an embarrassing blow.

Hong Kong's embattled chief executive, Carrie Lam, says she will give up—at least until next year—her efforts to secure the passage of legislation that triggered the unrest: a bill to allow criminal suspects to be extradited to the Chinese mainland. But the scale of the second massive protest, on June 16th, showed that many Hong Kongers deeply distrust both her and the regime that pulls her strings.

There will be more unrest. As *The Economist* went to press, a deadline passed for the government to respond to demands made by student unions. They had asked Mrs Lam to scrap the bill and make it clearer that a smaller protest on June 12th that escalated into violence, with police firing tear gas and rubber bullets, was not, as the police called it, a riot. They had also insisted that charges be dropped against those arrested during the confrontation. The students had threatened to march to the government's offices on June 21st if their demands were not met. That protest now looks likely. The group behind the bigger demonstrations, the Civil Human Rights Front, has called for another large one on July 1st, the anniversary of China's resumption of sovereignty over Hong Kong.

This is the most sustained outbreak of unrest in Hong Kong since the "Umbrella Movement" of 2014, when

protesters staged weeks of sit-ins to push for free and fair elections for the post of chief executive. The government made no concessions that time because China's leaders fear that allowing full democracy in Hong Kong might weaken their grip on the territory. On this occasion Hong Kong's officials are prepared to retreat, at least partially, because the extradition bill is not so vital to the Communist Party's interests. At a press conference on June 18th Mrs Lam offered what she called a "most sincere apology" to Hong Kongers, who, she acknowledged, had expressed their concerns about the proposed law in a "peaceful and rational manner" during the two largest protests. On the next day the government delayed the passage of a controversial bill that would punish people for deliberately insulting China's national anthem.

Central-government officials insist they did not ask Hong Kong's government to draft the extradition bill. Mrs Lam concurs, and says the need for it became urgent only as a result of a murder case in Taiwan. A man wanted for that crime is in prison in Hong Kong for money-laundering and could be released in October. Officials in Hong Kong worry he will go free unless they can revise the territory's current law, which does not allow suspects to be sent to other parts of China. Hong Kong treats Taiwan as if it were Chinese territory.

But it is likely that Mrs Lam knew that China's leaders would be keen on her proposed amendment bill. They worry about the use of Hong Kong as a refuge by people wanted for crimes on the mainland. Since he took over as China's leader in 2012, Xi Jinping has been battling corruption. This has involved trying to secure the return of suspects from other jurisdictions—an operation China calls "Fox Hunt". Agents have been sent undercover to press suspects to go back to China. The fight against corruption often relates to political struggles. Although the proposed bill does not cover political crimes, Hong Kongers fear that people sought for extradition under the proposed law might include people who have offended the party politically.

The party also cares about face. The reason why current legislation bars the sending of suspects to other parts of China is that Hong Kong's colonial government drafted it that way to protect people from China's arbitrary use of law. In recent weeks the party's supporters in Hong Kong have been infuriated by allegations that China's legal system is untrustworthy. It is possible that Mrs Lam introduced the bill earlier this year on the advice of her secretary for security, John Lee, says Johannes Chan of the University of Hong Kong. Mr Lee may have thought the case in Taiwan offered a chance to please the party by revising a legal anomaly, Mr Chan speculates.

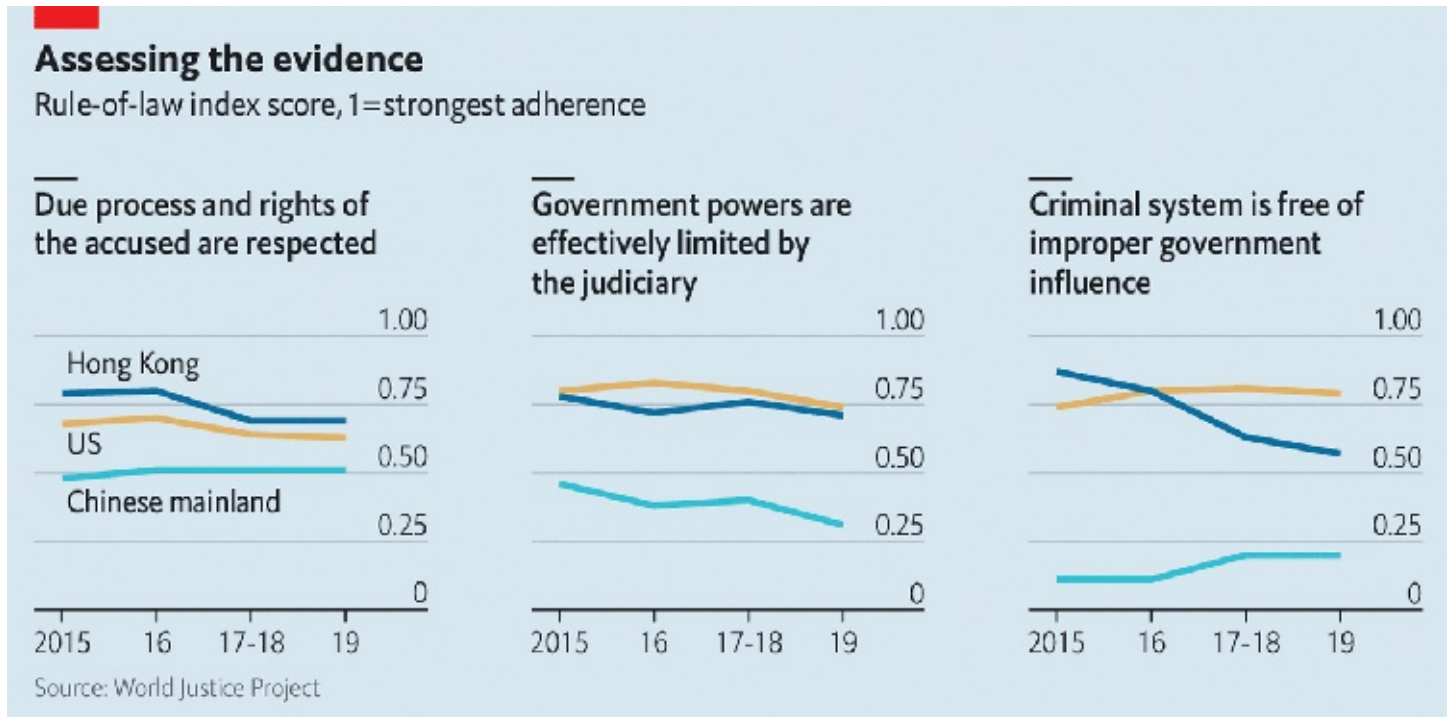
Central government representatives strongly backed the bill after it was introduced. They lobbied legislators to support it. They even invited foreign journalists in Hong Kong to tea to suggest they "inject positivity" into their coverage of it. But they are likely to be relieved by Mrs Lam's willingness to take the blame for the crisis that has ensued. This year is one of huge symbolic importance for the party; it took over exactly 70 years ago. China's leaders would not want the build-up to the anniversary on October 1st to be marred by unrest blamed on their own misjudgment.

The party has continued to express support for Mrs Lam. At her news conference on June 18th she deflected repeated questions about whether she would step down, as protesters have demanded. It is possible that the party has not identified someone who it believes would do a better job than Mrs Lam, who has three more years to serve of her five-year term.

If the party wants her to go, it may wait until her term ends, and then insist that she not stand again. To change Hong Kong's leader now would be risky. It would re-open questions about how Hong Kong's leaders are chosen. Public anger over the process, which is conducted by a committee dominated by party loyalists in Hong Kong, sparked the Umbrella Movement.

Nonetheless, Mrs Lam will remain under considerable political pressure. The campaign to scrap the extradition bill has involved not only the party's usual critics, but also businessmen who do not normally defy the establishment. Concerns expressed by the latter have often focused on a part of the proposed legislation that would allow the freezing or seizure of assets in Hong Kong in connection with crimes allegedly committed on the Chinese mainland. The American Chamber of Commerce expressed "serious" reservations about the bill. It said Hong Kong could lose its appeal as a base of operations for foreign companies if businessfolk living in the

city, or passing through it, had to fret about arrest and rendition to the mainland. The chamber also worried about the abuse of the mainland's courts by local firms seeking to settle commercial scores with foreign rivals.



The Economist

Hong Kong's government did not ignore these worries. It removed nine, largely financial, crimes from the bill and raised the threshold for an offence to seven years. But what it could not excise was the less tangible fear that Hong Kong's rule of law (currently in decent shape, see chart) was being eroded and its judicial independence put at risk. The chances of a foreign businessman being surrendered to the mainland might be remote. But "the perception is enough," says one longtime resident. As the bill was debated, some tycoons reportedly began withdrawing their money from the city and moving it elsewhere.

Mrs Lam also faces a backlash from politicians in Hong Kong who are loyal to the party. They had been dutifully trying to drum up support for the bill when Mrs Lam, to the surprise of many observers, announced her u-turn on June 15th. Now they face retribution from voters in District Council elections in November and polls for the Legislative Council in September 2020. Many questions are being asked about why it took Mrs Lam so long to announce her change of heart. She said one reason for it was that Taiwan would not accept the extradition of the murder suspect under the terms of the proposed law. That had been known for months.

The scale of the recent unrest, and the political blow that Mrs Lam has suffered because of it, will complicate the party's strategy in Hong Kong. It had been hoping that the territory would pass an anti-sedition bill, as required by the territory's post-colonial constitution, the Basic Law. Efforts to do so in 2003 triggered a protest by hundreds of thousands of people, prompting the government to withdraw it and leading to the eventual resignation of the then chief executive, Tung Chee-hwa.



The party's interest in reviving the bill grew after the Umbrella Movement because of the support that campaign fuelled for "localists" calling for much greater autonomy for the territory. Officials in Beijing saw this as nascent separatism, and hoped that an anti-sedition law would help to curb the tendency. It is now evident that any attempt to revive such a bill could trigger more massive demonstrations.

The party's frustrations are evident. Newspapers it controls in Hong Kong are full of conspiracy theories about alleged efforts by America to foment unrest in the territory as part of a cold-war strategy to "contain" China. The party will not be pleased that Joshua Wong, a 22-year-old activist who was a prominent leader of the Umbrella Movement, was freed from jail on June 17th after serving half of a two-month sentence for contempt of court. Mr Wong (pictured, holding a photo of Mrs Lam) is very popular; his return to the streets could energise protesters.

Calls for Mrs Lam to step down will persist. But there are some who see such demands as futile: her successor will be chosen by the same party-controlled method and will be of the same pro-party stripe. "That is why we need democracy," says Martin Lee, a veteran of the pro-democracy cause. "Otherwise, whoever is chief executive, they will come across the same thing again and again and again." ■

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**Chaguan****A fly-on-the-wall account of what China tells American bigwigs**

Despite the Communist Party's bluster, its officials puzzle over American politics



Jun 22nd 2019

A BIT LATE, China's leaders are starting to accept that their trade war with President Donald Trump is only one element of a larger crisis in relations with America—and not the most dangerous one. The leaders understand that their critics within America's foreign-policy and national-security machine—meaning aides to Mr Trump, members of both parties in Congress and officers in the State Department, Pentagon, spy agencies and beyond—want China to change its ways. They also believe (or hope) that Mr Trump wants something different, and perhaps less painful for them: to show voters the spectacle of China losing a trade fight with him.

China's rulers now accept that they face more than a Trump problem. They concede that bipartisan suspicion of China in America will intensify in the run-up to the elections of November 2020, and will continue afterwards, whoever wins. They absorbed that message during visits by high-ranking Americans, including Mr Trump's officials, business bosses and veterans of Republican and Democratic governments. Dismayingly, they show no sign of accepting that China's own actions are in any way to blame.

Chinese leaders believe that America's policy machine wants them to change principles that have guided China's rise for 20 years. They protest that these demands cut to the heart of China's model of development. They are not entirely wrong. Such figures as the United States Trade Representative, Robert Lighthizer, have drawn up a charge sheet of Chinese norms and practices deemed intolerable now that China is so large, and so competitive in so many fields. Mr Lighthizer has allies in Congress, from both parties. They want China to abandon its model of state capitalism, with its subsidies for local champions, arm-twisting transfers of technology, curbs on market access and politicised regulation. Mr Lighthizer has proposed enforcement and verification mechanisms that Chinese figures indignantly compare to the inspections that underpinned cold-war arms-control agreements. No Chinese leader, it is said, could accept such a humiliation—any more than they

will tolerate American moves to strangle Huawei, a telecommunications giant that is central to China's plans to become a standard-setting tech superpower.

There is much Chinese grumbling about security hawks working for Mr Trump, from his national security adviser, John Bolton, to military commanders. The hawks are accused of breaking understandings about support for Taiwan, the democratic island that China claims as its own. The Chinese side thinks that Mr Trump was bullied by hawks into walking out on North Korea's leader, Kim Jong Un, at their summit in Hanoi in February. It is no accident that China's president, Xi Jinping, decided to pay a state visit to North Korea, shortly before attending a G20 summit in Japan which Mr Trump will also join. Chinese officials gasped when Mr Trump threatened to slap extra tariffs on China if Mr Xi did not agree to meet him on the G20's sidelines. Japan's prime minister might swallow an American insult like that, growl Chinese sources, but not us. By visiting Pyongyang first (he arrived on June 20th), Mr Xi reminded Mr Trump that China's leader is an indispensable diplomatic actor, not a junior partner in a trade dispute.

Chinese policy types obsess over the idea that Team Trump is not engaged in a sincere negotiation, but is seeking to contain a rising China. They complain about shifting American demands. At first China was told that the problem was the trade balance, and offered to buy American goods. Then economic rules and norms were called the crux of the dispute. So China prepared to negotiate, drawing up a 150-page draft agreement. Then, as the Chinese side tells it, Mr Xi realised that America's plan amounted to an assault on Chinese sovereignty, rejected it and has since been cheered within his own system for his stand. There is muttering, in contrast, about Mr Xi's chief economic aide and trade envoy, Liu He. Mr Liu, a deputy prime minister, is accused of lacking political sense.

Mr Trump is not a leader in thrall to principles. That is why the Chinese side hopes, in essence, that he could accept a trade deal which breaks Mr Lighthizer's heart, and a North Korean pact that leaves Mr Bolton miserable, as long as those deals bring him applause from voters. Mr Xi, it is said, believes that Mr Trump does not want to decouple America's economy from China's—except in the production of some sensitive technology. But Mr Xi does worry that America's president could be hijacked by hardline advisers. If no reasonable deal can be struck, Chinese hosts tell Americans, Mr Xi will wait for the election in November 2020 to produce a different president. They express confidence that relief will come sooner, because Mr Trump needs votes from farm states hurt by the tariff wars, and is desperate to keep the stockmarket roaring.

#### **Imperialists never change**

Doubts lurk amid the bluster. In public Chinese officials say that Mr Trump needs a deal to win in 2020. In private they ask whether, perhaps, American voters might prefer to see him fight on. They admit to bafflement over some of Mr Trump's sallies, such as when he told Fox News that he could not accept a "50-50 deal" with China, but had to come out ahead. To Chinese ears, that was fantastically unhelpful. It recalled the "unequal treaties" imposed by 19th-century powers which every Chinese schoolchild is taught to hate. Mr Trump has said that he will not let China become the world's largest economy in his lifetime. Does he mean these things, Chinese hosts ask, or is this all domestic politics?

Doubts have consequences. To prepare Chinese public opinion for a long trade stand-off, propaganda chiefs have abandoned months of restraint and told state media to start thundering about American bullying. Stoking nationalism is a familiar Chinese ploy. But it has real-world effects, too. As China reduces its own room for manoeuvre, it risks forcing Mr Trump to concede ground to China to secure a deal. Meanwhile his chaotic style is straining China's system to its limits. The mood in Beijing is anxious, with reason. ■

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## Middle East and Africa

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**Playing with fire****Backed into a corner, Iran is lashing out**

To what end?



Jun 22nd 2019

FOR A MOMENT it seemed as if America and Iran were stepping back from the brink. A month ago the two countries were close to conflict, as Iran threatened to shrug off a deal, signed with six world powers, that limited its nuclear programme in return for economic relief. America had blocked that relief and was sending warships to the region. But Japan's prime minister, Shinzo Abe, went to Tehran on June 12th with a proposal for talks that appeared to have the approval of President Donald Trump. Mr Abe told Iran's supreme leader, Ayatollah Ali Khamenei, that Mr Trump wanted a new deal, not regime change. "Iran has no trust in America," said Mr Khamenei, rejecting the offer.

So back to the brink they went. While Mr Abe was still in Tehran, two tankers (one operated by a Japanese company) came under attack in the Strait of Hormuz, an important choke point for international shipping. America blamed Iran, which denied responsibility. Iran then declared, again, that it would soon abrogate parts of the nuclear deal by exceeding limits on its stockpile of nuclear fuel and, perhaps, enriching uranium to levels closer to those of a bomb. In response, America sent 1,000 more troops to the region. On June 20th Iran's Revolutionary Guard Corps shot down an American military drone.

**Spoiling for a fight**

Iran's leaders appear to have ditched their "strategic patience" as they wait for Mr Trump's term to end. Iranian drones and missiles, fired by its proxies in Yemen and Iraq, have struck pipelines and airports in Saudi Arabia, an Iranian rival, and American bases in Iraq. (Last month America pulled all "non-essential" staff from Iraq.) Iran has also threatened to unleash a tide of refugees and drugs on Europe by relaxing security on its Afghan border. The Guards, who answer to Mr Khamenei—not the elected president, Hassan Rouhani—are

increasingly calling the shots. “We’ve never seen Iran so aggressive,” says an unusually nervous Emirati official.

The show of strength by Iran smacks of desperation. Mr Trump pulled America out of the nuclear deal last year and has since tried to undermine it by threatening sanctions on any country that buys Iranian oil. This month he imposed fresh restrictions on Iranian petrochemicals. The administration is also trying to block all of Iran’s efforts to enrich uranium, even to levels allowed under the deal. Meanwhile, the Europe Union’s effort to keep Iran in the deal by creating a mechanism that allows European firms to bypass American sanctions has fizzled. Few businesses want to trade with Iran if it costs them access to America’s market.

The impact has been devastating. In the 2018-19 fiscal year Iran’s GDP shrunk by 4.9% compared with the year before, says the government. Industrial production has fallen almost as sharply as that of oil. Food prices have tripled and supplies of medicine are diminishing. Gloating rivals in the Gulf have readily met the shortfall left by Iran’s dwindling exports of oil.

Iran wants to show that Mr Trump’s actions have costs for others, too. Officials in Tehran have repeatedly said that if Iran is not allowed to export oil, then no oil will pass through the Gulf. The attacks on commercial shipping in the Strait of Hormuz, through which one-fifth of the world’s oil supply passes, sent the price of the black stuff (and shipping insurance) upwards. Attacks by Iranian proxies threaten to disrupt the economies of Saudi Arabia and the United Arab Emirates. “Iran’s leaders are showing that they have the potential to be crazier than America,” says Vali Nasr, an Iranian-American academic.

But a growing and increasingly truculent segment of Iran’s population doubts the standoff is worth it. Most Iranians dislike Mr Trump. Nevertheless, if shaking his hand would get him to relieve the pressure, they wish their leaders would do it. “We need to negotiate to survive,” pleads a housewife who haggles for bargains in Tehran’s bazaar.

Delegations of Swiss, Germans, Omanis, Qataris, Iraqis and Russians have come and gone from Tehran, failing to stop the cycle of escalation. America, says Mr Khamenei, must lift its sanctions before talks can take place. He rejects Mr Trump’s demand for a permanent halt to Iran’s nuclear programme and an end to Iran’s funding of proxies in the region. Instead of the flashy summit the president craves, Mr Khamenei prefers that any meetings occur in private.

The Pentagon and the Guards are still talking behind the scenes. On June 11th Iran released a Lebanese citizen charged with espionage who had lived in America for much of his life. Some interpreted it as a gesture by Iran’s hardliners aimed at easing tensions and improving ties. For now it appears not to have worked. ■

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**The height of flattery****Trump Heights, Binyamin Netanyahu's tribute to America's president**

The town, named after Donald Trump, has no buildings, budget or plan



Jun 22nd 2019 | JERUSALEM

IF THE PAST is any guide, there is nothing Donald Trump likes more than seeing his name in big gold letters on a real-estate project. Predictably, then, America's president was pleased when Israel's prime minister, Binyamin Netanyahu, unveiled the gilded sign for Trump Heights (pictured) on June 16th. The supposedly new town in the Golan Heights is named in honour of Mr Trump. It has no plan or budget.

Mr Netanyahu wanted to thank Mr Trump for recognising Israel's sovereignty over the Golan Heights, which it captured from Syria in the six-day war of 1967. No other country accepts Israel's claim to the territory. But the Trump administration said Israel needed the land to protect itself from Syria and the Iranian-backed forces inside the country. The timing of the decision, two weeks before Israel's election in April, also seemed aimed at boosting the campaign of Mr Netanyahu, whom Mr Trump considers an ally.

Many foreign leaders have realised that Mr Trump enjoys vacuous flattery. But even by the standards of the past two-and-a-half years, the inauguration of Trump Heights is a particularly empty gesture. Not only is it an illegal settlement under international law, it isn't even a new one. An Israeli village called Brukhim was established on the land in 1991, but did not attract many residents. Since Mr Netanyahu failed to form a government after the election in April, he leads on an interim basis—without the legal authority to allocate land or money for Trump Heights. The project has no timetable. About all the government can do is erect a fancy sign.

On June 25th the Trump administration is expected to present elements of a long-delayed peace plan for Israel and the Palestinians at a conference in Bahrain. Ever since he was elected, Mr Trump has promised to deliver "the ultimate deal". But the Palestinians have shunned him since he recognised the disputed city of Jerusalem as Israel's capital in 2017. They will not attend the conference. Nor will Israeli officials, whom the Americans did

not invite, perhaps to lower expectations. Saudi and Emirati leaders may show up, no doubt to praise both the plan and Mr Trump.

An American official admits that the entire peace plan will probably not be unveiled until after Israel's election in September. Another official says it will probably wait for Mr Trump's second term—assuming he wins one. If not, the developers of Trump Heights might consider investing in a new sign.

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## An epilogue for the revolution

### Muhammad Morsi, Egypt's only democratic ruler, dies in court

His death is a footnote in a country that has slid back into dictatorship



Jun 20th 2019

THE CASES against Muhammad Morsi, now in their sixth year, long ago took on the air of a Kafka novel. Every few weeks Egypt's only democratically elected president, deposed in a coup in 2013, would appear in court to answer one charge or another. He was accused of espionage and torture, and of stealing livestock. Most people lost interest, but the wheels of Egyptian justice ground on. And then, abruptly, they stopped. On June 17th state television reported that Mr Morsi (pictured on next page) had died of a heart attack during a court session. He was 67.

Born in the Nile Delta, Mr Morsi trained as an engineer and finished his PhD in America. He returned to Egypt in 1985 and took up a university post in Sharqia governorate, where he had grown up. For the next 15 years he was an academic and a high-climbing member of the Muslim Brotherhood, the Islamist group that was then banned but tolerated by Hosni Mubarak's government. In 2000 he was elected to parliament, as an independent, since the Brotherhood was not allowed to field candidates. He served only one term.

This was an unlikely CV for the man who would emerge as Egypt's president after Mr Mubarak was toppled in the Arab spring of 2011. Indeed, Mr Morsi was not even the Brotherhood's first choice. The group wanted to run its deputy leader, Khairat al-Shater, a wealthy and well-known businessman. But the army decided that a recent prison term made him ineligible to compete. Mr Morsi was a compromise—uncharismatic, perhaps, but a trusted member of the group. He was nicknamed the “spare tyre”.

Egyptian liberals, who split their vote during the election's first round, did not share Mr Morsi's Islamist politics, but he seemed the democratic choice, a break from the old regime. Many held their noses and voted for him in the run-off against Ahmed Shafiq, Mr Mubarak's last prime minister, in June 2012. After his victory, Mr Morsi's first act was to address a crowd in Tahrir Square, the heart of the revolution. There he awkwardly unbuttoned his jacket to show he was not wearing a bulletproof vest—a man-of-the-people gesture that he

hoped would endear him to the nation.

The goodwill was short-lived. Mr Morsi and his allies never got a grip on Egypt's fractious state. The army undermined him, while the intelligence services worked to bring him down. The Mubarak-era courts became a frequent source of opposition: judges dissolved parliament, in which the Brotherhood held a plurality, and repeatedly blocked Mr Morsi's efforts to schedule a new election. In November 2012 the president issued a decree that shielded his decisions from judicial review. Anti-Morsi protesters who surrounded his palace were soon attacked by Brotherhood supporters.

His edict, and the violence that followed, caused a lasting rupture with the revolutionaries who helped put Mr Morsi in office. When the army removed him in July 2013—led by his hand-picked defence minister, Abdel-Fattah al-Sisi—many were happy to see him go. Even the killing of hundreds of pro-Morsi protesters the following month, a massacre unprecedented in Egypt's modern history, drew only muted public criticism.

The Brotherhood is again banned, and now not even tolerated. Once a strict hierarchy, it is no longer a coherent group, its leaders locked in heaving jails or exiled to Doha, Istanbul or Europe. Nor is there any other source of opposition. In April Egyptians approved constitutional amendments that let Mr Sisi (now president) rule until 2030. An engineer named Ahmed Badawi held a one-man protest on a Cairo street. He was swiftly arrested.

Mr Sisi's foes hoped that Mr Morsi's death would provide a rallying point. That was wishful thinking. The public is tired of unrest. There are few political figures with the standing to lead protests, or Egyptians willing to risk the consequences of joining. Still, the government took no chances. It did not allow Mr Morsi's family to bury him in their home village, lest it become a spectacle. He was interred privately in Cairo. Egyptian newspapers, which have little independence, all but ignored the news. State-run *Al-Ahram* gave it seven lines in the crime section. None referred to Mr Morsi as a former president. A presenter on CBC, a channel owned by the intelligence services, ended her report on his death with the words "sent from a Samsung device", suggesting that officials had e-mailed the script.

Three hours after Mr Morsi died, Egypt's public prosecutor published a report on his death. Unsurprisingly, it found no signs of mistreatment, and so no reason to blame the state. But Mr Morsi's family had long worried about his health. He was held in solitary confinement in Tora prison, notorious for its grim conditions. Human Rights Watch, a pressure group, alleges that the diabetic ex-president received inadequate medical care. During a court session he hinted that guards were trying to poison his food. Amr Darrag, a former minister in Mr Morsi's government, calls his death "tantamount to state-sponsored murder".

Mr Morsi's treatment contrasts sharply with that of his predecessor, a man who misruled Egypt for 30 years. Mr Mubarak too faced trial after the revolution. He was held not in Tora prison but in a military hospital in a pleasant Cairo suburb. With the cases against him dismissed, he is enjoying a peaceful retirement. The armed forces look after their own.

Mr Morsi was a poor president. But he was the only popularly elected one in Egypt's long history. It is a tragic coda for the revolution that he spent his final years rotting alone in a cell. ■

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**Never gonna let you go**

## After its 16th bail-out, Ghana hopes to put the IMF behind it

Debt is back under control, but an election is coming up



Jun 22nd 2019 | ACCRA

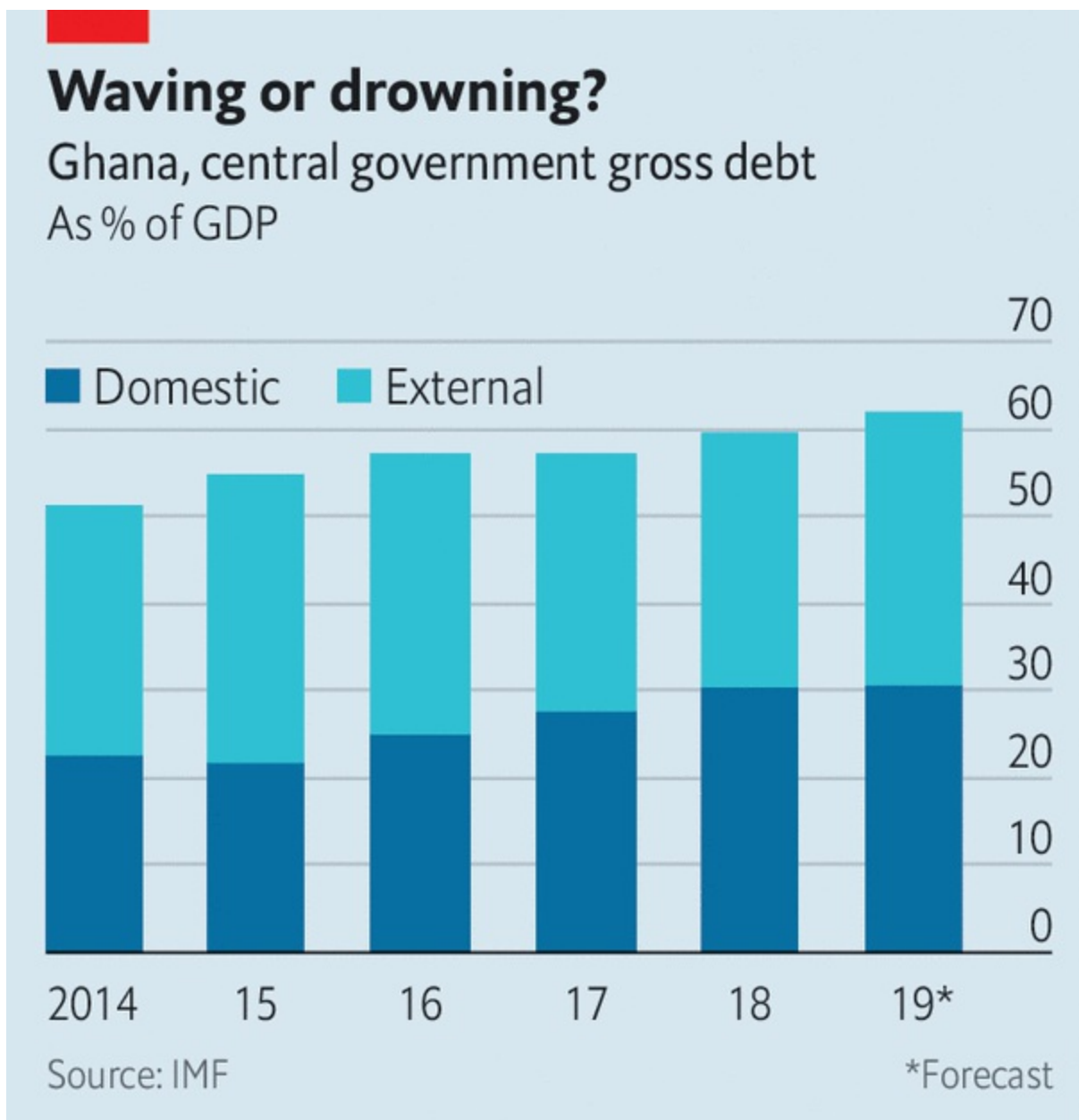
SIRENS WAILING, a black government car pushes through the traffic, past the beggars and street vendors, up a potholed road. Vehicles like these, the perks of a growing number of political appointees, are a common sight in Accra—and a source of popular outrage. Since Nana Akufo-Addo took office as president in January 2017 the number of government ministers has soared by 42% to 125, each with a car, guards and a taxpayer-funded home.

Outside Ghana Mr Akufo-Addo has been hailed as a hero. When he was sworn in, it was as if he was a passenger in a plummeting aeroplane who had just been handed the controls. His predecessor, John Mahama, had taken a high-flying economy—growth was 17% in 2011 thanks to the first production of oil from its Jubilee Field—and promptly put it into a nose-dive. Under Mr Mahama inflation soared, the economy slowed and public debt ballooned, with much of the borrowed money squandered on higher wages for public employees.

After taking the controls Mr Akufo-Addo said he would deliver “Ghana Beyond Aid”. He swiftly imposed discipline on government spending (new ministers notwithstanding). Fifty-three years after the IMF first bailed out Ghana, the 16th rescue package for the country ended in April. The fund now praises the government’s economic management. A glowing staff report said Ghana had tamed inflation (which fell back to 9% this year after reaching 17% in 2016). It also won acclaim for cleaning up rotten banks and achieving a budget surplus (before interest payments).

Yet the praise should be tempered. Some 3.1m people, or about one-tenth of the population, live on less than \$1.90 per day, the World Bank’s measure of extreme poverty. It has been a stubborn problem. Although Ghana cut its poverty rate in half in the 20 years to 2013, most of that progress occurred in the 1990s, when it fell by

almost two percentage points a year. Since 2006 progress has slowed to about one percentage point per year.



## The Economist

Many of the government's flagship investment programmes have been sunk by mismanagement. One especially embarrassing example is that of the Komenda Sugar Factory, which was built three years ago with a loan from the Indian government, and which was supposed to provide more than 7,000 jobs. Yet it is idle because it does not have any sugar cane to process. In all about one-third of infrastructure projects in Ghana are never finished.

Worse still, many were paid for with borrowed money. A rebasing of GDP last year has flattered the country's balance-sheet. Ghana's debt-to-GDP ratio, which hit 73% in 2016, looks quite tame this year at 62% (it would have been 76% under the old GDP measure).

But simply changing the estimated size of the economy does not magically bring in more tax. Interest payments still consume one-third of government revenues, which is more than it spends on education or health. Increasing the amount raised in taxes will be tough, because most of the economy is informal. The IMF notes that taxes make up a smaller share of GDP (14% in Ghana) than in most other developing countries and classifies it as being at "high risk of debt distress".

Investors are also wary and demand much higher interest rates to hold Ghana's foreign-currency bonds compared with Nigeria's or Kenya's. One reason is that they worry the government will start spending freely ahead of elections in 2020, as governments often have in the past. Gregory Smith of Renaissance Capital, a bank, points out that budget deficits were almost one percentage point of GDP higher in each of the seven election years since 1990 than in non-election years. The trend has accelerated: in 2012 and 2016 deficits ballooned by almost three percentage points of GDP.

Mr Akufo-Addo won the election in 2016 with the preposterous promise of a factory in every district. This time he might do better by breaking the old pattern of running up debts before an election, only to turn to the IMF afterwards for another bail-out. ■

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**Pay up or be pummelled****Burundi's "eternal supreme guide" enforces an "election tax"**

Ruling-party thugs can collect it as often as they want



Jun 22nd 2019 | UVIRA

GOD SHORT-CHANGED Pierre Nkurunziza, Burundi's president, when endowing people with democratic values. But someone gave him more than his share of self-confidence. Last year he christened himself the country's "Eternal Supreme Guide". He then changed the constitution so that he could stay in power until 2034. Naturally, he claims to have been appointed by God. Nonetheless, he is still keen to hold an election in 2020.

Alas, his cash-strapped government cannot afford to pay for it. After years of human-rights abuses, donors have cut off most aid. Mr Nkurunziza's solution is more abuses. In 2017 he introduced an annual election tax of 2,000 Burundian francs (\$1.09) per household. The youth wing of the ruling party has been given the task of collecting it. Known as the *Imbonerakure* ("those who see far"), their day job is to rough up dissidents. Since the new tax was introduced they have roamed neighbourhoods, armed with sticks, to collect the election tax as many times as they please. "This election tax has given these men the green light to extort money from the population all the time," says Lewis Mudge of Human Rights Watch, a pressure group.

In the past four years Burundi has sunk ever deeper into poverty. More than half of children under five are chronically malnourished. Three-quarters of Burundians live in extreme poverty, says the World Bank. People have grown poorer, on average, since 2014.

This was a sharp downward lurch for a country that had been making steady progress since the end, in 2005, of a genocidal 12-year-long civil war between Hutus and Tutsis, the two main ethnic groups. About 300,000 people are thought to have died in the conflict. The peace treaties that ended it called on the Hutus and Tutsis to share power and put checks on the authority of the president, who was limited to no more than two terms in office.

This fragile peace unravelled in 2015 when Mr Nkurunziza decided to stand for a third term. (He insisted that his first did not count because he had been appointed by parliament.) His love of office was, however, not matched by his people's love for him. Many took to the streets in protest and army officers mounted a short-lived coup. The Eternal Supreme Guide responded brutally. Human Rights Watch reckons that about 1,700 people were killed in 2015-18 by state security forces and the *Imbonerakure*. Bloated corpses were found, weighed down with stones, in Lake Tanganyika.

In 2016 the European Union, which had provided about half the government's budget, stopped handing over direct aid. It also imposed travel bans and financial sanctions on senior politicians. Yet these measures have had little effect. Mr Nkurunziza has brazenly sent foreign witnesses packing. About 30 international NGOs have left or been pushed out. In February the UN was forced to close its human-rights office in Burundi. This month the government suspended the last independent civil-rights group, Parcem, which had campaigned for better governance.

In this darkness, brutality is flourishing. Around 350,000 people have fled, some so desperate that they have gone to the eastern provinces of the Democratic Republic of Congo, which are themselves ravaged by armed militias.

One middle-aged woman in Congo says the *Imbonerakure* would arrive at her door three times a month. "They would come to the house at night and say: 'Give us the money for the election or we will kill you,'" she says. "We haven't even got enough money for school fees, how could we pay for the election?" On their last visit her husband refused to give them money, so they beat up the whole family, including her small children, before dragging him away. She has had no news of him since.

In the countryside men from the *Imbonerakure* sit at the roadside, demanding that passers-by display their election-tax receipts. Burundians are also being strong-armed into building offices for the ruling party. A young man says that the thugs accosted him one morning saying: "Pay us money or go and prepare the bricks."

Lacking a free press, Burundians anonymously post pictures of maimed bodies on a Facebook group, with comments detailing attacks by the *Imbonerakure* or police. Mr Nkurunziza apparently plans to keep a promise he made after his election victory in 2015: that his enemies "will be scattered like flour thrown in the air". ■

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**Round two****A re-election in Istanbul tests President Erdogan's power**

The opposition won, was disqualified and may win again



Jun 22nd 2019 | ISTANBUL

ON MARCH 31ST Ekrem Imamoğlu, a previously obscure opposition figure, pulled off a remarkable upset by winning the Istanbul mayoral race. Ever since, Turkey's president, Recep Tayyip Erdogan, has gone to great lengths to undo his success. Eventually, Mr Erdogan got what he wanted. Citing mistakes in the appointment of polling station officials, Turkey's election authority overturned the results, booted Mr Imamoğlu out of his office and ordered a re-run. On June 23rd the residents of Turkey's biggest city will be tramping to the polls all over again.

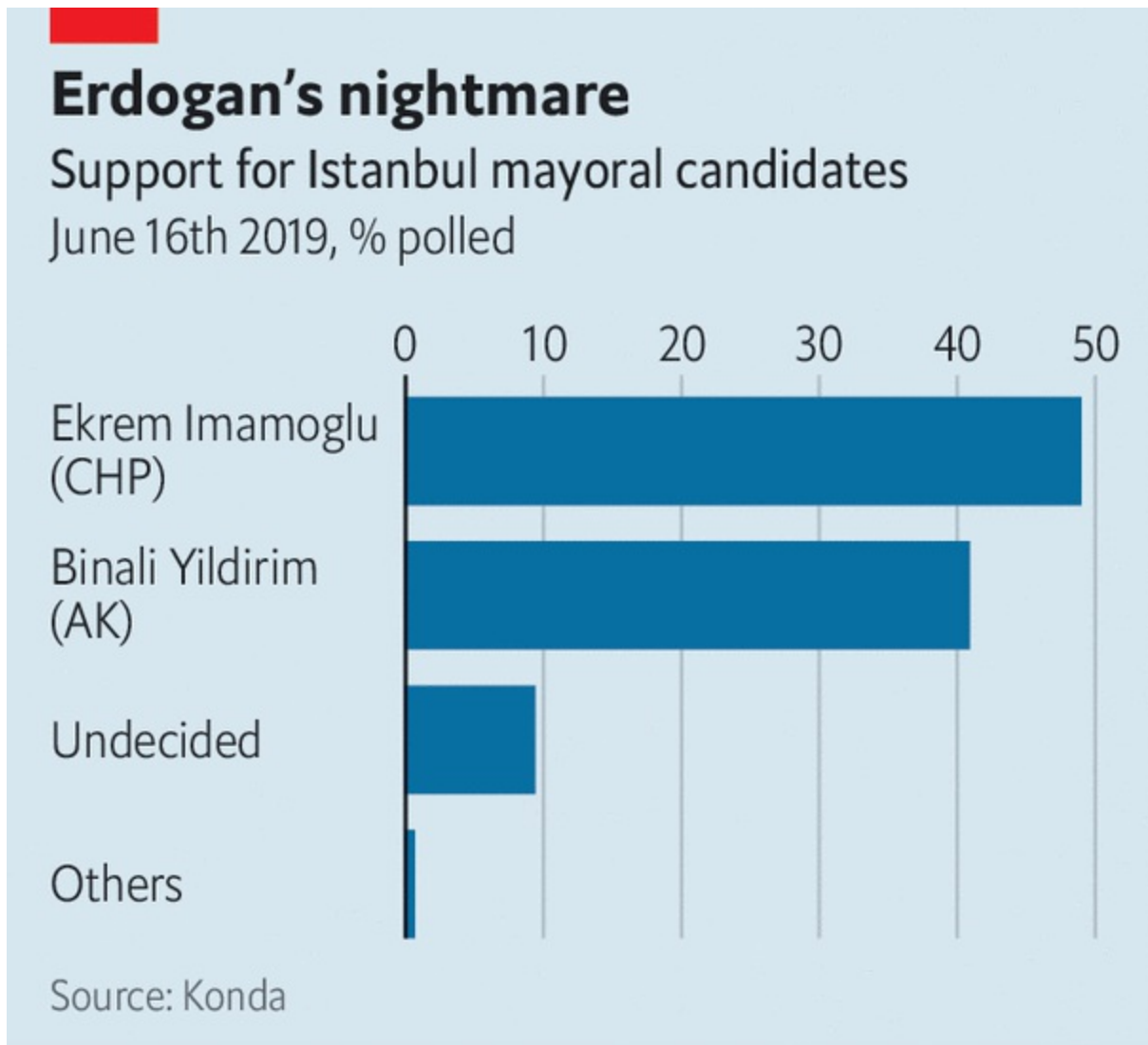
For Mr Erdogan, however, things have not gone according to plan. The indefensible decision to order a re-run has done yet more damage to the strongman's reputation abroad. It has also galvanised his opponents and disappointed even some of his own voters. Clumsy attempts by his ruling Justice and Development (AK) party to weaken Mr Imamoğlu, including suggestions that he is secretly Greek, seem to have backfired. The former district mayor has successfully campaigned as both victor and victim, picking up a head of steam in the process. Having won in March by a mere 0.2%, he has widened his lead in the polls. In a recent debate against his opponent, Binali Yildirim, a former AK prime minister, Mr Imamoğlu did not land any big punches, but still outshone his rival. Lamentably, theirs was the first televised election debate in Turkey in 17 years.

Still, Mr Imamoğlu and his Republican People's Party (CHP) can hardly sleep easy. On paper the mayoral hopeful is running against Mr Yildirim. In practice his main opponent has always been Mr Erdogan. When Mr Imamoğlu won, it was Turkey's leader who accused the opposition of stealing the vote, called for a recount and exhorted the election board to scrap the results. Ahead of the re-run, he has placed the state news agency, responsible for providing live election results, under the authority of his own communications directorate. On June 17th he suggested that Mr Imamoğlu would not become mayor unless he apologised to a local governor

with whom he quarrelled during a visit to a Black Sea province. Over the ensuing couple of days, Mr Erdogan accused his opponent of terrorist links and compared him to Egyptian dictator Abdel-Fattah al-Sisi. “On Sunday, are we going to say yes to Binali Yildirim,” he asked a crowd, “or are we going to say yes to Sisi?”

The reason why Mr Erdogan has resorted to such antics, and why some observers fear he may do so again, is that losing Istanbul today could mean losing the country tomorrow. Home to 16m people, the city is Turkey’s most important political stage, its economic centre of gravity and a key hub in Mr Erdogan’s own patronage network.

Istanbul is where political careers are made, cemented and squandered. As mayor in the 1990s, Mr Erdogan cleaned up the city, helped tackle corruption, improved public transport and earned a reputation as a hard worker. As president, he turned Istanbul into a massive construction site and a showcase for his controversial projects, including a third bridge over the Bosphorus, Turkey’s biggest mosque and a colossal new airport. Mr Erdogan now fears that the city that propelled him to high office could do the same for Mr Imamoglu. “He always says the CHP are out of touch, that they know nothing of ordinary people, that they talk, while AK delivers,” says Gonul Tol, of the Middle East Institute, a Washington think-tank. “Were Imamoglu to build a successful track record, he would shatter that image.”



## The Economist

In a few months, Mr Imamoglu has already become the face of a more open, inclusive Turkey, a far cry from Mr Erdogan’s vision of a country beset by outside enemies, including Europe and America, and divided

between patriots and traitors. Winning in March transformed him into the opposition's star. Winning in June would turn him into a presidential contender.

Istanbul, which boasts a GDP bigger than Portugal's and a budget of just over \$4bn, has also become a cash cow for companies close to the ruling party. Amid a building frenzy that has consumed the city over the past couple of decades, developers have raked in billions of dollars. Successive AK administrations have helped transform Istanbul into a rentier economy. "The rent provides profit for business", says Selva Demiralp, a Koc University academic, "and opportunities for the government to bond with the businessmen." Some of the key players in construction also run some of Turkey's biggest media groups. For Mr Erdogan, controlling them means controlling the press.

Losing the city would also spell trouble for a number of foundations that are close to Mr Erdogan and his party. According to a recent report, foundations managed by the president's children and friends, as well as a range of Islamic groups, received nearly \$100m in subsidies from the municipality between 2014 and 2018. TURGEV, whose board includes Mr Erdogan's daughter, the wife of his communications director and a former AK mayor of Istanbul, collected nearly 51.6m lira (\$8.8m). An archery club headed by one of the president's sons got 16.6m lira. Such foundations are also known to benefit from largesse from abroad. As a former deputy prime minister revealed a few years ago, TURGEV received \$100m from unspecified foreign donors between 2008 and 2012. Mr Imamoglu has pledged to cut off municipal funding to such groups. Cigdem Toker, a journalist who documented the subsidies earlier this year, was promptly sued by one of the foundations. In today's Turkey, that is par for the course. On June 14th, an Istanbul court accepted an indictment seeking prison terms of up to five years against a pair of Bloomberg reporters, a popular economist, and dozens of others for journalism and social media posts "targeting Turkey's stability and economic order."

Despite earlier speculation that he would stump tirelessly on Mr Yildirim's behalf, Mr Erdogan has largely stayed off the campaign trail over the past month, possibly to avoid being associated with another defeat. But make no mistake. Turkey's leader has plenty of skin in the game. ■

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**Shame! Shame! Shame!**

## Game of Thrones-themed tourism is coming

To fans, the beautiful old Croatian city of Dubrovnik is a place of orgies and dragons



Jun 22nd 2019 | DUBROVNIK

“FROM THE top of this gate the rioters threw shit at King Joffrey’s head,” explains Ivan Vukovik, a tour guide, pointing to Pile Gate in Dubrovnik. He is referring to an event in the second season of “Game of Thrones”, a series famous for gratuitous nudity, extraordinary violence and a huge array of characters, from a wise and libidinous dwarf to a princess who convinces three dragons that she is their mother.

Dubrovnik’s old, walled town is instantly recognisable to fans as King’s Landing, the main city in the imaginary world created by George R. R. Martin, the author of the books on which the show is based. Armies of “set-jettlers” (a term for fans who visit film locations) descend on Dubrovnik each year, vastly outnumbering its 1,500-odd inhabitants.

In 2015 the mayor claimed that “Game of Thrones” was responsible for half of the city’s annual growth in tourism. Of the 18 walking tours offered by the tourist administration, eight are about “Game of Thrones”. “I had 85 people on the 11am tour. The history walking tour at half past only got 15,” says Mr Vukovik. At a store that sells merchandise from the show, visitors can pay 110 kuna (\$17) to be photographed on a replica of the Iron Throne, the uncomfortable seat over which the main characters fight. As your correspondent stood on the city’s elegant 17th-century Jesuit Stairs, an Australian tourist stripped down to his speedos while onlookers threw flip-flops at him chanting “shame!”, a re-enactment of an even ruder scene from the show. Nearby bars offer “shame mojitos”.

Dubrovnik is not the only place invaded by “Game of Thrones” fans. One in six foreign tourists to Northern Ireland last year was apparently inspired to visit because of the show. Visitors spent £50m (\$63m) during their stay, according to the country’s main tourism body. Spain, too, has seen a big influx.

Such tourism boosts the local economy, but can be annoying. “We went all over Croatia and didn’t see another American, but here I can’t throw a stick without hitting one,” complains Shannon, who has come from Texas to visit her family. (King Joffrey would have known what to do about unsightly crowds, but it wouldn’t be legal today.) Dubrovnik is under threat of losing its UNESCO world heritage status because of over-tourism. One cashier hopes the boom “dies soon”, like so many characters in “Game of Thrones”. She will be happy when winter comes.

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**Accusing the absent****Investigators indict the suspected killers of 298 people on flight MH17**

Bringing them to justice will probably be impossible



Jun 20th 2019 | MOSCOW

BODIES RAINED down from the sky on July 17th 2014, landing in the sunflower fields of eastern Ukraine. Limbs littered the gardens in the village of Grabovo, and travel books lay along the roads. The 298 people who took off aboard Malaysia Airlines Flight 17 in Amsterdam expected to land in Kuala Lumpur. Instead, a surface-to-air missile cut short their lives.

The destruction of the aircraft became one of the bloodiest episodes in a war that has killed more than 13,000 people since 2014. The tragedy also served as a breaking point in Russia's relations with the West, galvanising international opinion against the Kremlin's shadowy war in eastern Ukraine. Russia has denied any involvement in the incident, choosing instead to spread clumsily constructed theories pointing the finger at Ukrainian forces. On June 19th an international investigative team announced that it had enough evidence to charge four people—three Russian citizens and one Ukrainian—in a Dutch court. They are Igor Girkin, Sergey Dubinskiy, Oleg Pulatov and Leonid Kharchenko.

The charges mark the latest step in a sprawling years-long effort to establish the truth behind the 298 innocent deaths. Following the incident, Western governments, citing satellite data and other intelligence, quickly pointed the finger at Russia, which had been supplying and supporting the separatist forces fighting the Ukrainian army in the Donbas region. In 2015 the Dutch Safety Board concluded that a Buk missile of Russian provenance had shot down the plane. Open-source investigators and journalists soon assembled images and videos from social media to trace the missile's path from Russia to Ukraine. The Joint Investigation Team (JIT)—composed of officials from Australia, Belgium, Malaysia, the Netherlands and Ukraine—has spent the past several years methodically adding detail. Last year, the team announced its own conclusion that the Buk came from a launcher belonging to Russia's 53rd anti-aircraft brigade based in the city of Kursk; the launcher, they

demonstrated, came to Ukraine from Russia, and returned across the border after the crash.

The JIT's identification of the four men introduces a new level of detail and culpability. Mr Girkin, a well-known commander of the separatist forces, is a former officer of the Russian security services. Mr Dubinsky has been named as the head of the separatists' military intelligence, with Mr Pulatov head of a department; investigators say both earlier served in the Russian armed forces. Mr Kharchenko, in turn, was a local field commander. The four are not believed to have been the operators of the Buk system, but higher level figures who conspired to put the anti-missile system in place that fateful day.

The JIT has no illusions about Russia's willingness to extradite the suspects. Calls for the defendants to appear before the court when hearings begin next March are procedural, rather than aspirational. Yet even if none of them ever appear in court, the slow creep of justice will help to lay Russia's lies around MH17 to rest, and to offer the victims' relatives a small measure of the closure they deserve. ■

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## Sinn Fein's long march

### A former voice of violence hopes to enter Ireland's government

The big parties say no, for now



Jun 22nd 2019 | DUBLIN

FOR THE leaders of Sinn Féin, the political wing of the Irish Republican Army (IRA), the route to power was smooth in the end. All they had to do was give up the armed struggle, tack left of centre and exploit popular resentment of fiscal austerity after the biggest crash in history.

That, at any rate, is what happened in the late 1920s, when Eamon de Valera split from the hardline factions of Sinn Féin and its military wing, which he had previously led in a losing civil war. Having initially rejected the partition of Ireland after independence from Britain, de Valera grudgingly accepted the legitimacy of the new Irish Free State, to the rage of all-Ireland purists. His pragmatic new Fianna Fail party, which took many of Sinn Féin's MPs with it, won power in 1932, and ruled what is now the Republic of Ireland for 61 of the next 78 years.

For modern Sinn Féin, which has abandoned a more recent armed struggle in Northern Ireland, embraced centre-left policies and offers itself to voters both south and north of Ireland's border, the parallels are obvious. But they are also unhelpful. Despite the collapse of Fianna Fail's vote after it presided over the disastrous property crash of 2008, Sinn Féin has failed to replace its old rival as the main alternative to Ireland's other main party of government, the prime minister, Leo Varadkar's Fine Gael (descended from the winning side in that long-ago civil war).

Instead, local elections held last month delivered a stinging rebuke to Sinn Féin, which lost 78 seats on county and city councils, nearly half of its total. It had hoped to get a bounce by selecting as leader last year Mary Lou McDonald, a personable and youngish Dubliner, to replace the ageing, Belfast-born Gerry Adams, once a full-throated apologist for violence. That did not work.

Still, the party's rise in the southern Republic has been steady and impressive, from no parliamentary seats in 1987, just after it stopped boycotting the Dublin parliament, to 14 seats in 2011 and 23 (of 158) in 2016. But Noel Whelan, a pundit, believes that Sinn Fein should have been able to pick up more seats from the post-crash collapse of Fianna Fail.

With an impressive front bench, a strong spread of candidates, youthful support and a good ground game, Sinn Fein is formidable on paper, yet a number of factors seem to be holding it back. Leo Varadkar's government faces mounting disquiet over domestic issues from which Sinn Fein would normally make hay—a collapsing health service and a crisis in housing—but it is partially shielded, says Jennifer Todd, a political scientist at University College Dublin, by the Brexit stand-off with Britain: the government is reckoned to be playing its hand well.

Most observers agree that the legacy of the Troubles, in which Sinn Fein's armed alter ego was the bloodiest participant, still haunts the party, 21 years after the IRA signed up for peace. William Murphy, a historian at Dublin City University, says that voters old enough to remember the Troubles are still wary of Sinn Fein. But he believes that this stigma, too, will pass if the party can prove itself in government, as it did for de Valera. Both Fianna Fail and Fine Gael insist they will not go into coalition with Sinn Fein, but few expect these promises to be kept if the arithmetic after the next election suggests otherwise. ■

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**The new musketeers****The improbable careers of Vladimir Putin's bodyguards**

Proximity is power



Jun 22nd 2019 | MOSCOW

VLADIMIR PUTIN was asleep upstairs when the bear arrived. The Russian president's bodyguard, Alexey Dyumin, stared at the creature through the glass doors of the mountain home. "It was quite large," Mr Dyumin later recalled. "I opened the door and emptied my pistol at his legs." The bear wisely turned and ran.

Politicians often develop special relationships with those assigned to protect them. Mr Putin has become closer than most to the men of Russia's Federal Protective Service (FSO). Since 2016, four FSO officers from his personal guard have been appointed regional governors, making the unusual leap from the shadows into public life. A fifth became head of the newly formed National Guard. Mr Dyumin was elevated in 2013 to a post in the defence ministry, where he commanded special forces and reportedly oversaw the operation to annex Crimea in 2014. In 2016 he became governor of the Tula region, an arms-industry centre south of Moscow. "It was a little bit like the butler was suddenly made a duke," says Mark Galeotti, an expert on the Russian security services.

The bodyguards' rise reflects a broader shift in the Kremlin's priorities: from protecting Mr Putin himself to ensuring the longevity of the system he has built. With the president in his last constitutionally permitted term, the spectre of a post-Putin era looms. Hoping to manage the generational shift, Mr Putin has sought fresh cadres to replace ageing loyalists. Nationwide leadership contests have been launched to identify talent in a system that lacks mechanisms for elevating personnel, a role that the Soviet-era Communist Party and its youth league, the Komsomol, once played. One group of new reinforcements has become known as the "technocrats"—bespectacled experts who have been elevated to run regions and ministries. Yet those Mr Putin trusts most are still those he knows best; and after nearly two decades in power, those he knows best are often the men beside him on a daily basis.

In the shadowy world of the Russian security services, the FSO occupies a rarefied position. Though lacking the investigative firepower of the Federal Security Service (FSB) or the cloak-and-dagger cachet of the foreign intelligence services, the FSO possesses an invaluable resource in Russia's Byzantine system: *dostup k telu*, or closeness to the body. As Konstantin Gaaze, an analyst, puts it: "Proximity is power."

FSO agents are Mr Putin's travelling companions on the road and his chefs at home. This lets them into the Russian elite. Mr Dyumin, for example, became a fixture in the president's evening hockey league, an important informal meeting ground, long before he stepped onto the public stage. A sense of superiority is bred into the FSO's culture. Some call them a Praetorian guard. Evgeny Minchenko, a consultant close to the Kremlin, says they prefer the label "Musketeers".

The FSO's remit stretches far beyond the traditional bullet-stopping and gun-wielding into public-opinion polling, political analysis and the management of vast swathes of federal property. They are meant to protect government communications, but this means they also have access to them, says Andrei Soldatov, an author. The FSO produces intelligence reports for the president and operates the government's Situation Centres. Last year Mr Putin charged the FSO with developing "information-warfare measures, detections, warnings and consequence-management of computer attacks on Russian information resources". He also told them to track the implementation of his latest social and economic policies.

Guards have long played key roles in Russia's political architecture. The FSO traces its modern history back to 1881. That was when Tsar Alexander III created a special guard service in the wake of his father's assassination. "They have always protected the authorities from the people," says Gennady Gudkov, a former KGB general. During the early Soviet era, Stalin's bodyguard, Nikolai Vlasik, had a hand in everything from state policy to raising Stalin's children (he was ultimately rewarded with a Gulag sentence). The guard service was later rolled into the KGB, where it became the Ninth Directorate. After the collapse of the Soviet Union, Alexander Korzhakov, Boris Yeltsin's bodyguard, confidant and drinking buddy, built a new guard service on its ashes. He became one of the most powerful men in Moscow. "He would say: 'Work is done for the day'," Mr Korzhakov recalls, "and there would be a bottle of cognac for two."

When Mr Putin came to power, he installed an old associate, Evgeny Murov, at the helm of the FSO. Under Mr Murov, the FSO took on a role of "watching over the innermost elite", says Mr Galeotti. The agency's leaders have done well: an investigation by the Organised Crime and Corruption Reporting Project and *Novaya Gazeta*, an independent Russian newspaper, claimed that a small coterie of FSO men have acquired oodles of prime real estate for a pittance. Though the FSO is said to have become less powerful since Mr Murov left his post in 2016, the rise of its alumni attests to its enduring influence. Some analysts even see Mr Dyumin as a candidate to succeed Mr Putin.

Yet whether the Musketeers can adjust to public roles remains to be seen. Few have demonstrated much aptitude as politicians. One ex-bodyguard became an internet meme last year after posting a bizarre video address challenging Alexei Navalny, Russia's leading opposition politician, to a duel. Another flamed out as governor of Kaliningrad after just two months and was moved to become minister for emergency services. Earlier this month a third unexpectedly stepped down as governor of the Astrakhan region after less than ten months in the job. One thing, though, seems certain: whatever the order, Mr Putin's Musketeers will heed his call. As Mr Dyumin himself put it, "there's never been a time when he's given me a task and I've said 'no'." ■

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**Charlemagne****Europe's gaseous political alliances**

The old Franco-German pact has given way to shifting coalitions



Jun 22nd 2019

“SCHMIDT AND Giscard supported each other on every point which came up during this European Council,” scribbled Roy Jenkins in his diary in 1977. The former British home secretary had just become president of the European Commission, the EU’s executive. He was struck by the extent to which West Germany (led by Helmut Schmidt) and France (led by Valéry Giscard d’Estaing) looked out for each other. Back in those days Europe’s two central powers sorted out their differences in private, and then used their combined weight to set the agenda for the entire club.

Today things work differently. On many policy subjects, France and Germany are now openly divided. The former wants to cut short the endless Brexit negotiations; the latter is willing to prolong them. France backs the European Intervention Initiative, a European military force willing to act even when some EU states disagree; Germany is keener on Permanent Structured Co-operation, a broader but less dynamic forum for EU security co-ordination. France wants to integrate the euro zone further, to prepare it for the next crisis; Germany frets about moral hazard.

The more the EU gains members, shrinks in relative global weight and faces ever-tougher circumstances, the more it struggles to present a common front. The EU summit starting on June 20th, which will focus on allocating the union’s big jobs, will illustrate that truth. The choice of president for the next European Commission will be the main bone of contention. Angela Merkel is supporting Manfred Weber, a Bavarian candidate whom her European People’s Party (EPP), the main centre-right grouping, backs. Emmanuel Macron, France’s liberal president, wants to block him and appoint instead Michel Barnier, a Frenchman and the lead Brexit negotiator, who is also in the EPP, or perhaps Margrethe Vestager, the EU’s formidable Danish competition commissioner who hails from his own liberal group.

The geometry of European power is becoming messy. For one thing there are more splits: the old centre-right and centre-left families no longer span Europe. At the European Parliament election in May the conservatives were most successful in central and south-eastern Europe (eight of the nine centre-right governments are now from east of the Rhine). The social democrats are rooted in Iberia and Scandinavia. Meanwhile, the newly powerful liberal and green groupings in the parliament are strongest in Europe's north and west while its right-wing populists are most successful in its east and south. In these circumstances, and with the Franco-German engine stalling, three smaller countries are becoming more influential: Spain, the Netherlands and Austria.

Spain under Pedro Sánchez, the recently elected centre-left prime minister, is a natural ally to Emmanuel Macron's France. He hopes to make Spain a new third partner in the Franco-German alliance. Madrid has particularly good relations with other southern European countries like Italy and Greece, but also makes a good interlocutor for Germany. "Merkel was quite happy when she realised she could speak to a Spanish prime minister directly," says Miguel Otero-Iglesias, a Spanish foreign policy analyst, of Mr Sánchez's European focus and fluent English. The Netherlands under Mark Rutte, meanwhile, has close links with both Mrs Merkel (as fellow supporters of hawkish euro-zone policies) and with Mr Macron (like Mr Rutte a liberal committed to speedy action on climate change). The Netherlands has made itself influential by marshalling a "Hanseatic" alliance against the fiscal integration that the likes of Mr Macron and Mr Sánchez want. In this it has allies across Scandinavian and Baltic Europe. Lastly there is Austria. The government in Vienna recently collapsed over a corruption scandal but the ousted chancellor, Sebastian Kurz, has emerged relatively unscathed and looks likely to win power again in new elections in September. Under his leadership, the small Alpine republic has become a potent voice in European debates on immigration and a broker of compromises between the EU's liberal western states and its conservative-dominated eastern ones.

The three countries have similarities. All have close links with France and Germany; all can marshal coalitions of like-minded states in their parts of Europe: all have modernising leaders with experiences of arduous coalition-building at home. One could call them "the Habsburgs", as all were at one time controlled by that dynasty which, like its successors in Madrid, The Hague and Vienna, played off other powers at Europe's core against each another.

One illustration of the new mechanics came with the recent debate in the EU about cutting carbon emissions to zero by 2050. Germany was at first unwilling, but the Netherlands and Spain formed an alliance with France. That pushed Germany towards the goal. Austria then swung in, followed by some central European states like Slovenia. Together, the Habsburg states spread a measure initially backed by just eight EU states to at least 18 of them.

#### A new geometry

Spain, the Netherlands and Austria are too disparate to act as a bloc. Instead, individually or in various combinations, they can help the French and the Germans build new coalitions. Such is today's fluid European politics, where coalitions coalesce, take effect, then dissolve again. Whether or not the three will remain influential is uncertain. Others, for instance a potentially more pro-European Poland, could take their place. But the old world of a dominant Franco-German bloc is certainly over. A political scientist, Gilles Finchelstein, has a term for this. Once, he argues, European politics was made up of "solid" power blocs. Then after the fall of the Berlin Wall they became "liquid" with the rise of the swing voter and a less predictable European political landscape. Today, he concludes, is the "gaseous era" in which political coalitions come together for brief periods like clouds of smoke, then are blown apart again. In the years to come, such gaseous constellations will define Europe's politics in the coming years. ■

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## Britain

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**The Tory leadership race****The Boris bubble that threatens Britain's Conservatives**

A worrying number of MPs are backing Boris Johnson mainly because others are



Jun 20th 2019

BORIS JOHNSON has been seducing people again. For months he has methodically worked his way down a list of fellow Conservative MPs, sweet-talking them to back his campaign to be leader. Phone calls with potential conquests have been set up. Drinks parties are arranged for others who want to experience Mr Johnson's charms in person. If that is not enough, a dinner might persuade a reluctant MP. Former sceptics have been swept off their feet. One recent convert explained his shift: "Desperate times, desperate measures."

The contest to become the next leader of the Conservative Party—and thus prime minister—risks becoming a coronation. As we went to press on June 20th, Tory MPs were expected to put Mr Johnson on a shortlist along with one other candidate, for a vote by the party's 160,000 members. These are an unpredictable bunch, but surveys suggest that they strongly prefer Mr Johnson to any challenger. Short of a spectacular collapse, he will be named the next prime minister on July 22nd.

MPs have flocked to Mr Johnson for three reasons. One group believe he has the charisma and campaigning clout to help them keep their seats in the next election. Nigel Farage's Brexit Party leads the polls after hoovering up millions of Tory voters. Mr Johnson is seen as the candidate most capable of winning them back.

A second group see Mr Johnson as a means for their own rehabilitation. Many of the people running his operation have seen their political careers blown off course in recent years. James Wharton, Mr Johnson's "No" man, in charge of batting away distractions, lost his seat in the snap election of 2017. Gavin Williamson, the campaign's de facto chief whip, was sacked as defence secretary last month for leaking details of a confidential security briefing (he denies this). Totting up the numbers is Grant Shapps, a former party chairman who found himself on the backbenches in 2015 after a bullying scandal on his watch.

A third group of supportive MPs are there only because they think Mr Johnson will win the contest. “If he is going to win then you have to be inside the tent,” says one aide to a converted MP. If moderate MPs do not rein in Mr Johnson, he will be guided solely by the right of the party, goes their thinking. Best to get on board sooner rather than later.

This alliance of true believers and cynics makes for a shaky foundation. It is made wobblier still by the fact that Mr Johnson’s team seems to have promised wholly contradictory things to MPs to win their support. A proposed high-speed railway between London and Birmingham will be built or cancelled; today’s cabinet ministers will be retained or sacked en masse: it all depends on whom Mr Johnson’s camp is speaking to.

The biggest contradiction concerns Brexit. Mr Johnson has brought on board the hardest of hard Brexiteers, including Steve Baker, the ringleader of the Tory holdouts who want Theresa May’s deal torn up. His popularity with party members is in large part due to his promise to take Britain out of the European Union on October 31st, with or without a deal. (More than half of members would proceed with Brexit even if it meant “significant damage” to the economy, losing Scotland or Northern Ireland, or even “destroying” the Tory party, according to a YouGov poll this week.) Yet Mr Johnson has also attracted Remainer MPs. Last month Matt Hancock launched his own leadership campaign with an attack on Mr Johnson for dismissing businesses’ concerns about Brexit, while decrying no-deal as not credible. This week he joined the Johnson campaign.

Doubts about Mr Johnson’s sincerity have in the past been allayed by his reputation as a Heineken politician: one who, to adapt the beer’s slogan, gets to parts of the electorate that others can’t reach. During the leadership campaign he has repeatedly brought up his two terms as mayor of London, a left-leaning city that backed Remain, as proof that he can win votes from across the spectrum. But Mr Johnson’s last victory in London was seven years ago, against a tired opponent. Turnout was 38%. His support was particularly strong in Leave-voting suburbs. The slogan is old—Heineken stopped using it in 2003—and so is the analysis.

Now Mr Johnson’s appeal is more akin to Marmite, a love-it-or-hate-it breakfast spread. His leading role in the Brexit campaign has made him a polarising figure. Leave voters may like him, but Remainers detest him. When asked in May whether Mr Johnson would be a good prime minister, 28% of voters said yes—higher than all his rivals. But 54% thought he would be a bad one—again, higher than the rest. Young voters have a problem with Mr Johnson, as do women, points out Ben Page, head of Ipsos MORI, a pollster: “He’s basically not refreshing the parts other Tories do not reach any more.”

If this is true it represents a big problem for the Conservatives, because without his purported election-winning powers Mr Johnson has little going for him. As mayor he did a reasonable job in a limited role that was mainly about drumming up enthusiasm for the capital. But as foreign secretary he blundered. A careless remark about a British-Iranian imprisoned in Iran was seized on by Tehran and used against her in court. When London hosted a Balkans summit, Mr Johnson bunked off to be photographed drafting his resignation letter over Mrs May’s Brexit deal.

Although the team around him has been hyperactive, Mr Johnson himself has sat out most of the chances to debate or be interviewed. His is “the success of someone who avoids car crashes by sitting in a parked car”, according to Stewart Wood, a Labour peer. All of this means there is a danger that Boris-mania could end as quickly as it began. “The bubble is going to burst at some point,” says a member of one rival camp. “We do not know if it will burst tomorrow or before the contest is finished, or if it bursts in Number 10.” ■

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**Rosbif with cake**

## What Europe thinks of Boris Johnson

Continental views range from mistrustful to contemptuous



Jun 22nd 2019 | BRUSSELS AND PARIS

THE FAVOURITE to be Britain's next prime minister is not a favourite in the rest of Europe. Newspapers have called his potential arrival calamitous. An editorial in France's *Le Monde* accuses him of a string of deceits, blunders, failures and lies. Germany's *Handelsblatt* has said he would be fatal for Britain. Several commentators draw grim analogies with the arrival of Donald Trump in the White House.

Boris Johnson is, unsurprisingly, blamed for Brexit. As the highest-profile Leave campaigner, he draws flak for having lied to win the referendum in June 2016. He was also considered a terrible foreign secretary from July 2016 until he resigned two years later. His lack of diplomatic skill was evident in his talk of having his cake and eating it and his claim that the EU wanted to give Britain "punishment beatings...in the manner of some sort of world-war-two movie". He upset Italians by saying he was "pro-secco but by no means anti-pasto". And he annoyed Brussels by inviting it to "go whistle" for its Brexit bill.

In many ways his reputation originates from his time as a *Daily Telegraph* correspondent in Brussels in the early 1990s. His colleagues remember him as a cynic and a clown, with a cultivated look of neglect, untucked shirt and famously messy hair. "He would make you laugh because he was so boisterous," recalls Maria Laura Franciosi, an Italian reporter and chair of the Brussels press club, adding that he was at least *simpatico*.

Yet as with his later diplomacy, his journalism was fundamentally unserious. Most of his stories, on his own admission, were partly or entirely false. He likes to claim that one, headlined "Delors plan to rule Europe", led Danish voters to say no to the Maastricht treaty in June 1992. Jean Quatremer, a French journalist, recalls challenging Mr Johnson on the truth of another piece, only to be told never to let the facts get in the way of a good story. "For Boris, everything is a joke," says Mr Quatremer. "He does not believe in anything. Today he is

for Brexit, but tomorrow?”

The question now is whether he believes enough to meet the Brexit deadline. He talks blithely of renegotiating Theresa May’s withdrawal agreement, which Parliament has rejected three times, to take out the Irish backstop to avert a border in Ireland. He has promised that Britain will leave, deal or no deal, on October 31st, though in a debate this week he just called the deadline “eminently achievable”. He insists, against most evidence, that a no-deal Brexit is nothing to worry about. And he says that, with no deal, Britain would save its £39bn (\$50bn) Brexit bill.

Yet diplomats on the continent say the EU cannot possibly betray Ireland by allowing Mr Johnson to ditch the backstop. This would set a dreadful example to other small EU members. It would also be damaging to offer concessions that were refused for Mrs May to an aggressive bargainer, who is threatening to renege on his debts. They add that, when the deadline was extended to October 31st, a condition was that the withdrawal agreement could not be reopened. The notion of adding soothing sentences to the political declaration about the future relationship is fine, but many doubt this would be enough to secure parliamentary approval.

How firm is the deadline? On the one hand, it has already been extended twice because nobody wanted no-deal, so the same could presumably happen again. On the other, there is growing exasperation all round the EU. Enrico Letta, a former Italian prime minister now at Sciences-Po in Paris, says several countries now see Brexit as a virus that could infect the entire system unless it is brought to an end. Several diplomats say a further extension would only be agreed for a specific event such as an election or another referendum.

Mr Johnson has in the past ruled out seeking another extension. But the EU knows a majority of MPs are against no-deal. And time is extremely short, since nothing serious will be done before the Tory party conference in early October, just four weeks before the deadline. The autumn promises to be extremely busy. ■

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## Hawks take flight

### Why interest rates in Britain are likelier to fall than rise

With inflation at 2%, the Bank of England has taken a doveish turn



Jun 20th 2019

IT WAS A turning point in Britain's recovery from the financial crisis of 2008-09. In November 2017 the monetary policy committee (MPC) of the Bank of England raised the base rate of interest from 0.25% to 0.5%, the first increase in over a decade. Nine months later came a further rise of equal size—and traders priced in another one shortly thereafter. But then the mood music changed. No further rises materialised (as we went to press on June 20th the MPC was expected to leave interest rates on hold for the tenth month running). Financial markets have come to take the view that the next move in rates is more likely to be down than up.

The bank turned hawkish in 2017 because it feared that consumer-price inflation would settle above its 2% target. A 10% depreciation of sterling against other currencies after the Brexit referendum of 2016 made imports pricier. At the same time the unemployment rate continued to fall (see chart), forcing employers to compete harder for workers by offering them better pay. With weak productivity growth, the MPC feared that employers would be forced to pass on rising wage costs to their customers. For a while these fears looked founded: inflation hit 3.1% in late 2017.

# Back on track

## Britain

### Consumer prices

% change on a year earlier



### Unemployment rate

%



Source: Haver Analytics

## The Economist

Yet since then inflation has fallen a lot further than the MPC had believed it would. Data released on June 19th put the inflation rate in May at 2% on the nose. Companies may be doing a better job than expected at raising productivity, which allows them to absorb higher wage costs. The impact of sterling's depreciation may also be fading faster than expected, suggested Michael Saunders, a member of the MPC, in a speech on June 10th. Companies may have passed on higher import prices to consumers in one go, rather than phasing them in slowly.

Lower-than-expected inflation also owes something to the level of demand in the economy. A trade war between America and China is causing global economic growth to slow (the Federal Reserve and the European Central Bank are expected to cut interest rates before long). Britain's economy, highly exposed to trade, moves in tandem with world trends. Brexit is another drag. Postponing it from March 29th to October 31st headed off the calamity of a no-deal exit, but the delay has prompted some companies to hold off on investment until the outlook is clearer. In the past year capital spending by businesses has fallen in real terms. Consumer confidence remains low. The data released so far point to zero GDP growth in the second quarter of 2019, compared with an earlier forecast by the bank of 0.2%.

Some members of the MPC, including Mr Saunders and Andy Haldane, the bank's chief economist, continue to insist that rate rises are around the corner. If Britain pulls off a smooth exit from the European Union by the end of October, business investment could bounce back. Another extension would prolong the uncertainty, however; and a no-deal Brexit would almost certainly force the bank to loosen monetary policy to gee up the economy, even as sterling depreciated again. The case for doveishness is strengthening. ■

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**Can't buy me love**

## Theresa May's expensive search for a legacy

The prime minister splashes the cash in an attempt to be remembered for something more than Brexit



Luca D'Urbino

Jun 22nd 2019

THERESA MAY is spending her final weeks in office seeking a legacy for herself. The prime minister thinks that Brexit deprived her of the chance to focus on the subjects she really cared about. Now that Brexit is somebody else's problem she is making up for lost time with a flurry of announcements: more money for schools, maintenance grants for poor university students and a promise to reduce Britain's net carbon emissions to zero by 2050.

Such last-minute legacy-building can be expensive. Mrs May's promises on education could cost some £9bn (\$11bn, or 0.4% of GDP) a year. Decarbonisation could cost in the region of £30bn a year. Both policies might be money well spent. Yet governments do not normally enter into these sorts of commitments without going through a formal process that weighs up competing demands from different departments. Philip Hammond, the chancellor, is furiously resisting Mrs May's attempts at monument-building, even reportedly threatening to resign over them.

Mr Hammond has another reason to be cross. Since assuming his post in 2016 he has exerted tight control over public spending. He has built up £27bn of headroom in 2020-21, relative to his self-imposed fiscal targets for that year, so as to be able to boost the economy in the event of a no-deal Brexit. Mrs May's pledges make it more likely that these targets will have to be abandoned. And that, in turn, will make it harder for the Conservatives to argue that a vote for Labour is a vote for fiscal irresponsibility.

The legacy-building is in vain. No matter how many billions Mrs May spends, she will not be remembered as the prime minister who tackled Britain's "burning injustices", but as the one who tried and failed to pass her Brexit deal—and who kept bringing it back to Parliament with almost demented determination, to see it



repeatedly thrown out. The only debate will be about whether the deal was doomed from the start or whether it could have been passed if Mrs May had better political skills.

The spending spree may even be worse than pointless. Mrs May at least had a reputation as a dutiful public servant who eschewed flashy gimmicks. Now she risks throwing that away. Instead, she looks more like an entitled popinjay who is willing to sully her government's hard-won reputation for fiscal prudence in a blaze of vanity. It amounts to a disappointing end to a disappointing premiership.

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**Bench pressed****Britain's magistrates are in a funk. The time is right for reform**

Half of the 15,000 volunteers will retire in the next decade, providing an opportunity to shake up the bench



Jun 22nd 2019 | LUTON

IT IS TRICKY to decide whom the comic novelist P.G. Wodehouse most enjoyed mocking: cops or magistrates. Bertie Wooster, the buffoonish aristocrat whose japes he charted, seems forever to be pinching policemen's helmets, then being rapped across the knuckles by a beak for the cheek of it. These volunteer do-gooders are interfering "asses" who revel in passing down unduly punitive sentences. They are, writes Wodehouse, "the lowest form of pond life. When a fellow hasn't got the brains and initiative to sell jellied eels, they make him a magistrate."

Like the Jeeves novels, the magistracy is distinctly English. Its supporters are proud of its long history: the role was set out by statute in 1361. Applicants must demonstrate "sound judgment" and "sound temperament". Knowledge of the law, however, is not required. A handful of other countries have lay justices, but magistrates in English and Welsh courts have greater powers than in most jurisdictions. At least nine in ten criminal cases end up before a magistrates' bench. The rest go to crown courts, where salaried judges alone have the right to sentence defendants to more than a year behind bars.

But the system is now in trouble. The number of magistrates has roughly halved in the past decade, to about 15,000, partly because of recruitment freezes. The shortfall means that about 15% of cases are now heard by two rather than three magistrates. When they disagree with each other, the case goes to another bench. Cases are heard in tatty courtrooms with computer systems that often fail. Unsurprisingly, magistrates feel unloved. In one survey, 54% said they felt undervalued. Politicians have taken note. On June 18th the Commons justice committee published a report rebuking the government for these shortcomings.

Many of its recommendations are sensible. It suggests a national recruitment campaign to plug the shortfall and

encourage greater diversity among applicants. The current pool broadly reflects the country's gender and racial make-up, but is overwhelmingly elderly and middle-class. The average magistrate is 59. Only 4% are younger than 40. The committee wants a kitemark scheme to recognise employers who give their staff time off to volunteer in court. About 8,000 magistrates are due to retire in the next decade (they cannot serve beyond the age of 70), providing an opportunity to shake up the bench.

Some favour more radical change. It is not obvious that amateurs should have such strong powers, even though they are assisted by a legal adviser in each court. Andrea Coomber of Justice, a charity, reckons the system is "really peculiar". Many lawyers agree. They are particularly sceptical about the role of magistrates in family courts, where they sometimes decide how much contact warring parents should have with their children or whether a neglected child should be put into care. They are not necessarily qualified to balance the risks involved in such cases, says one barrister. "Magistrates are well-meaning volunteers," he says. "[But] this is a nuanced and forensic job."

In criminal courts, they deal with high-volume but relatively low-harm cases, such as driving offences and some burglaries. "There's an ideology that things are trivial and therefore can be processed quite quickly," says Lucy Welsh of Sussex University. In a courtroom in Luton, magistrates take 80 seconds to determine a sentence for a man who pleads guilty to drink-driving. Later, they exchange whispers for 43 seconds before fining a young man for heroin possession. (In another case, a defendant is charged with throwing toilet water over a policeman, as if to prove that Wodehouse is still relevant.) Ms Welsh worries that such speedy justice gives little chance for the court to take account of a defendant's individual circumstances.

Yet magistrates retain two big advantages over the professional judiciary. They are cheap, and, like juries, they involve the community in passing sentence on its peers. A hybrid model could keep these benefits while checking magistrates' powers. Penelope Gibbs, an ex-magistrate, suggests that a judge could chair a panel of two magistrates. Another option would be to beef up the role of the panels' chairmen, giving them tastier expenses in return for more training. Either way, magistrates should not resist reform, or they might end up looking as archaic as Wooster. ■

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**Drug imports****Desperate patients turn to buyers clubs**

What do you do when the NHS won't buy the treatment you need?



Jun 22nd 2019

FOR THE PAST three-and-a-half years the government has been in a stand-off with Vertex, a pharmaceutical firm, over the price of Orkambi, a drug for cystic fibrosis. The manufacturer typically charges £104,000 (\$130,000) for a year's treatment. The government has not been able to negotiate enough of a discount. The result has been an impasse. NHS England has called the firm an extreme outlier in both pricing and behaviour. Vertex says the government was offered the best price of any country in the world.

Those affected have despaired. But they have also got to work, lobbying the government and the firm. Recently they have come across a new way to ramp up the pressure: a buyers club. Vertex has an exclusive patent covering the drug in most, but not all, of the world. Since patients are allowed to import three months' supply for personal use, a group of those who have, or whose family member has, cystic fibrosis have got together to fly in a generic version of the medicine from Argentina for less than a quarter of the price of Orkambi. The first imports will arrive soon.

The buyers club is following the example of people with HIV and hepatitis C, says Diarmaid McDonald, the lead organiser at Just Treatment, a campaign group supporting the buyers. When access to sofosbuvir (for hepatitis C) was rationed by the NHS, patients turned to a buyers club in Australia, which in turn bought from India, where the manufacturer had waived its patent. Last year a survey by the Terrence Higgins Trust, a charity, found that 34% of those using PrEP, which stops HIV transmission, import the drug. (Access in England otherwise requires admission to an NHS trial.) Patients have also used clubs to buy drugs for cancer and pulmonary fibrosis.

In all cases, the priority is to access treatment. Nina White, whose seven-year-old daughter has cystic fibrosis and is a member of the buyers club, currently pays Vertex's list price. The treatment has made a big difference.

Her daughter has more of an appetite and is no longer so tired that she has to skip friends' parties. "If I had to sell my house [to buy the drug], I would sell my house," she says. Those with hepatitis C would sometimes travel to India to get access to sofosbuvir before it became more readily available on the NHS. "People are creative, aren't they?" says Rachel Halford of the Hepatitis C Trust. "You could get your assessment done and have a mini break."

Pharmaceutical firms have warned that the trend weakens the incentive to invest in research; Vertex says it has invested \$7bn in developing medicines for cystic fibrosis. Just Treatment is now urging the government to use a "crown use" licence to override Vertex's patent. The government has so far resisted, partly because of the signal it would send about the security of patents in Britain. There would also be practical issues which could slow the roll-out, such as the likelihood of litigation, says Charles Clift of Chatham House, a think-tank.

But in a debate in Parliament on June 10th Seema Kennedy, a health minister, said that because of the length of negotiations she had a "moral obligation" to consider such a move. "Vertex has had a strong negotiating position precisely because of their monopoly," notes Suerie Moon of the Graduate Institute of Geneva, meaning the firm now has a much greater incentive to cut its price. Thanks to the buyers club the cost of treatment has already fallen significantly. With any luck, it will now drop further still. ■

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## A pinker shade of grey

### Britain's first retirement homes for LGBT OAPs

Communities for elderly gay people are planned in London



Jun 22nd 2019

WITH ITS mini-allotments, bicycle club and lively restaurant, the plan outlined by Tonic Living looks like the blueprint of any other retirement community. The difference is that most of the residents of Tonic's proposed development would be lesbian, gay, bisexual or transgender. The organisation, founded in 2014, is hoping to find a site within a year for what would be Britain's first retirement home for LGBT people.

The thinking behind it is that for the million or so gay over-60s in Britain, the path towards assisted living can be especially tricky. They are likelier than other pensioners to live alone. Fewer than half have children. And almost three-quarters say they would worry about disclosing their sexuality to carers. Anna Kear, Tonic's boss, says many old folk "go back into the closet" once they are dependent on care.

Hers is not the only organisation planning homes for LGBT OAPs. Another group, London Older Lesbians Co-housing (LOLC), is also on the lookout for a site in the capital. Founded three years ago, it has about 35 women aged over 50 on its waiting list. It hopes to build a base and move in within five years. Both it and Tonic are supported by the Greater London Authority. The law allows groups with "protected characteristics", including LGBT folk, to discriminate in their admissions (Tonic nonetheless accepts applications from all).

The projects are partly inspired by organisations like the rainbow-adorned LebensortVielfalt in Berlin and Triangle Square in Los Angeles, which house elderly gay people. They also have a model in groups like Older Women's Co-Housing (OWCH), a development in London for women over 50 (straight and gay alike) which opened in 2016. The 26 residents wanted to preserve their independence in old age. "We decided we would not be done unto," says Maria Brenton, the project manager. OWCH receives dozens of inquiries a week.

Group living offers camaraderie as well as a spirit of radicalism that appeals to some activists. “We’re used to a combination of autonomy and collectivity as part of our lesbian feminism,” says Liz Kelly, 67, who co-founded LOLC. “Why would we want to conform to convention now, just because we’re older?”

Social opportunities for older gay folk are improving in other ways, too. Opening Doors London organises walks, film nights and a befriending scheme for over-50s. Sally Knocker, who runs the charity’s Rainbow Memory Café, says people are finding innovative ways to combat isolation. As Ms Kear puts it, “We have to get it across to them that it’s OK to be old and out and proud.”

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**Bagehot****What would Plato make of Boris Johnson?**

The case against Mr Johnson's leadership bid was perfectly made in "The Republic"



Jun 22nd 2019

IN THE SUMMER of 1987 a crestfallen Boris Johnson went to call on Anthony Kenny, the master of his college, Balliol, and a distinguished philosopher and classicist. Mr Johnson had learned that he had been summoned for a “viva”—he was on the borderline between a first- and second-class degree—and wanted some extra coaching. The master devoted a day to going through likely questions, but even his expert assistance couldn't make up for the fact that his pupil had spent much of his time as an undergraduate carousing with fellow members of the Bullingdon Club and scheming, successfully, to become president of the Oxford Union.

Mr Johnson's failure to get a first continues to annoy him intensely—and to delight many of his rivals. But in truth it doesn't matter a jot: the world is full of failures who got firsts, and successes who missed out. The really interesting question is not whether Mr Johnson's results reveal some great intellectual weakness. It is what light the subject of his studies can throw on his qualifications to be prime minister. The classics corpus is full of meditations on the qualities that make for a good leader. And no classical author thought more profoundly about the subject than Plato, the philosopher who was put at the heart of Oxford's classics syllabus by Balliol's greatest master, Benjamin Jowett. What would Plato have made of the classicist who appears destined to be Balliol's fourth prime minister since 1900?

In “The Republic”, Plato argued that the most important qualities in a statesman were truthfulness and expertise. A good statesman will “never willingly tolerate an untruth”. (“Is it possible to combine in the same character a love of wisdom and a love of falsehood?” one of Plato's characters asks. “Quite impossible,” comes the reply.) He will spend his life studying everything that he needs to make him a good captain of the ship of state—“the seasons of the year, the sky, the stars, the winds and other professional subjects”. Mr Johnson has spent his life dealing in untruths. He was sacked from his first job in journalism, on the *Times*, for making up a quote from



Sir Colin Lucas, Mr Kenny's successor as master of Balliol, who also happened to be Mr Johnson's godfather. He has accumulated all sorts of expertise in the art of seizing power in a modern democracy—particularly media-management—but he is not bothered with the more mundane skills required to run the country, such as managing government departments (he was a disaster as foreign secretary) or keeping the economy on an even keel (his main domestic policy is to reduce tax on the rich).

By contrast, Plato argued, the surest signs of a bad leader are narcissism and self-indulgence. The poor statesman is an eloquent flatterer, who relies on his ability to entertain the masses with speeches and comic turns, but doesn't bother to develop a coherent view of the world. Plato was particularly vitriolic about the scions of the upper classes who are offered the opportunity to study philosophy while young but don't apply themselves, because they think they are so talented that they needn't earn their place at the top table. Mr Johnson's greatest talent is as an entertainer. His newspaper columns are exercises in verbal pyrotechnics: the *Daily Telegraph* even defended one of his columns against a complaint to the press regulator by arguing that it was "clearly comically polemical, and could not be reasonably read as a serious, empirical, in-depth analysis of hard factual matters". He owes his breakthrough as a public figure to appearances on satirical television shows such as "Have I Got News for You". He is now running a leadership campaign that reeks of entitlement, expecting party members to vote for him despite his refusal to appear in the first televised debate and his reluctance to give interviews.

"The Republic" is haunted by the fear that democracies eventually degenerate into tyrannies. Democracy is the most alluring form of government: "the diversity of its characters, like the different colours in a patterned dress, make it look very attractive." But it is inherently unstable. Citizens are so consumed by pleasure-seeking that they beggar the economy; so hostile to authority that they ignore the advice of experts; and so committed to liberty that they lose any common purpose.

As democracies collapse under the pressure of their contradictions, panicked citizens look for salvation in a demagogue. These are men who love power, but cannot control their own desires for "holidays and dinners and parties and girlfriends and so on". Plato calls them the "most wretched of men because of the disorder raging within them". Citizens are so consumed by fear that they think these wretches have magical abilities to solve the country's problems and restore proper order. Demagogues get their start by "taking over a particularly obedient mob", before seizing control of the country. But the more power they acquire the worse things become, "for the doctor removes the poison and leaves the healthy elements in the body, while the tyrant does the opposite."

#### The shadow on the wall

Democracies have proved more durable than Plato imagined. And his cure for the problems of democracy—the rule of philosopher-kings, who are expected to hold their wives and children in common—is eccentric to put it mildly. But he is right that character matters. Politicians can change their advisers or their policies, but character is sticky. He is also right that democracies can suddenly give way to populist authoritarianism. Most have taken the precaution of constructing constitutional protections to save themselves from Plato's nightmare (America has been shielded from President Donald Trump's wilder ideas by the Bill of Rights and the separation of powers). Britain is unusual in relying on the good character of its leaders—Lord Hailsham worried in 1976 that constitutional protections were so minimal that the government is an "elective dictatorship". The best way to prepare for a Johnson premiership is to re-read "The Republic", hoping Plato is wrong but preparing for the fact that he may be right. ■

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## **International**

### **[Pet animals: Four legs better?](#)**

Pet-ownership is booming across the world.

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**Dogged pursuit****Pet-ownership is booming across the world**

It seems not to be doing the owners as much good as they think



Getty Images

Jun 22nd 2019 | HELSINKI, MEXICO CITY AND SEOUL

MARTIN SALOMÓN has brought his dog, Manolo, to the “canine area” of a public park in Condesa, a wealthy district of Mexico City. As he watches the happy, free-running animals, he reflects on how dogs’ lives have changed. Mr Salomón, who was born in the northern state of Sonora, recalls that his grandmother had two dogs—a black one called Negro and a white one called Güero, meaning pale. They were seldom allowed in the house. And today? Recently he attended a birthday party for a friend’s dog, with a cake, candles and a party hat for the pooch.

In South Korea, some people who keep cats refer to themselves not as “owners” or even “parents”—a more condescending term that appeared in America in the 1990s and has spread. Instead they are “butlers”. Some take their feline masters to a cat hotel in the Gangnam district of Seoul. It resembles a beauty studio, with plump cushions and pastel colours. The rooms and suites, costing \$35-50 for a day, are equipped with ridges and tunnels for the cats to play in, as well as cameras and microphones. “It’s so the cats can hear their butlers’ voices,” explains the owner, Cho Hanna.

Keeping pets is hardly novel; nor is pampering them. Archaeologists have discovered graves from more than 10,000 years ago containing the skeletons of humans and dogs. Some of the dogs suffered from diseases, and were presumably cared for by their owners. Eighteenth-century portraits are full of well-groomed animals. But never have so many people kept pets, nor have they fawned over them as much as they do now. For better or worse, an almost global pet culture is emerging.

**Heavy petting**

Some parts of the world are keener than others on pets. Argentines are much more likely to keep animals than are Japanese people; in mostly Muslim countries people tend not to have dogs. But in general, the wealthier a country is, the more people have pets. As a rule of thumb, says Carlos Romano, the head of Nestlé’s pet-food operations in Latin America, the animal instinct kicks in when household incomes exceed about \$5,000 a year.

As people grow better-off, their attitudes to domestic animals change. Surveys by Euromonitor, a market-research firm, show that in emerging markets wealthy people are more likely than poorer people to describe pets as “beloved members of the family”, as opposed to merely well-treated animals. In 2015 a Harris poll of American pet owners found that 95% deemed their animals part of the family—up from 88% in 2007. Americans behave accordingly. More than two-thirds allow pets to sleep on their beds, and almost half have bought them birthday presents.

People in the pet industry use the word “humanisation” to describe many of the changes they see. It does not imply that people think their pets are actually human (although sometimes you wonder: many cats and dogs have Instagram accounts, and a few people have symbolically married their pets). Rather, more pet owners have come to believe that their animals can do human-like things, such as understand them, calm them and love them. They have also come to believe that pets should be treated more like humans.

In countries with long traditions of pet-keeping, these changes may be visible only with hindsight. Sami Tanner, the head of strategy at Musti Group, which owns almost 300 pet-supplies shops in Finland, Norway and Sweden, points to the Irish setters that his family has kept. In the late 1960s his mother’s dog, Cimi, was fed cheap dog food and table scraps, and had just two accoutrements: a blanket and a leash. In 2009 Mr Tanner’s dog Break became the first canine in the family to have his teeth brushed, and the first to acquire a raincoat and a bed. His current dog, Red, has several jackets, attends dog school, and is a model.

Elsewhere, the changes are head-snappingly fast. In parts of East Asia, dogs have long been valued as food. Cats may be made into tonics. Western journalists in South Korea for the 2018 Winter Olympics went in search of dog meat; they found it, even though officials offered to pay restaurants to remove it while the visitors were around. As the culture of pet-keeping spreads, though, a domestic lobby has emerged. In 2017 the Korean president, Moon Jae-in, acquired a dog from a shelter; earlier this year the mayor of Seoul vowed to close all dog butchers. Chinese animal-lovers hound the dog-meat festival held each year in the province of Guangxi.

Some animals are easier to see as family members than others. As the expectation that pets should provide companionship and emotional support has grown, the range of favoured species has narrowed. In 1949 Konrad Lorenz, an Austrian biologist, recommended fish, hamsters, bullfinches and starlings as excellent pets. Five years later, Marlon Brando’s character in “On the Waterfront” kept pigeons. Today just two species dominate: *Canis familiaris* and *Felis catus*. Sales of dog and cat food are rising in Britain. Rabbit, rodent, fish and bird food are all in decline, according to the Pet Food Manufacturers’ Association.

Of the two privileged species, cats have a slight advantage. Euromonitor expects the number of pet cats worldwide to grow by 22% between 2018 and 2024, compared with 18% for dogs. Cats are better suited to apartment living than dogs, so they are more at home in the densely populated, fast-growing cities of Asia. They are also more tolerant of their owners’—sorry, butlers’—erratic working hours.

#### **That loving feline**

Some of the most popular dogs are roughly cat-sized. Early last year the French bulldog overtook the Labrador retriever as Britain’s most popular pedigree dog; pugs were not far behind. In America, the French bulldog has risen from the 58th most popular pedigree dog to fourth since 2002, according to the American Kennel Club. French bulldogs and pugs have something in common besides size. If you ignore their ears, they look a little like human babies. Their eyes are large and their noses squashed—so much so that many of them suffer from breathing problems.

It has even been suggested that young people are substituting pets for children. Millennials, who are getting

around to having kids later than any generation before, reinforce that impression by doting on their “fur babies”. For all that, it is probably wrong. Birth rates plunged in countries like China and Korea long before the pet boom. In America, pet ownership is linked to having children (not a surprise to anyone who has been on the receiving end of a multi-year lobbying campaign to get one). And the things that pet parents claim to get from their furry charges, such as love, companionship and understanding, sound less like the things we expect from children and more what we want from a spouse or lover.

Still, pets are undoubtedly treated better than they were. Mr Romano of Nestlé says that Latin American ones used to subsist largely on table scraps, but no longer. Across the continent, he says, dogs now get about 40% of their calories from pet food, whereas cats get a little more. And pet owners are buying posher nibbles. Euromonitor estimates that dog-food sales in Mexico have grown by 25% in real terms since 2013. Premium therapeutic foods, which are supposedly good for dogs and are definitely heavy on wallets, are selling especially well.

Musti ja Mirri’s shop in Tammisto, a suburb of Helsinki, suggests how far this process can run. The shop not only sells a huge range of prepared pet foods, including ice cream for dogs, grain-free foods and foods for moggies with a wide variety of conditions including old age, urinary problems and “sensitive digestions”. It also has two large freezers of fresh meat. The assistants say that a growing number of dog owners add this meat to prepared food, believing it to be more natural and healthy. Elsewhere dog owners can order food tailored to their pets’ specific requirements, from outfits like Tails.com in Britain and Feed My Furbaby in New Zealand.



It is unclear that pets are benefiting from the extra attention to their diets. Julie Churchill, a veterinary nutritionist at the University of Minnesota, says that some specialist pet foods are useful. Animals with diabetes need special diets, as do extremely large dogs. But the rapid growth of natural, unprocessed pet food strikes her as an example of people extrapolating from their own dietary concerns. Unlike its human equivalent, pet food is processed with the aim of creating a more balanced diet. As for grain-free food (another human fad that has transferred to pets), Ms Churchill suspects it could be linked to a kind of heart disease in dogs.

**Pet hates**

A still trickier question is whether pets are good for people. John Bradshaw, the author of “The Animals Among Us”, argues that pets seem to calm people down and help them create bonds with other people. Only some people, though. Anecdotal evidence that some people are disposed to adore pets, whereas others fear or loathe them, has been borne out by studies. Statistical research on Swedish twins by Tove Fall of Uppsala University and others suggests that more than half of the propensity to own dogs is heritable.

Pet-pushers have spent years trying to prove that animals improve human health, and have largely failed. The problem is the selection effect. Showing, as some studies have done, that dog owners get out more and visit the doctor less does not show that dogs are good for you. It could be that comparatively sociable, healthy people are more likely to acquire dogs. Certainly, pet owners are wealthier than average and more likely to own their homes. A study of California that tried to correct for social and economic influences concluded that having a pet is not associated with better general health (it is, however, correlated with having asthma). A recent randomised controlled trial of therapy dogs in juvenile cancer wards found almost no effect on children’s levels of stress or quality of life.

Undoubtedly, however, one species of animal helps one kind of human. A decade ago researchers positioned a 20-year-old man in a park in Paris and had him repeat the same chat-up line to 240 young women. When the man lacked a dog, he obtained 9% of the women’s phone numbers. While holding a dog on a lead, however, his success rate rose to 28%. A more recent survey of users of Match.com, a dating website, confirms that many women are attracted to men with dogs. Fewer are attracted to men with cats, possibly because owning a cat is less convincing proof of domestic competence. (Men seem to mind less either way.) If there is a pet-loving gene, its prospects seem excellent. ■

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## Special report

### [California and Texas: A tale of two states](#)

California and Texas have different visions for America's future.

### [Business, tax and regulation: Faded gold](#)   [Public education: Do your homework](#)

Many people are moving from California to Texas. Public education in both California and Texas is poor.

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California and Texas are both failing their neediest citizens. California is a leader on environmentalism.

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Immigration shapes the politics of California and Texas. Texas seems better placed to adapt than California.

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Special report: California & Texas

California and Texas

## California and Texas have different visions for America's future

Alexandra Suich Bass asks which works better



Jun 22nd 2019

IN TEXAS AN unexpected enemy gets a lot of attention. In a television ad for lieutenant-governor that aired last year, Dan Patrick, the winning Republican candidate, looked sternly at the camera and warned of a grave danger. “Truth is, Democrats want to turn Texas into California,” he said. “Well, I’m not about to let that happen. What about you?” United in concern is Greg Abbott, Texas’s Republican governor. He predicts that excessive regulation could turn “the Texas dream into a California nightmare”. “Don’t California my Texas” has become a rallying cry for Republicans in the Lone Star State. You can even buy the bumper-sticker.

Some competitive jousting between the two is inevitable. California, with 40m inhabitants, and Texas, with 29m, are the states with the largest populations, with more than one-fifth of Americans claiming them as home. They also have the biggest economies. If they were countries, they would be the fifth- and tenth-largest in the world (see chart), with around \$3trn and \$1.8trn in GDP, respectively.

Texas is the country’s largest exporter, and California claims the number-two spot. In the past 20 years nearly a third of American jobs were generated in just these two states. Combined, they account for around a quarter of American GDP. They educate nearly a quarter of American children, so their investments in, and approach to, public education directly affects national competitiveness. Both states are booming, too. Between 2010 and 2018 two of the three fastest-growing metro areas in America were in Texas: greater Dallas and Houston each gained more than 1m people. The state has a robust oil and gas industry and has succeeded in diversifying its economy. California enjoys the many fruits of the technology boom, a rising stockmarket and some of America’s best universities.

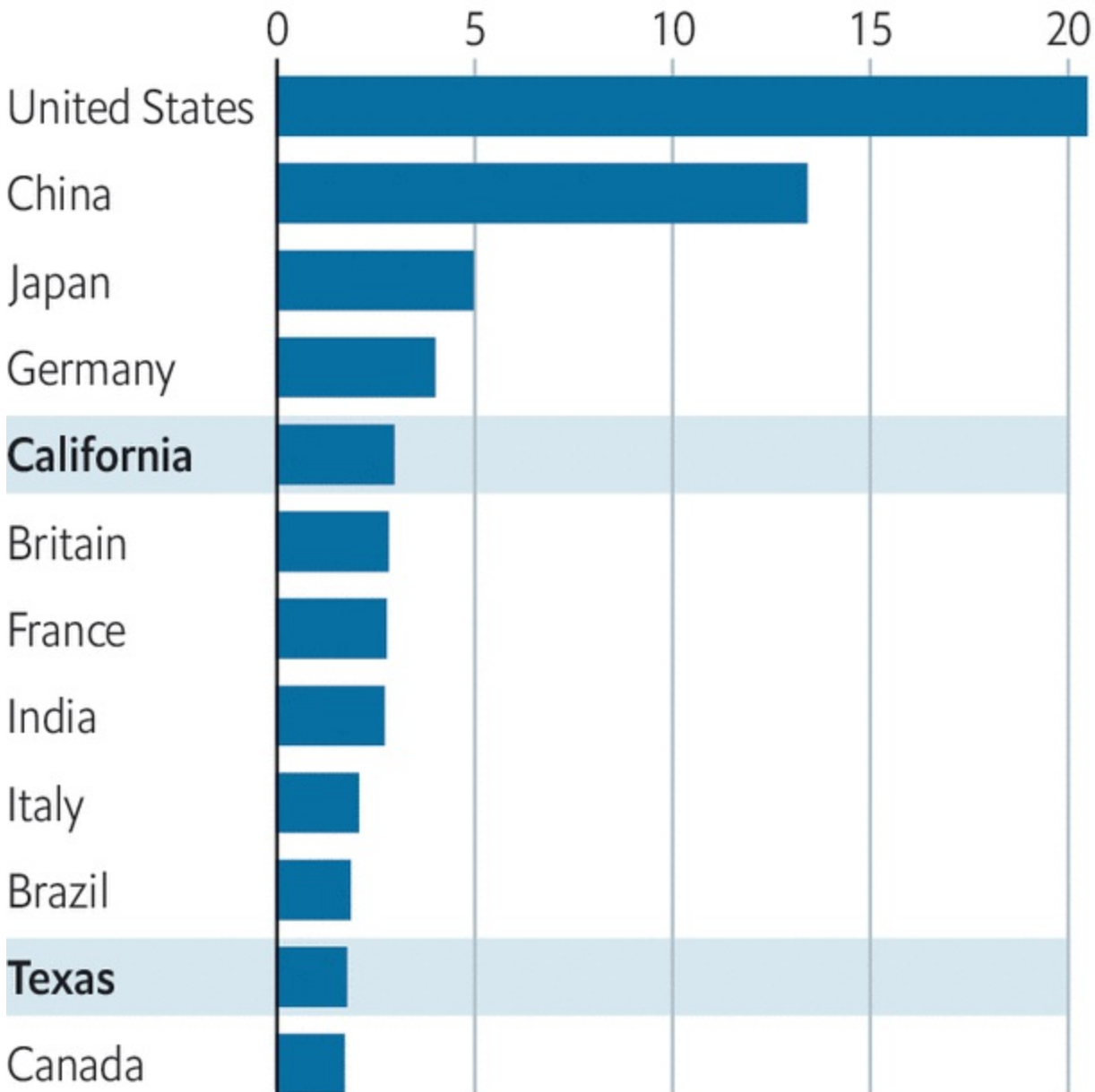


## **A nation divided**

But the two states matter just as much because of the opposing visions and models of government for which they stand. Indeed their rivalry is often an expression of these differences. California is the standard-bearer for progressive experimentation nationally, spearheading policies to deal with climate change, gay rights, the decriminalisation of drugs, paid family leave, inclusive immigration and more. Since Donald Trump assumed office, California has become a state of resistance, suing the federal government around 50 times. It is the country's largest blue state, where the share of registered Republicans is at a historic low and Democrats control all three branches of government. Its model can be summed up as high taxes, high services and high regulation. California sees a strong role for government and leans heavily on its affluent residents to fund a social-safety net.

# Right up there

GDP, 2018, \$trn



Sources: IMF; Bureau of Economic Analysis

## The Economist

Texas, by contrast, has been socially conservative for decades. Although Democrats made gains in the state legislature in 2018, no Democrat has been elected to statewide office for more than 25 years. Its model is low taxes, low services and low regulation. “Govern wisely and as little as possible,” is how Sam Houston, who served as the first president of the Republic of Texas in 1836, described the state’s light-touch philosophy. Serious about avoiding government overreach, the legislature meets only every other year. In 2017 Texas ranked 49th out of 50 in spending per person, shelling out around \$3,925 per citizen, 52% less than the national

average and 68% less than California.

Demographically, both states are already living America's future. Their non-white populations started to outnumber their white ones long ago; California became a "majority-minority" state in 2000, Texas in 2005. Today they are both around 40% Hispanic, more than double the national share. With fast-growing, young and ethnically diverse populations, what California and Texas look like today is what the country will look like in 2050. According to Stephen Klineberg, a professor at Rice University in Houston, "states like California and Texas are where the American future is going to be worked out."

Both states have vulnerabilities. "The key question for California is how much a state can take on, and with Texas it is about how little a government can continue to take on," says Ken Miller of Claremont McKenna College. Their differences can be seen in dramatic and subtle ways. To fund its operations, California levies one of the highest income taxes in America. By contrast, Texas's constitution forbids a state income tax. Unions are a mighty force in Californian politics and workplaces, but Texas is what is known as a "right-to-work" state, meaning that employees do not need to belong to a union, so such infrastructure is weak.

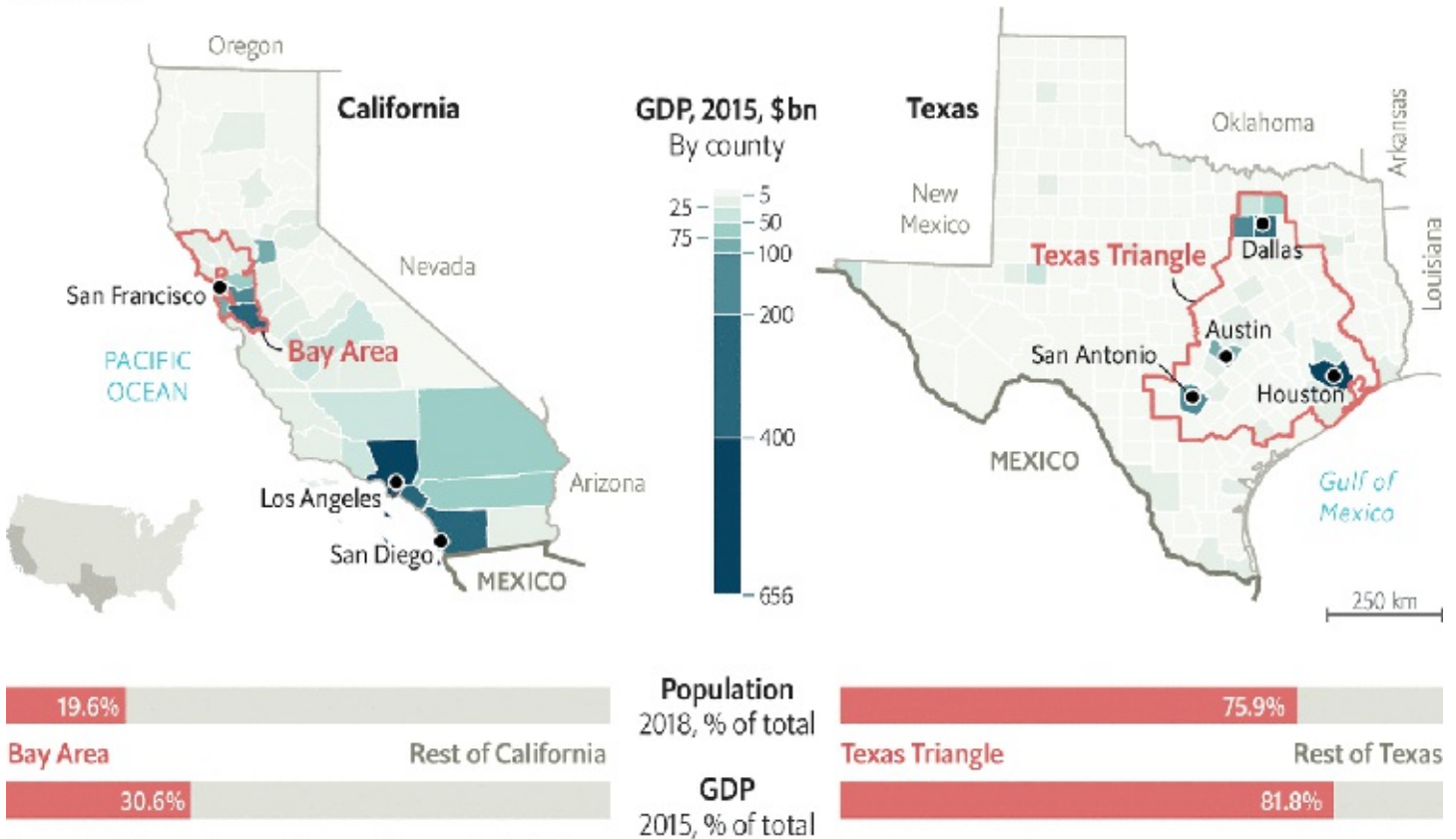
#### **Big-state big state**

California probably has the strongest environmental regulations in the country, whereas Texas nurtures its oil and gas industry and regards nature as something to be subdued. It puts minimal restrictions on keeping exotic animals as pets, which is why there are believed to be more tigers in captivity in Texas than in the wild in India.

Their leaders embody the two states' divergent philosophies. California's governor, Gavin Newsom, who took office in January, is a former mayor of San Francisco, best known for legalising gay marriage in 2004 and sparking a national social movement. The governor of Texas, Greg Abbott, is a staunch social conservative who formerly served as the state's attorney-general and is proud to have sued Barack Obama's administration 31 times over policies including health care and environmental regulations.

Earlier this year Mr Newsom ordered a moratorium on the death penalty, around the same time that politicians in the Texas legislature were debating whether to start providing air-conditioning in prisons during the sweltering summer—an expensive creature comfort, in the eyes of some. Since 1976 Texas has executed more prisoners than any other American state and around five times more than second-placed Virginia.

## Cal-Tex



Sources: US Census Bureau; Bureau of Economic Analysis

The Economist

Their independent natures can be partly explained by history. Tellingly, Texans celebrate 1836 as their founding year, when the state became independent from Mexico after an armed insurrection, not 1845, when Texas officially became an American state. At the time slaveholding Texas received an ambivalent welcome into the nation, which was worried about the balance between states that permitted slavery and those that did not. California, which had also been a part of Mexico before it joined America in 1850, never allowed slavery, which meant it was more warmly welcomed. This experience shaped its political attitudes. Its distance from Washington, DC, fuelled its ability to experiment.

Both states used to be supportive of the other political party. Republicans won California in nearly every presidential election between 1952 and 1988, and Ronald Reagan served as governor there before he became president. The state's politics swerved in response to its growing population of immigrants, who were troubled by Republicans' intolerant rhetoric and policies. Texas used to be strongly Democratic and produced Lyndon B. Johnson, who became president after John F. Kennedy was assassinated in Dallas. Mr Johnson's legacy includes launching many of the programmes that Texan politicians today scorn, including the war on poverty and federally funded health care for the poor and elderly. His commitment to social services and civil rights helped hand his state and the south to Republicans.

Americans and immigrants have for decades travelled to both states to build their future unencumbered by tradition. The "Texas Triangle", formed by the four large cities of Austin, Dallas, Houston and San Antonio, accounts for three-quarters of the state's population, has been responsible for three-quarters of its population growth since 2010, and produces 82% of its GDP.

### Small-state big state

The threat of Texas becoming California, as the Lone Star State's leadership fears, is exaggerated. However, it

raises the question of which pole America will turn towards—the progressive left represented by California or the right represented by Texas. “The fact that America can contain two such assertive, contrary forces as Texas and California is a testament to our political dynamism, but more and more I feel that America is being compelled to make a choice between the models these states embody,” writes Lawrence Wright in his book “God Save Texas”. “Under the Trump administration, Texas is clearly the winning archetype.”

That may not hold for ever. Texas is already changing. “Outsiders think Austin is a blue bubble and the rest of Texas is tumbleweeds,” says Ann Beeson of the Centre for Public Policy Priorities, a left-leaning think-tank. “People have a huge misunderstanding of how giant, progressive and diverse our cities are.”

Nor should California, which frequently creates political winds that then sweep across the country, be discounted. It experienced an anti-tax backlash in the 1970s and an anti-immigrant push in the 1990s, both of which spread nationally. It legalised abortion six years before *Roe v Wade*, the historic Supreme Court decision, in a bill signed by Reagan, then governor. “So much of what we aspire to as a country resides in California,” says Austin Beutner, a former businessman who is superintendent of Los Angeles Unified School District. “Laws go east to west. Values go west to east.”

Much of America’s future rides on California’s and Texas’s success. This special report will look in detail at how the states are approaching business, taxation, public education, social welfare, the environment, and policies toward immigrants. It will ask which state’s model is likely to prove more fruitful in the long term. “There are 50 labs in the United States, and you can watch the California and Texas experiment,” says Ross Perot junior, a successful Texan businessman. “That’s the American way.” ■

[→ The environment: California is a leader on environmentalism](#)

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## Special report: California & Texas

### Business, tax and regulation

## Many people are moving from California to Texas

The cost of living, as well as high taxes and red tape, are precipitating the push



Jun 20th 2019

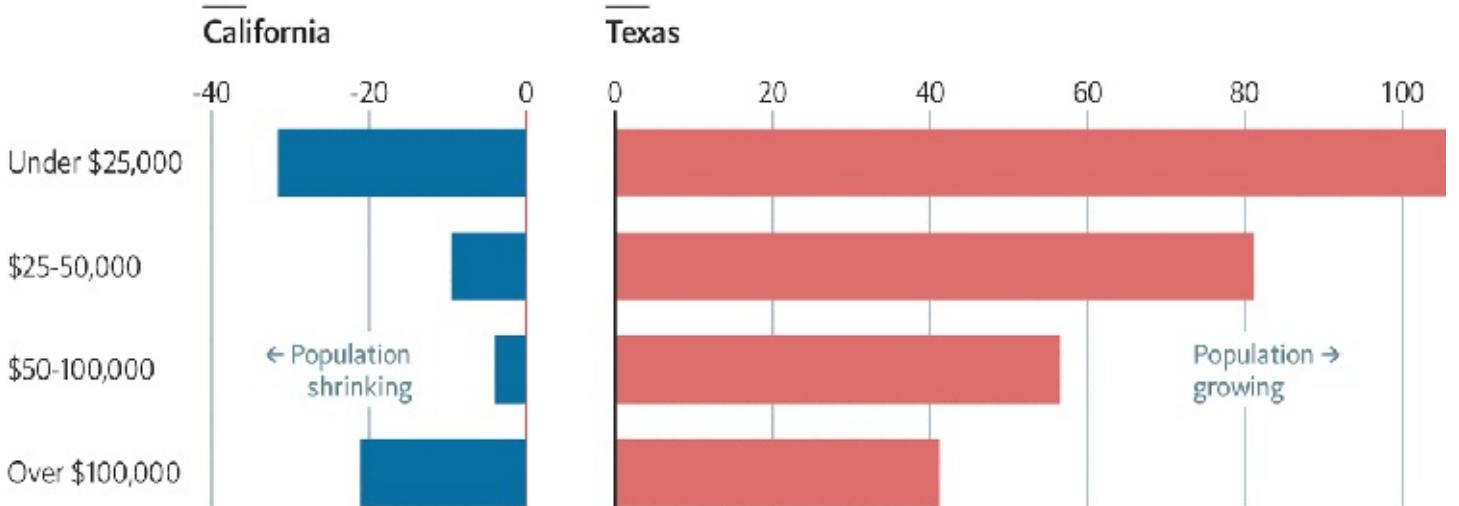
“EVERYONE IS FROM California. Are they kicking y’all out?” asks a curious bureaucrat at the Department of Public Safety in Plano, a city near Dallas. In the previous week she had helped 20 people from California apply for a Texas driving licence. Those keeping score in the contest between the two states do not have to look far to notch up points for Texas. On the way to the state Capitol building in Austin to interview Greg Abbott, the governor, your correspondent discovered that her driver had recently relocated from southern California to start a family in a more affordable city.

Between 2007 and 2016 a net 1m American residents, or 2.5% of the state’s population, left California for another state. Texas was the most popular destination, attracting more than a quarter of them. More Americans have left California than moved there every year since 1990, though immigrants still arrive from abroad.

Companies are also moving. Last year McKesson, a medical-supplies company, and Core-Mark, a supplier to convenience stores, shifted their headquarters from California to Texas, as did Jamba Juice, a smoothie company. Many Californian firms are also adding jobs outside the Golden State. Charles Schwab, a financial-brokerage firm based in San Francisco, received more than \$6m in incentives from Texas, and by the end of this year will have more employees there than in California.

## Moving on out

Net migration of Americans by annual income\*, 2011-16 total, '000



Source: Internal Revenue Service

\*People filing tax returns

The Economist

What explains the one-way traffic? There are four reasons for California's weaker position. First, it has become very expensive, especially for housing. "If there's one risk factor in this state, it's affordability," says Gavin Newsom, California's governor. "The thing we most pride ourselves on—the California dream, a notion of social mobility that we export around the world—is in peril." A third of Californians are thinking of moving out of state because of the high cost of housing, according to a recent survey by the Public Policy Institute of California, a non-profit research firm. Most of those leaving California for Texas earn less than \$50,000 a year and have only a high-school education (see chart).

### The feudal few

The middle class is also struggling. In California home-ownership rates are at their lowest level since the 1940s and among the lowest in America, with black and Hispanic families particularly hard hit. In the past ten years around 75,000 new housing units received permits annually, only 40% of the projected need. "From the perspective of a young, upwardly mobile family, California is nearly impossible, unless you have rich parents, rob a bank, or get money from your firm going public," says Joel Kotkin, a professor at Chapman University, who believes that the state is experiencing a new kind of "feudalism", where the ultra-rich thrive and others suffer.

As a symbol of how out-of-reach the once accessible state has become, last year the small house that was the setting for "The Brady Bunch", a television show in the 1970s about a middle-class Californian family, sold for a whopping \$3.5m, nearly double its asking price. Companies expanding elsewhere find that many employees are happy to give it a go in a state where they can afford to buy a house and raise a family.

The states also have wildly different tax regimes, which is a second reason for Texas gaining favour as a destination. With a top rate of 13.3%, California has the highest state income-tax rate for top earners. Texas does not charge residents a state income tax. Instead, they pay higher property taxes to local governments, and the state gets most of its money from a sales tax. Because of recent changes to the tax code, residents of California and other high-tax states will no longer be able to deduct all of their state and local taxes from federal payments, which could further dampen people's willingness to remain in the state.

### Deep in the heart of taxes

Taxes on businesses are increasing, too. In the past six elections California voters have approved more than 800 local taxes on businesses and residents, according to Larry Kosmont of Kosmont Companies, an economic advisory firm. (This does not include voters' decision to raise the income-tax rate on the state's highest earners.) For example, last year voters in San Francisco approved the controversial Proposition C, which taxes businesses with more than \$50m in gross revenues to fund services for the homeless. Companies with fat profit margins can afford higher taxes, but lower-margin businesses cannot, and these are the ones most likely to consider an alternative location.

Third, Texas has pursued a concerted strategy of wooing and cultivating businesses, whereas California has not. This began with Rick Perry, who served as Texas's governor from 2000 to 2015. He travelled to California and other states on "hunting trips" to poach businesses, ran ads on radio encouraging people and companies to move, and offered large incentives to create jobs in Texas. Mr Abbott has continued with these pro-business policies and still operates a "deal-closing fund" to incentivise businesses to come. He is a cheerleader for his state's advantages, including low costs, a central location with good airports and a convenient time zone for doing business with both coasts. He describes Texas as "the quintessential free-enterprise state".

California has not done enough to pursue an economic strategy of its own. "I think we rested on our laurels a bit. We put up our feet and talked about the old days," admits Mr Newsom. Yet when governors from other states come to California to pitch a relocation, the state still does not intervene to retain companies, which sends the message that it is indifferent, says Barry Broome of the Greater Sacramento Economic Council.

The reality of doing business in California, with heavy regulation across most industries, is a fourth disadvantage. For example, the state has some of the most burdensome occupational licensing requirements in America, even for low- and moderate-income jobs, such as tree-trimming. "It's easier to do business in Cuba than San Francisco," says the boss of one of the Bay Area's most prominent tech firms, which operates in both places. CNBC, a news company that rates America's states for business, has ranked Texas as first and California as 25th. California has a more educated workforce and stronger innovation, but when it comes to commercial "friendliness" and the cost of doing business, it is in last place and third-to-last place respectively.

The heavy cost of regulation is evident in property and contributes to higher prices for homes. You can get a building permit within a few months in Texas, but it can take years in California, where the environmental-review process can be lengthy and lead to expensive lawsuits. "I'm an environmentalist, but it's completely crazy what happens here. The planning commissions slow-walk everything," says the boss of one of America's largest technology companies, based in Silicon Valley.

Red tape takes a toll on small firms, too. "If you have the balance-sheet to fight through it, you can make money, but you have to be big and well-capitalised to do business in California," says Mr Perot. "A little guy can't survive. That's the irony of the politics." Property projects that use public funds or subsidies, including below-market-value land for affordable housing, must pay "prevailing" wages for workers, which can add 15-25% to the total cost, says Mr Kosmont. This does not happen in Texas.

The tech boom has created huge wealth disparities. Local anger and insistence on business contributing more to society could result in extra taxes and red tape. Already San Francisco is one of the few cities in America where "civic leaders openly flay their most successful progeny and throw so many roadblocks in front of young companies," says Michael Moritz of Sequoia, a leading venture-capital firm. "It makes states and countries that roll out the carpet and offer a welcome to businesses exceedingly attractive." Tools that Silicon Valley has produced, such as email, video conferencing and messaging, make it possible to work remotely, which will help more companies expand in less expensive states.

So far the wealthy have accepted California's tax increases without moving en masse. The state boasts many assets, including a long coastline, a global and educated elite, top-tier universities and a concentration of tech expertise. However, its long-term fiscal health is precariously balanced, because it relies on a small number of people to pay for an extensive system of benefits. The top 1% of taxpayers account for 46% of all personal-income tax and 35% of California's general-fund revenues, according to Gabe Petek of the Legislative



Analyst's Office, an independent fiscal monitor.

Because personal-income tax is the main source of revenue, California's fortunes ride on the stockmarket's performance. The state has the fifth most volatile tax system of any American state, according to the Pew Charitable Trusts (Texas ranks 21st). Facebook's initial public offering in 2012, for example, alone contributed \$1.9bn in tax to California's coffers. In 2016 the state collected \$1bn from a single zip code in Palo Alto. Such concentrated bounty can be welcome when times are good, but it leaves the state more vulnerable when the market falls. Today the state has around \$20bn in reserves to withstand a slowdown, but even a mild recession would wipe that out within a single year, says Mr Petek.

Texas must also cope with economic volatility. Its strong reliance on energy, which accounted for around 16% of its GDP over the past ten years, means global energy prices can drive the state's prosperity. As its constitution bars income tax, Texas has few ways to stabilise revenues in bad times. "You have two legs of a stool—sales tax and property tax—and if you only have two legs, there's a lot of teetering," says Michael Hinojosa, superintendent of Dallas's school district, which faced big cuts during the last downturn.

### Baywatch

In order to continue to thrive, California must make changes, like increasing affordable housing, generating more tax revenue from diverse sources and creating well-paid jobs. The state appears to be booming, but the gains are concentrated. Between 2007 and 2017 the Bay Area accounted for a third of new jobs and enjoyed 17% employment growth, against 7% for the rest of the state.

"If California were divided into states, we'd have the richest state in Silicon Valley and the poorest state in the centre," says Lenny Mendonca, director of California's Office of Business and Economic Development. Regions like the Central Valley, east of San Francisco, are ailing. "We can't be a great state if we're two states," says Michael Tubbs, the mayor of Stockton, a poor city in that area. In 2008 the city was America's foreclosure capital. Today it has the dubious distinction of having the largest number of "super-commuters". Around 30,000 people commute more than 90 minutes each way to work.

According to Mr Broome, the state needs to develop a strategic plan and invest in a more robust economic-development agency to persuade companies to stay. In other words, California needs to adopt a pro-business attitude and strategy more like that of Texas. "We're incorporating a lot of ideas from Texas, and we're not just going to roll over any longer," says Mr Newsom. In the future his administration will try to encourage businesses to relocate or expand to more affordable areas within the state. But it is not obvious that such a pitch will succeed. Costs are lower in places like the Central Valley, but they are even lower in other states.

Mr Newsom has also asked his team to examine the licensing requirements for various occupations, so that California can reduce bureaucratic red tape. But more dramatic changes are required. "I don't know that a week goes by where we're not engaged in tax-reform discussions," declares Mr Newsom. However, a major tax overhaul may not be politically feasible. Proposition 13, which caps the rate at which property taxes can rise, is why the state is so heavily reliant on personal-income tax. In 2020 voters will decide whether to exempt some commercial properties, which could lead to billions of dollars in extra tax revenue. But that alone is unlikely to solve the state's precarious fiscal balance.

Today Texas is better placed to grow than California, but that could change. Some firms worry that the state is not investing enough to retain its competitive edge. Texas has thrived by importing skilled Americans, but it needs to cultivate its home-grown workforce, too. "The private sector creates jobs but the public sector must provide the infrastructure to enable growth to occur," says Tom Luce, a lawyer, who says he is "concerned about how Texas will deal with its future" and whether it can produce enough educated workers to fill the jobs that companies will create. ■

[people-are-moving-from-california-to-texas](#)

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## Special report: California &amp; Texas

## Public education

**Public education in both California and Texas is poor**

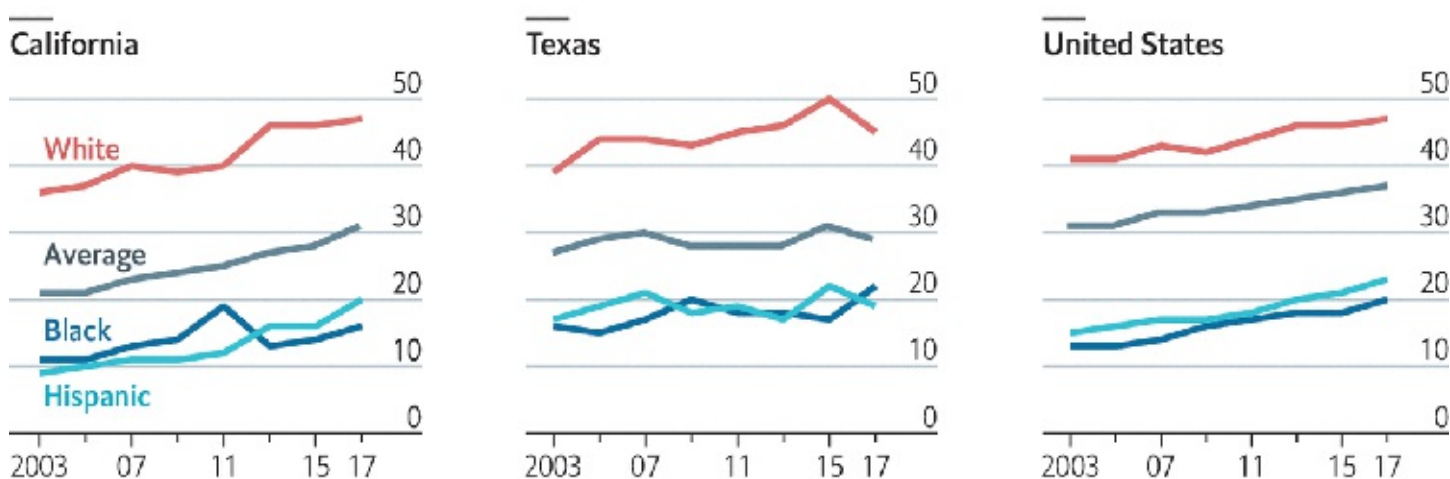
Increased spending does not always bring better results

Jun 20th 2019

**Read it and weep**

Share of fourth-grade pupils proficient or advanced in reading English, %

By race



Source: National Assessment of Educational Progress

The Economist

THEIR TASK is to educate whole generations, but if California and Texas were to be graded for their achievements in the classroom, they would barely pass. They rank 36th and 41st, respectively, out of 51 states (including Washington, DC) for educational outcomes, according to Education Week, a news firm. Only 29% of fourth-graders (aged 9-10) in Texas and 31% of their counterparts in California are proficient in reading at their grade level, compared with 35% nationally, according to the National Assessment of Educational Progress, which measures student achievement (see charts on next page).

Since nearly a quarter of America's public-school students are educated in California and Texas, the states' performance matters profoundly for the country's future. Yet less than 7% of economically disadvantaged kids are prepared for college, compared with 27% of children who are not economically disadvantaged. Those who enroll in community college or university in either state can spend months taking remedial courses before their coursework counts towards a degree, says Jim Lanich of Educational Results Partnership, an NGO. California's students underperform Texas's in several areas, including maths and science, and its Hispanic and African-American students do worse, too. But neither state has much to boast about.

Education is the biggest budget item in both states, costing \$100bn per year in California and \$50bn in Texas. But disenchantment is growing. "Education is the single largest enterprise in California. It has 6m student customers. And it sucks," exclaims David Crane of Govern for California, a political outfit. A high-ranking education official in Texas compares his state's poor performance to "being the thinnest fat dude. It's not adequate for our kids." Why, then, is performance so disappointing?

Both states have a difficult assignment. Around three-fifths of their students are economically disadvantaged

and one-fifth are bilingual or still learning English, making their task especially challenging. But other factors are also at play. One is investment. In the fiscal year 2015-16 California spent \$11,420 per pupil, 22% more than Texas but 4% less than the national average, according to the National Centre for Education Statistics, which tracks spending. Funding for education in California has risen by 60% since 2010 and is at a 30-year high, but given the needs and backgrounds of its students the state still underinvests.

California's high costs help explain why increased spending has not produced better results. The average teacher's salary in California is around \$79,000, which is 50% more than in Texas, but that does not stretch far because of the extortionate cost of living. Many teachers struggle to buy their own house, says Eric Heins, who runs the California Teachers Association, a union.

The Golden State also maintains a more generous system of benefits for pensioners. With defined-benefit pensions and health-care subsidies, spending on benefits is eating up a growing share of the education budget. In 2012 Californian voters approved a 30% increase in income-tax rates, in part to fund public schools, but all that extra funding went to pensioners and their health care, rather than to pupils or teachers' salaries, says Mr Crane. Politicians are loth to deal with the rising costs of benefits for fear of a backlash at the polls.

Teachers' unions are a powerful political force in California, significantly more so than in Texas. Unions represent the interests of their members, not the students they teach, and they limit school districts' ability to manoeuvre. When Californian districts run into hard times, they often retain teachers based on seniority.

The quality of teachers determines the performance of students, especially those from a low-income background. But in California firing underperforming teachers is more difficult than mastering advanced calculus. It is one of four states to offer lifetime tenure to teachers after only two years. In most states, including Texas, achieving tenure takes three or more years, and even after that it is easier to fire underperforming employees. School districts' limited ability to manoeuvre shows up in California's education code, which, at 2,590 pages, is more than twice as long as the Bible.

The financial crisis also hurt educational performance in both states. In Texas proficiency in maths among eighth-graders (aged 13-14) has fallen since 2011, when the legislature announced it would cut \$5.4bn from education over two years. Legislators in Texas have been especially stingy. School districts have sued the state several times for underfunding and often prevailed. "More money won't necessarily solve everything, but the absence of money can make things extraordinarily difficult," says Todd Williams, a former Goldman Sachs executive who is now an education advocate in Dallas. There has also been a broader shift away from testing and accountability at state level, meaning that underperforming schools in the Lone Star State face fewer consequences, says Sandy Kress, a lawyer. (California has also pushed back against testing.)

But although there is less money to go around in Texas, there is more latitude to experiment. One example is a programme developed by the Dallas Independent School District, which eliminated seniority-based pay in order to reward its best-performing teachers, with some earning \$80,000-90,000 a year. Those star teachers who agree to teach in a high-needs school get an extra salary lift of \$8,000-10,000. The school district, with nearly 90% low-income students, has increased achievement across all grades and subjects by 13%. "The fact that I don't have to deal with a union contract gives us a big advantage in being nimble and creative," explains Michael Hinojosa, the district's superintendent.

Texas wants 60% of its high-school graduates to receive a certificate, two- or four-year degree by 2030, but currently less than half that number are achieving that aim. California scores better in the quality of its universities, share of students enrolled and investment. It is widely believed to have the best public university system in the country, and between 2008 and 2018 increased higher-education funding per pupil by 3%, while Texas cut its by 23%.

#### **It's elementary**

Both states are trying to up their game, for example by putting more money into early-childhood education. This

can make a difference for low-income students, who are more likely to enter kindergarten already lagging their peers. The states should also invest more in “pre-college” courses so that high-school students can graduate with college or technical-school credits under their belt. Young people who start college work in high school are more likely to enroll in college and graduate with less debt, says Daniel King, superintendent of Pharr San Juan Alamo school district in Texas’s Rio Grande Valley. The effect of pre-college offerings is more profound on low-income students and minorities, for whom it “changes how they see themselves and what they can be”, he says.

A recent report on public-school finance commissioned by the Texas government highlights the economic rationale for investing more in students. It calculates that each high-school graduate who does not go on to earn a certificate from a vocational or technical school, or a two- or four-year degree from a community college or university, misses out on \$1m in lifetime earnings. “This represents a significant forgone opportunity cost approximating \$200bn in lifetime earnings with each and every graduating class,” the report says. Others point out that imprisoning people costs far more than schooling them does, and the probability of incarceration rises when someone drops out or underperforms in school.

Overall, Texas seems more likely to pull ahead of California for two reasons. First, business and civic leaders are concerned about inadequate investment in students, which reduces the pipeline of skilled workers for the jobs companies are creating. “We’re not going to have a workforce without doing a vast amount better with the students that are in poor and minority districts,” says Margaret Spellings, former secretary of education under President George W. Bush. Texan politicians eventually tend to follow what businesspeople want. In May the state legislature approved a \$6.5bn public-education bill, providing funding for sensible policies, such as expanding merit-pay programmes for teachers and giving school districts with high-needs kids the option to extend the school year. But more funding is still needed.

Second, political self-interest will focus attention on public education. Texas is seeing greater political competition for the first time in decades. Some Republicans believe that, without more investment and improvement in public education, voters could bring in the Democrats. If poor test results do not cause them to change their approach, the mathematics of politics might. ■

[→ Business, tax and regulation: Many people are moving from California to Texas](#)

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## Special report: California & Texas

### Welfare

## California and Texas are both failing their neediest citizens

But they are doing so in different ways



Jun 22nd 2019

TEXAN LEADERS are proudly thrifty. They also believe that cowboy boots are a legitimate fashion choice and that bootstraps are tools by which people should pull themselves up. Visitors to the website of the department overseeing welfare are encouraged to share their ideas for cost savings. Texas's constitution, unusually, specifies a spending cap on aid for poor families and children (at 1% of the annual budget). "It seems like California measures success by the number of people who are dependent on government programmes," quips Greg Abbott, the governor. "We define success by the number of people who are employed."

California's official poverty rate is 13% and Texas's is 14%, putting them in the middle of the national range. However, after factoring in the cost of living, the Lone Star State's poverty rate is nearly 15%, the tenth-highest. The Golden State, at 19%, has the highest. The huge gaps between the wealth of the top 5% and bottom 20% make California the second most unequal state after New York, with Texas in tenth place, according to the Centre for Budget and Policy Priorities (CBPP), a think-tank.

California's poverty rate is high despite heavy investment to counter it. It has 38% more people, but its spending on public welfare is 120% higher than Texas's. However, the cost of living in California is 40% higher than the national average, whereas in Texas it is around 9% below the average. Housing is the primary culprit, responsible for around 80% of the higher cost of living in California. Around one in three Californian renters spends at least half their income on rent. "In California it's harder to make it on your own, but there are supports," explains Heather Hahn of the Urban Institute, a think-tank. "In Texas you may be better able to make it on your own because it is cheaper to live, but if you can't, there's less of a safety-net there for you."

Both states accept federal funds for social-welfare programmes, including the Supplemental Nutrition Assistance Programme, which provides food stamps to the needy. “Texas is pragmatic,” explains Ken Miller of Claremont McKenna College. “It’s willing to accept a dollar if the federal government wants to give it a dollar, but it isn’t willing to follow a government mandate.” California goes further, supplementing many federal programmes with money of its own, whereas Texas mostly does not.

**Nets and hammocks**

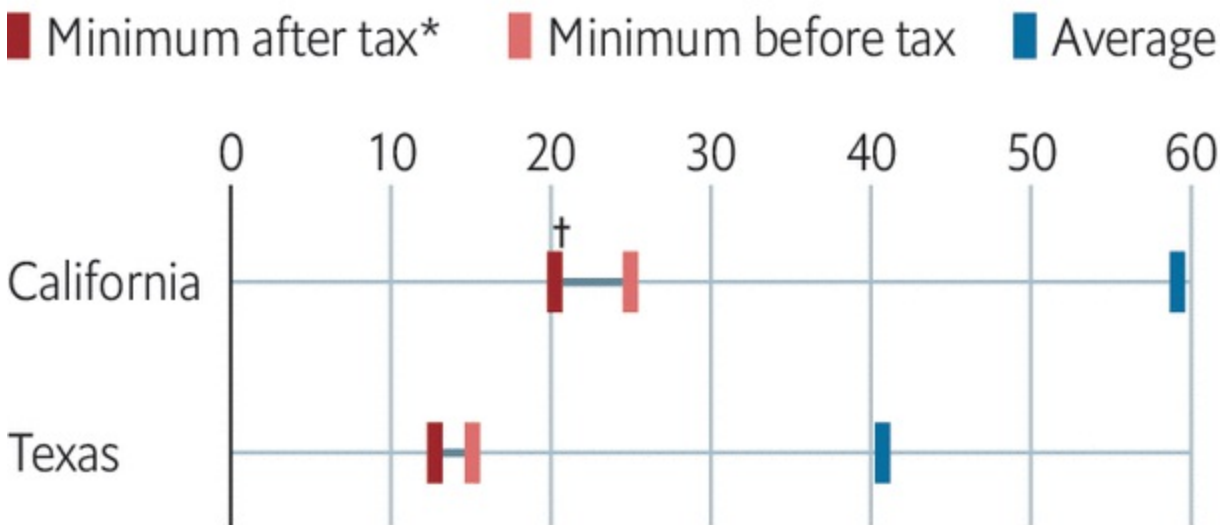
The two states’ safety-nets differ in three significant ways. One concerns handouts. In Texas cash welfare is almost non-existent. That is because the Temporary Assistance for Needy Families (TANF) programme, which is mostly federally funded, gives latitude to states in their spending. After welfare reform in 1996 many states started putting more TANF money towards programmes other than cash welfare, but Texas has been particularly zealous, diverting most such funds to pre-kindergarten, child-welfare services, pregnancy-prevention efforts and more. In Texas only around 6% of TANF funding goes to cash welfare, which means that in 2016-17 only 4% of poor families with children in Texas received a cheque, compared with 23% nationally and 65% in California, according to CBPP. California, on the other hand, heavily supplements federal TANF funding with billions of dollars and spends around 40% on cash assistance.

A second way the states differ in their treatment of the poor is in their approach to redistribution through taxation and wages. California’s progressive tax regime, with a high personal-income tax on the wealthy, leans heavily on the rich. California also offers a state-level earned-income tax credit, which in 2018 gave around \$400m to poor people who are working but fall below a certain threshold. It is one of the most effective poverty-alleviation tools available and encourages people to work. Texas does not offer it.



## Pocketbook issue

Annual wages, \$'000, 2018



Sources: Bureau of Labour Statistics; ADP

\*Including social security and Medicare  
 †Including state disability insurance tax

California also believes that paying people more will help them out of poverty and has pushed up the minimum wage, to \$11 an hour this year and \$15 by 2023. Texas follows the federal minimum wage, which is \$7.25, and has fought cities' attempts to raise it, as Austin and San Antonio have tried. This plays into a larger stand-off between liberal cities, which want progressive policies such as higher wages and paid sick leave, and the more conservative legislature, which has moved to limit cities' freedom to craft their own policies. "Local control used to be a principle of state government. But we've gone from local control to controlling the locals," says Evan Smith, head of *Texas Tribune*, a non-profit news organisation.

A third difference in state policies toward the poor is in access to health care. Under the Affordable Care Act, states can extend health-care coverage to a larger share of their poor, uninsured citizens, with the federal government picking up 90% of the bill. California did this and its uninsured rate dropped from 17% in 2013 to 7% in 2017. Texas sued the federal government and did not expand the share of those covered by Medicare through Obamacare. Today its uninsured rate is over 17%, the highest in the country. Texan politicians did not trust the federal government always to foot such a large share, says Mark Jones of Rice University. Whatever the rationale, its decision has hurt the poor, who could have had access to subsidised health care were they living in another state.

Which state's approach better serves citizens? Neither is helping all the people who need it. Poverty anywhere can feel hopeless, but in Texas it can be especially bleak. In parts of the Rio Grande Valley in southern Texas, one of the country's poorest regions, more than 40% of children live in poverty. "There are gaping holes in the social-safety net, with so many falling through them," says Traci Wickett, president of the United Way of Southern Cameron County, a non-profit group that works in the Rio Grande Valley. Nearby are many *colonias*, unincorporated slum-like areas where the poor live, lacking running water and sewerage.

Without state intervention, California's poverty would be even more acute. Around 35% of Californian children would have been poor without social-safety net programmes, compared with the actual rate of 21%, according to the Public Policy Institute of California. Children who grow up in homes that qualify for food stamps and health coverage for the poor under Medicaid are more likely to be healthy and achieve higher educational levels and higher incomes. Those whose households qualify for the earned-income tax credit are more likely to go to college and earn more themselves. These outcomes are not only good for families but also for taxpayers, because they translate into more taxes paid, says Heather Hoynes of the University of California at Berkeley.

The first term of Gavin Newsom, California's governor, will test how much bigger and stronger California can weave its social safety net. He is expanding funding for many programmes, including subsidised child care, affordable housing and tax credits for the poor, and has expressed support for universal health insurance for all Californians. Such insurance would cost \$400bn, about double the state budget, according to the Legislative Analyst's Office, making it fiscally impossible. Mr Newsom must also grapple with homelessness, as around a quarter of the country's homeless live in the state. The success of his governorship will be judged by how much he can relieve the primary reason for residents' economic struggles, which is the cost of housing.

During economic booms like the one California has been enjoying, it is politically appealing to expand social services. For example, some in the state want to offer health care to poor immigrants of all ages, regardless of their immigration status, which would cost around \$3bn a year. But doing this could "demolish" the discretionary spending that needs to go to the university system, courts, parks and other social services, points out David Crane of Govern for California, a non-partisan group. And demand for social services will increase when the economy falters, which is precisely the time when the state's tax collections fall.

For Texas the main question is whether the state's low-touch model will have to bend as people demand more of their government. Mr Abbott has made resisting the Affordable Care Act and other Obama-era policies a pillar of his political career. However, some pragmatic Republicans think it is in the state's and their party's interest to expand health-care coverage for the poor. Those without health insurance end up in hospital, leaving taxpayers to foot the bill. Ed Emmett, a Republican who served as county judge for Harris County, which includes Houston, supported Medicaid expansion, because a quarter of all local property taxes go to health-care costs. "Why should the property-taxpayers in Harris County pay for indigent health care when the federal



government will pay for it?” he asks. Liberals and fiscally minded conservative voters may push Texas towards change. According to Mr Miller, health care could become a “political flashpoint”, where the “conservative model will have to yield”. ■

[→ California and Texas: California and Texas have different visions for America’s future](#)

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Special report: California & Texas

**The environment**

**California is a leader on environmentalism**

That is good for the Earth, but not always for Californians



Jun 22nd 2019

VISITORS TO THE Capitol in Sacramento, the seat of California's state government, confront an 800lb grizzly bear outside the governor's office. The bulky bronze statue of the official state animal showcases California's

environmental focus, which sadly developed only after the last remaining grizzly was shot nearly a century ago. The state's environmentalism has produced many benefits. Its high standards for energy efficiency, for example, have helped to bring more fuel-efficient cars and fewer carbon-intensive products to the rest of the country.

In 2006 California established the first comprehensive greenhouse-gas regulatory programme in America and has adopted more zealous targets to reduce emissions than many signatories to the Paris Agreement, from which America withdrew. "We have stepped in on climate change where the federal government has stepped away," says the governor, Gavin Newsom. California's leadership on the environment has won it kudos, but it has also exacerbated the housing shortage and high cost of living.

The California Environmental Quality Act (CEQA), which requires state and local agencies to review the environmental impact of new projects, is one example. Signed into law in 1970 by the then governor, Ronald Reagan, CEQA initially applied to public-works projects, but later expanded to housing. Today those opposed to new development can bring CEQA lawsuits, holding up projects for years and adding to developers' costs, which are subsequently passed on to consumers. Even a top adviser to Mr Newsom says that CEQA "is the standard-bearer for what's wrong with California".

Some of the state's other standards for reducing greenhouse-gas emissions contribute to higher housing costs. Many new homes are required to install solar panels, and construction is encouraged near transit hubs, where units are more expensive than less-dense housing farther away from job centres.

California's environmental efforts have contributed to higher costs for other living expenses, too. Petrol prices are the highest in America, around 40% above the national average, because the state requires a unique formulation for cleaner fuel that only a handful of refineries can produce. This falls disproportionately on the less affluent, who often live far away from their jobs and public transport. Meanwhile, residential and industrial electricity rates in California are 50% and 75% more than the national average. Cheaper power makes other states, such as Texas, more attractive for manufacturers and heavy users of electricity. California counts people and firms that move elsewhere as carbon reductions in its statistics, even though they are moving to states with higher emissions, says Jennifer Hernandez of Holland Knight, an environmental-law firm.

Texas is the country's number one producer and consumer of energy, and environmentalism is not part of its brand. But change might not be impossible. In the 1990s, under Ann Richards and George W. Bush as governors, the state made efforts to reduce pollution and encourage renewable energy. In 1999 Texas deregulated the electricity market, which promoted competition, reduced prices and set targets for renewables. The state has retired coal plants and become the leading producer of wind power in America.

The business community is increasingly concerned about climate change, says Brett Perlman of the Centre for Houston's Future, a think-tank. This is especially true in Houston, where Hurricane Harvey caused \$125bn in damage in 2017. Even oil companies are investing in wind and solar power as it has become cheaper. But plenty of Texan politicians are still wedded to a conservative ideology and a Republican-voting public that rejects the idea of global warming. Asked if he believes climate change is a problem, Greg Abbott, the governor, replies cryptically: "It's a fact that the climate has changed in the last decade and the last 10,000 years. The climate is constantly changing."

[→ The future: Texas seems better placed to adapt than California](#)

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## Special report: California & Texas

### Immigration

## Immigration shapes the politics of California and Texas

But the two states' approaches to the issue are very different



Jun 20th 2019

SEVERAL THOUSAND feet up in the air, under the deafening whirr of the rotor blades of a helicopter belonging to Texas's department of public safety, your correspondent found it easy to lose track of which country she was flying over. Much of the border between Texas and Mexico is the Rio Grande river, and the land on both sides looks similar. There is, however, one unmistakable clue: the direction of those crossing the river. Even in broad daylight, small groups of people are wading, swimming and rafting across. It is a one-way flow of human traffic.

The different philosophies of California and Texas, which were both once part of Mexico, can be summed up by what they do on their southern border. California's governor, Gavin Newsom, recently withdrew several hundred National Guard troops from southern California in a symbolic protest at President Donald Trump's hardline stance on immigration. Texas, by contrast, spends \$400m a year of its own money to police the border. This investment has been essential in reducing crime in the Rio Grande Valley, says Steven McCraw, who is in charge of the department of public safety.

For much of the past century immigration has spurred economic prosperity in the country as a whole, and in California and Texas in particular. Around five in ten workers in Texas were not born there. Half of those came from another American state, and half from overseas. Texas and California have the largest share of undocumented immigrants in the country, an estimated 3.8m, or 36% of those nationwide.

**Back where they came from**

According to the Pew Research Centre, a think-tank, in 2016 undocumented immigrants accounted for 6% of the two states' total population and 8.5% of their workforce, filling vital jobs in industries like agriculture and construction. The number of people coming across the border has declined from a peak of around two decades ago, but recently there has been an uptick. In May more than 144,000 people were apprehended in the south-west border region, the most since 2007.

As America has become polarised over immigration, politicians in California and Texas have staked out different public positions. No state has gone further than California to demonstrate support for immigrants, both legal and undocumented, who together account for around a quarter of the state's population. California has declared itself a "sanctuary" state, which means it limits contact between its own law-enforcement officials and federal immigration authorities. (This designation prompted Mr Trump's administration to sue, but California's policy was upheld in an appeals court.)

It is one of a few states to offer driving licences and preferential in-state tuition rates at universities regardless of immigration status. It already offers health coverage to undocumented children, and is set to become the first state to extend it to undocumented adults.

Texas has taken a harsher stance. Dan Patrick, the lieutenant-governor, has described illegal immigration as an "invasion". Many Texan leaders "were Trumpy before Trump", says Matt Barreto of Latino Decisions, a polling firm, pointing out that their harsher stance on immigration began with the rise of the conservative Tea Party, which predated Mr Trump's election in 2016.

Since then heated talk about immigration has only become hotter. In 2017 Texas passed a controversial law that, in effect, bans sanctuary cities and gives law-enforcement officials the right to ask people they arrest or detain to show papers confirming their citizenship. More recently Texas led several states in a lawsuit to end a federal programme that provides a path to citizenship to the American-born children of immigrants, a policy known as Deferred Action for Childhood Arrivals (DACA).

This year state officials were involved in a controversial voter purge after they identified 100,000 supposed non-citizens and urged local officials to investigate and remove them from voter registries, even though that list included naturalised citizens. (The action was successfully challenged in court.) Mr Patrick has gone so far as to say that Texas would consider building Mr Trump's border wall on the federal government's behalf, as long as the state were reimbursed.

Neither state has always maintained its current political stance. The governorships of George W. Bush and Rick Perry in Texas were marked by tolerance, as well as outreach to, and support from, Hispanics. Under Mr Perry, Texas was the first to extend in-state tuition rates at universities to immigrants regardless of their citizenship status. Today such moderate Republicans are like cowboys—symbols of an earlier, simpler era.

### **Poll dancing**

California's own volte-face on immigration is a cautionary tale. In the 1990s California led the country in anti-immigrant rhetoric. In 1994 Pete Wilson, a Republican governor, led a campaign for Proposition 187, which limited undocumented immigrants' access to public services and required public workers to report them. The campaign's name, "Save Our State", or "sos", captured its zealotry. Voters approved the proposition by a wide margin. Although it was later gutted by judicial and political decisions, its impact was long-lasting. Hispanic voters, who had previously been unengaged, became politically mobilised and turned on the Republican Party for its perceived racism.

Some think that Texas may be heading for its own Wilson moment. Greg Abbott, Texas's governor, says that the state's political rhetoric is not "anti-immigrant", just "anti-illegal immigrant", but many Hispanics and others in Texas hear something harsher. "The way they talk raises the hackles of immigrants of all stripes," says Ed Emmett, a Republican former Harris County judge. Such rhetoric led more Asian immigrants, who had been keen supporters of the Republican party, to vote for the Democrats in the election of 2018, says Mark Jones of

Rice University in Houston.

Hispanics, who have been a latent political force in Texas, could also be mobilised. Around 46% of the country's registered Hispanic voters live in Texas and California. There will be 32m eligible Hispanic voters nationwide in 2020, surpassing African-Americans for the first time. One political asset California has that Texas lacks is a strong union infrastructure, which mobilised Hispanics. Community-based organisations in Texas will have to fill that hole if there are to be big rises in registration and participation.

In today's political climate many Hispanics may feel that it is the Democrats who have their best interests at heart. There was record Hispanic participation in the elections of 2016 and 2018 in Texas, in part because of Mr Trump's rhetoric on immigration. Democrats are hopeful they will be able to win over more Hispanic voters. For two decades Texas has been red with pockets of blue, but that started to change in 2018, and the Democrats are hoping to win more ground in 2020.

Changing demography and the possibility of evolving voter preferences help explain why another event in 2020, the census, has taken on great importance. The once-a-decade tally of citizens is used to apportion resources and political representation among states according to population size. This could mean a meaningful boost to federal funding and extra seats in the House of Representatives for California and Texas, but that depends on their populations being counted accurately. "An inaccurate census count could cost California billions," says Xavier Becerra, the state's attorney-general, who sued the federal government over whether it can include a question on citizenship status, which might discourage people from taking part.

California has invested \$150m in doing outreach and ensuring an accurate count, whereas Texas has spent nothing. Some think that Texas's leaders are willing to undercount their immigrant populations, even if it means forgoing federal funding and representation, because any extra seats in the House of Representatives would probably go to Democratic districts. Both states' once-a-decade redistricting plans will also be undertaken according to where populations are clustered, so a census that counts more recent immigrants could alter the status quo in Texas.

Though both states have staked out different positions on immigration control, the power they hold is limited. Federal funding that could stop drugs and criminals from entering America from the south has been stalled by arguments over the need for a wall. Only the federal government can set the numbers and types of immigrants who are lawfully allowed to enter each year, and policies have been in limbo because of the debate about the wall.

DACA, for example, is ensnared in a legal fight, and its future is unclear. "No one is getting the emotional drain on people," says the boss of one of Silicon Valley's largest firms, who thinks the "overhang of uncertainty" on immigration is hurting the business environment by making it harder to hire immigrants.

#### **Another brick in the wall**

In Texas businesspeople are also rooting for a revamped national immigration policy that would allow more immigrants to work lawfully. The last big immigration bill was passed in 1986 when Ronald Reagan was president, and a smaller bill in 1990, but more recent bipartisan attempts at federal immigration reform have been defeated. "What would cause Texas to really boom is a good immigration bill," says Ross Perot junior, a businessman, who believes a shortage of workers is the biggest constraint on building.

The Dallas area, for example, is short of at least 20,000 workers, which causes delays of around two months and an additional cost of \$6,000 for every new home, according to the Dallas Builders Association. A report by the Centre for Houston's Future calculated that allowing for more immigration could result in \$67bn more in GDP by 2036, around one-sixth of Houston's economic output.

Immigration and climate change are two areas where chief executives and Texas's political leadership are not seeing eye to eye. According to Evan Smith of the *Texas Tribune*, "There is more daylight between the business

community and elected leadership than there has been in a long time.” ■

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Special report: California & Texas

### The future

## Texas seems better placed to adapt than California

The state's Republican leaders may be more flexible because of their concerns about losing power



Jun 22nd 2019

“THERE’S A TEXAN expression, ‘You dance with the one who brung ya’,” says Tom Luce, with a serious face and a strong drawl. “But oftentimes you can’t just dance with who brought you. You’ve got to face the future.” Mr Luce founded a law firm, Hughes & Luce, and served under several Texan governors and as assistant secretary of education when George W. Bush was president. He has been a beneficiary of and advocate for Texas’s rise, but thinks that the state faces long-term challenges that political leaders are ignoring, such as a dwindling supply of skilled workers and ever rising health-care costs.

Mr Luce is the founder of Texas 2036, a group that collects data to reveal Texas’s relative position and catalyse a strategic plan for the state. “It’s akin to, if you were running IBM 30 years ago, you’d ask, what’s the competitive landscape out there and what are the dangers?” says Mr Luce, who thinks Texas should “invest incrementally, solving problems 5% a year for 20 years”.

A similar report, called Texas 2000, was commissioned in 1982 under a previous governor, Bill Clements. It guided the state’s investments in water and roads. Mr Luce is the most prominent example of a growing group of forward-thinking Texans who are quietly concerned about whether the Lone Star State will be able to maintain its edge. “The challenge for Texas is and has been, are we willing to match our grand words with bold action?” says Mr Smith. “I could go down the list of social and physical infrastructure investments not being made.”

California, too, has its critics, who believe the Golden State is losing its sheen. No one is comparing it to Greece these days, as some did after the last financial crisis, but plenty of business leaders and analysts privately point

to the pervasive homelessness, volatile tax system and large unfunded pension obligations which are not being dealt with quickly enough. Worriers are right to wonder whether California and Texas are properly preparing themselves for the future.

#### **Where's the beef?**

It is also hard not to see the two states as symbolic of a broader, national problem. The two sides are too stuck in their ideological bunkers, their policies dictated not by the needs of their constituents but by the culture wars. Like the country as a whole, both lack long-term strategic plans. Local politicians, like their national counterparts, have no incentives to make unpopular decisions that could leave the next generation better off. This is true even though the two states have assets for which many others would be thankful: huge populations, natural resources, large businesses, dynamic immigrant communities and a cultural inclination to forge a unique path for themselves.

In the coming decade California and Texas face three main challenges. First, they must remain desirable places to do business, ensuring the creation of well-paid jobs and prosperity for their citizens. On this front Texas is better placed than California, but it cannot take for granted that it will maintain its edge over other states that levy no income tax and offer even lower costs. Second, they must educate their children better. As the number of poor, English-language learners grows in both states, this task takes on even greater significance.

Third, they must be mindful of the gap between the haves and the have-nots and deal with the inequality of income and opportunity that exist in both states. Although it has become more expensive to live in Texas in the past decade, it is still much more affordable than California. The Golden State's economy used to be a rising tide lifting all sorts of boats, says Joel Kotkin of Chapman University. "Now it's a rising tide lifting a few yachts." Both states will also have to confront the gap in services and opportunity between their declining rural and growing urban communities.

#### **In need of a steer**

Not everything is in the two states' control. Two of the most important factors in their success, international trade and immigration, are policies that are controlled by the federal government, points out Stephen Levy of the Centre for Continuing Study of the California Economy, a research firm. Many of the experiments California wants to run, from environmental action to universal health care, are best achieved on a national level. "Someone's got to be the first to jump out of the plane to test the parachute," says Xavier Becerra, the state's attorney-general. Although it has managed to pioneer an alternative vision for America in the face of a hostile federal government, this comes at a cost. Nowhere is this more true than in environmental policy. Though its policies are admirable, until the country as a whole joins its climate-change efforts, California is making life expensive for its citizens.

America today is beset by partisan acrimony. It would be a shame if California and Texas, flagships for the two parties and their visions for the country, were too bogged down in their ideological bunkers to learn from the successes and failures of the other. Far from vilifying California in their political advertisements, Texan leaders should study the Golden State, and vice versa.

Texas's fiscal prudence is wise, as is its culture of seeing business as an ally. Adopting such policies would mean that, when there is a downturn in America's economy, as there inevitably will be, states are not left with obligations and promises that they cannot meet. But its ungenerous attitude towards the poor and racial minorities on health care will have to change if it wants to ensure a healthy workforce, as will some of its social policies, such as restricting access to birth control and abortions, which are out of sync with the state's light-touch philosophy.

California, too, has many admirable features, such as a willingness to help its neediest citizens and thoughtfully invest in people through spending on higher education, which will be essential for states to thrive in a high-skills, knowledge-based era. The state is also broadly inclusive and open-minded, which makes it an attractive

place to live and do business. It will continue to innovate and produce new technologies and ideas that will spread nationally. But its high-tax, big-government approach will have to change if it wants to continue to be a destination for new generations to build their lives and fortunes.

Which is more likely to be successful in the long term? California's politicians are not blind to their state's problems, but they seem unpragmatic. They are also encumbered by structural issues, such as the entrenched interests of unions, bureaucracy and laws allowing voters to approve major decisions in ballot measures. All this means it is much harder for the state to make the big changes required. They may also be less receptive to moderation and pressure to change because they have no fear of losing power to the Republicans in the near future.

Texas is in a position to adapt more quickly. Its politicians today lean further to the right than previous Republican administrations, which has put them out of step with the business community on practical issues such as immigration and education. But they, or their successors, seem more likely than their Californian counterparts to open themselves to change. The rising strength of the Democratic Party in Texas will also encourage this, as Republicans realise that, with a growing young, urban and Hispanic voter base that rejects a hard-right agenda, there is a risk of losing control.

"You don't do these things because they're nice to do. You do these things because they'll help the entire state be more prosperous. Expanding the social-safety net and investing more in education would improve GDP prospects for Texas," says Robert Kaplan who runs the Federal Reserve Bank of Dallas. He thinks Texan politicians will be pragmatic. "The culture of this state was one way 30 years ago, and 30 years from now it will likely be different. This is a very practical state." ■

[→ Immigration: Immigration shapes the politics of California and Texas](#)

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In addition to those quoted in the report, the author would like to thank:

Mark Baldassare, Oliver Bernstein, Sarah Bohn, Donna Campbell, Michael Cohen, Anthony Dalton, Erica Grieder, Lina Hidalgo, Matt Hirsch, Jacob Kaufman-Waldron, Ronald Kirk, Cappy McGarr, Janie McGarr, Jesse Melgar, Kathy Miller, Ardon Moore, Walter Robb, Jason Sabo, Katie Smith, Joe Straus, Sylvester Turner

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## Business

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## Coin flip

### Facebook wants to create a worldwide digital currency

Libra could be massively disruptive—including to the social network itself



Jun 20th 2019 | SAN FRANCISCO

A GLOBAL DIGITAL currency would make sending money across the world as easy as texting. It would do away with fees, delays and other barriers to the flow of cash. It might give those in less developed countries access to the financial system and a means to protect hard-earned wages against runaway inflation. It could trigger a wave of innovation in finance, much as the internet did in online services.

That, in a nutshell, is what Facebook promised on June 18th. Within a year, the social network will launch a new currency to be known as Libra, in honour of an ancient Roman unit of mass—it is also the word for “pound” in many romance languages. Inevitably, Facebook dished out a generous helping of trendy words like crypto and blockchain. Unable to contain its appetite for Silicon Valley platitudes, Facebook claimed that its mission was to “empower billions of people”. Making money or strengthening its market power are, apparently, a sideshow.

Notwithstanding the guff, the commercial potential is indeed significant—as are the potential problems. If each of Facebook’s 2.4bn users converted a slice of their savings into Libras, it could become a widely circulated currency. It could also, if broadly adopted, vest unprecedented power in the hands of its issuer. In a tacit acknowledgment that its mishandling of user data, tolerance of the spread of misinformation and other sins have devalued its stock with policymakers, users and potential partners—though not investors—Facebook wants to outsource the running of Libra to a consortium of worthies recruited from the world of finance, technology and NGOs. The consequences for the global financial system could be significant (see [article](#)). So could the impact on Facebook’s business.

If the project lives up to the mock-ups, buying, selling, holding, sending and receiving Libras will become a doddle. It can be done in Facebook’s Messenger app or WhatsApp, another messaging-service-cum-social-network it owns—and, later next year, in a stand-alone app.

So far, so familiar. Messenger already offers payments to Americans. WhatsApp is testing a similar function in India. But these services do not cross borders, and require users to have a bank account. Fintech firms like TransferWise, which offer international transfers, take a 4-5% cut to wire \$200, a third less than Western Union. But Libra will be much cheaper, and require no bank accounts: more Bitcoin than Venmo.

Except that, unlike Bitcoins and other cryptocurrencies, Libras will change hands in seconds, not minutes, for next to nothing, not a few dollars. The system should handle 1,000 transactions a second at its launch, and more later, compared with no more than seven a second for Bitcoin. The virtual coins will be bought with real money, which will top up the reserve backing the currency. This should prevent wild price swings from speculation.

If it works, Libra could be a money-spinner for Facebook, albeit not directly. Notional transaction fees would not generate much revenue. But Libras should allow Facebook to charge more for online ads, by making purchases of advertised products quicker and simpler. It could furnish a new source of data to target adverts, making up for user information Facebook will forgo with the “pivot to privacy”, which Mark Zuckerberg, its boss, proclaimed in March in respect of messaging. Facebook may catch up with WeChat, a Chinese super-app which offers payments and other services, and whose foreign ambitions are on hold as the Sino-American trade war rages on.

Technically and financially, Facebook could probably pull off such an ambitious undertaking on its own. But not politically. Its culture is less amoral than it was in its youth, when it aspired to “move fast and break things”—but only a bit. Chary consumers may choose not to entrust their money to a social network which has, until recently, leaked their personal data left and right. Unless users are on board, merchants may be reluctant to embrace the currency, however hassle-free.

Enter the Libra consortium. The association, to be based in Geneva, will take over from Facebook before the first Libra has been spent, and manage the hard-currency reserves. Facebook has enlisted 28 other prospective founding members out of an envisaged 100, each with equal voting rights and operating a node in a decentralised system which issues coins. They include financial firms (Visa, Stripe), online services (Spotify, Uber), cryptocurrency wallets (Anchorage, Coinbase), venture capitalists (Andreessen Horowitz, Union Square Ventures) and charities (Kiva, Mercy Corps)—though, for the time being, no banks. Not a libertarian alternative to the existing financial system, in other words, but a complement.

To add credibility to its promise, broken in the past, to keep social and financial data separate, Facebook has created a subsidiary, Calibra, to run Libra services within its apps. It is unlikely to face hurdles to uptake from Apple or Google. It is impossible to imagine them expelling Messenger and WhatsApp—and later other providers Facebook is inviting to the open-source project—from their app stores, as they have done with other cryptocurrency offerings, many of which were scams.

To get Libra going, the consortium will pay merchants to offer discounts to customers who use the new currency, financed by a \$10m one-off fee each member pays for a seat at the table. Eventually, Facebook would like anybody, not just the consortium, to be able to generate the currency, transfer it and offer services on top of its “blockchain” (crypto-speak for the database that keeps track of who owns what). At that point, Libra would turn into Bitcoin, minus the kinks and the libertarianism.

#### **Hard currency**

In a project with so many moving parts, much can go wrong. Although Facebook says it has a working prototype, the technology is untested; sceptics doubt that a 100-node system, let alone a bigger one, could process thousands of transactions per second. Hackers are doubtless champing at the bit.

Then there are consortium dynamics. Facebook will have to prove to the other 99 Libra members that it is truly prepared to give up control. At the same time, because important decisions need a two-thirds majority, someone has to knock heads together. The history of information technology is littered with initiatives that collapsed under the weight of internal conflict.



The biggest barrier may be political. Facebook has apparently consulted many regulators. The providers of digital wallets will have to comply with national rules, such as those against money-laundering. Calibra, whose integration into Messenger and WhatsApp will initially make it the dominant wallet, is bound to stoke competition concerns. These may recede as the currency grows bigger and more decentralised, only to be replaced by worries about financial stability.

Libra's success, then, is far from assured. But it could prove useful even if it flops, for it offers a blueprint for how Facebook itself could one day be governed. The Libra Association's main task is to oversee the blockchain, ensuring, for instance, that Calibra does not enjoy privileged access to it. An equivalent Facebook Association, some observers have ventured, could be composed of representatives of users, advertisers, data-protection authorities and so on. Their job could be to oversee the "social graph", another database, which lists all of Facebook's users and the links between them—and to guarantee that Facebook users can post to another social network, and vice versa.

Calls for a Facebook constitution along these lines have grown louder as the social network's influence on world affairs, from election-meddling in America to genocide in Myanmar, has become apparent. Mr Zuckerberg is no stranger to such thinking. In 2009 Facebook let users vote on big changes in its privacy policies but abandoned the experiment with global democracy a few years later. Last year Mr Zuckerberg announced that Facebook wanted to set up a "content review board" of independent experts—a kind of "Supreme Court", in his words, which would make "the final judgment call on what should be acceptable speech".

Asked whether Libra could serve as a model for Facebook, David Marcus, who is in charge of the project, replies that it marks "a coming of age, the moment we recognise that there are some things that we shouldn't control—and a radical departure from the traditional way of operating things". Perhaps. But checks and balances would almost certainly make Facebook less profitable. It would be ironic if a new digital currency marked the beginning of the end of Facebook's money-minting days. ■

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**Bartleby****The promotion curse**

Updating the Peter principle



Paul Blow

Jun 20th 2019

Is YOUR PROMOTION really necessary? Many workers focus their hopes on climbing the hierarchy of their organisations. The prospect of higher pay helps explain their ambition, but so does the greater status that comes with each successive title.

This scramble can often end in disappointment. The Peter principle, developed by Laurence Peter for a book published in 1969, states that workers get promoted until they reach their level of incompetence. It makes perfect sense. If you are good at your job, you rise up the career ladder. Eventually, there will be a job you are not good at and at that point your career will stall. The logical corollary is that any senior staff members who have been in their job for an extended period are incompetent.

There is another problem with chasing the promotion chimera. In a recent [article](#) for VoxEU, an online portal, the records of almost 40,000 salespeople across 131 firms were studied by Alan Benson, Danielle Li and Kelly Shue. They found that companies have a strong tendency to promote the best sales people. Convincing others to buy goods and services is a useful skill, requiring charisma and persistence. But, as the authors point out, these are not the same capabilities as the strategic planning and administrative competence needed to lead a sales team.

The research then looked at what happened after these super-salespeople were promoted. Their previous sales performance was actually a negative indicator of managerial success. The sales growth of workers assigned to the star sellers was 7.5 percentage points lower than for those whose managers were previously weaker performers.

Scott Adams, the cartoonist, described this problem in his book, “The Dilbert Principle”. In his world, the least competent people get promoted because these are the people you don’t want to do the actual work. It is foolish to promote the best salesperson or computer programmer to a management role, since the company will then be deprived of unique skills. That is how the workers in the Dilbert cartoon strip end up being managed by the clueless “pointy-haired boss”.

Bartleby is not an expert at climbing the greasy pole. When he was last promoted, Iraq had yet to be invaded. In part, that is because he has observed a variant on the Peter and Dilbert principles; what might be dubbed the Bartleby curse. People get promoted until they reach a level when they stop enjoying their jobs. At this point, it is not just their competence that is affected; it is their happiness as well.

The trick to avoiding this curse is to stick to what you like doing. If you enjoy teaching, don’t be a headmaster or college principal. If you like writing articles and columns, editing other people’s work (let alone conducting career reviews) may not give you the same degree of satisfaction.

Another problem with pursuing frequent promotions is that it turns you into a supplicant, endlessly in search of favourable feedback from the higher-ups. This can lead you to lose control of your work-life balance. In Charles Handy’s new book, “21 Letters On Life And Its Challenges”, the veteran management theorist recalls an epiphany when working for Royal Dutch Shell, an oil giant. “In exchange for the promise of financial security and guaranteed work, I had sold my time to complete strangers with my permission for them to use that time for their own purposes,” he writes.

The higher up the ladder you go, the greater the demands are likely to be on your time. The chief executive will expect you to be available at weekends; after all, that is why you get paid the big bucks. Subordinates will also feel that they are able to ask you tricky questions whenever they arise; they don’t want to take decisions that are above their pay grade. If you are in charge of a geographical region, you may spend much of your time on planes, visiting the corporate troops. And when you are not travelling, your day will be filled with meetings. At the end of the day, you will have been extremely busy, but with a nagging feeling that you have achieved nothing of substance.

So that shiny promotion may not be for everyone. Beware the curse of overwork and dissatisfaction. Some people like to devote their whole lives to their job and be at the centre of events. It is best to let them get on with it.

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**Liberalised finance****What Facebook's new currency means for the banking system**

Should banks worry about losing business to the libra?



Jun 20th 2019

CONSUMERS WILL probably view holding Facebook's new currency, Libra, as an alternative to putting money in the bank. If they see it as an attractive alternative, Libras could proliferate. If every Westerner held in Libra an amount equal to one-tenth of their bank deposits today, the new currency outstanding would be worth over \$2trn. How worried should banks be?

At first pass, Libra looks like a banking system of sorts. The "Libra Reserve" will hold enough liquid safe assets to back every Libra it issues. A staunch minority of economists has for decades called for this sort of arrangement—dubbed "narrow banking"—to replace the existing "fractional reserve" model, under which deposits at banks are backed by mortgages and other illiquid loans. Narrow banks, they argue, would not suffer runs. On the surface, the only obvious difference between the Libra Reserve and a narrow bank is that the former will hold assets denominated in a variety of (still-to-be-specified) currencies.

Yet look closer and the Libra Reserve will not be a bank, narrow or otherwise. Some of the safe assets it holds will themselves be deposits in fractional-reserve banks. It will not have access to central-bank money, which is used to clear transactions between banks.

Buying Libras will not shrink the volume of deposits in the banking system. Suppose a Briton uses money in his bank account to buy Libras. He would transfer pounds to the Libra Reserve or another seller, who would need a sterling bank account to receive payment. The deposit would live on in that account. In modern banking systems deposits can pass between accounts, be converted into cash, or be used to repay bank loans or buy assets from banks. They cannot simply disappear into non-banks.

Does that mean banks can relax? Hardly. First, Libra could cause bank balance-sheets to shrink, should the Libra Reserve use customers' funds to buy securities like government debt from banks. Second, Libra could crimp juicy bank revenues from cross-border payments, which Facebook wants to cost virtually nothing.

Third, Facebook could yet decide to become a fully fledged bank itself. The firm says this is not in its plans, but the temptation will surely grow if Libra takes off. Facebook's data already have immense potential to help with lending decisions. Although the Libra Reserve will be mostly independent of Facebook, the firm will offer its own digital wallet, Calibra, for consumers who want to hand over the key to their digital currency for safekeeping—and with it, their personal financial data.

Individual Libra-holders face other risks. One is currency fluctuations. If, say, the yen rises against the basket to which Libra is pegged, Japanese holders of Libra will lose out. The new currency will not yield interest (though neither do many bank deposits nowadays). Shops may welcome a shift away from card payments, which often levy high fees on transactions. Consumers, who enjoy perks that often come with credit cards, may not. There will be no government-provided deposit insurance for Libra. Lastly, the public might shun Libra for non-financial reasons such as privacy, which Facebook has repeatedly failed to safeguard.

Still, the strength of Facebook's existing platform, and the incentives that will be on offer to encourage Libra's use, could be enough for the currency to thrive. If it does, banks might eventually want to hold Libras themselves, and perhaps to run digital wallets to compete with Calibra. In any case, Facebook is likely to develop a suite of financial services, much as WeChat and Alibaba, two Chinese internet giants, have done in China. Both banks and regulators had better watch closely. ■

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**Behind the curtain****The Western world's auction-house duopoly is now in private hands**

Christie's and Sotheby's war to attract top-priced artwork will grow even fiercer



Jun 22nd 2019

FOR THE 0.1%, building a legacy long involved amassing million-dollar artworks and bankrolling those who create them. Today billionaires also buy auction houses where such pieces are sold—especially if said billionaires are French. François Pinault of Kering, a luxury-goods group, bought Christie's in 1998. Bernard Arnault of LVMH, a rival, owned Phillips for a bit in the 2000s. On June 17th Sotheby's announced its sale to Patrick Drahi, a telecoms tycoon, for \$3.7bn, ending three decades of public ownership for the 275-year-old company.

Mr Drahi is not the buyer many expected—and not just because his fortune, which Bloomberg puts at \$8.6bn, has humbler origins than fine wine and fashion. Unlike Mr Pinault, whose 3,500-piece collection is worth over \$1.4bn, he is an art-market neophyte. Leveraged deals and cost-cutting at his mobile provider, SFR, cast him as a financial engineer rather than a savvy manager. For Mr Drahi, a self-made man, Sotheby's is a trophy asset, says François Godard of Enders, a research firm. He is paying a 61% premium on its pre-deal share price.

There is logic behind the delisting. In recent years Christie's and Sotheby's, which together sell more than 80% of works priced over \$1m, have been battling to attract the top lots—with Sotheby's mostly losing. Christie's, which is privately held, can afford generous guarantees to sellers. Sotheby's, under investor scrutiny, cannot. Its share price sank by more than 5% in a day last August after two guaranteed paintings sold for less than expected, hurting margins.

It will now be freer to court high-profile sellers more aggressively—and also to invest in selling more lower-priced pieces, which in the topsy-turvy art world offer higher margins than the big-ticket lots auction houses fight over. Boosting online auctions would help here. So would more private sales—where Sotheby's acts as a

broker and which have grown fast, reaching \$1bn last year. Alex Maroccia of Berenberg, a bank, says it may spend more on R&D. Last year it bought Thread Genius, an artificial-intelligence startup that identifies artworks and can recommend similar items to losing bidders.

Buyers and sellers of all but the priciest pieces may rue the increased opacity of the houses' already baffling commissions. But one group (besides Sotheby's investors) will rejoice. Some of Mr Drahi's fellow plutocrats make a killing from financing the guarantees that auction houses offer. For them, the more art that goes under the hammer, the better.

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Let's try this again

## Business services like Zoom and Slack make for better listings

But are they any good?



Jun 22nd 2019 | SAN FRANCISCO

IN TECHNOLOGY, AS in life, history doesn't repeat itself. But it does rhyme. The share price of Chewy, an online pet-food retailer which has just listed in New York, shot up by more than 50% on June 14th, its first day of trading. To seasoned investors it brought back memories of Pets.com, Chewy's ill-fated predecessor, which collapsed nine months after it debuted on the Nasdaq exchange in February 2000. It became emblematic of the first dotcom bubble, when loss-making startups fetched stratospheric valuations—until they didn't.

Today the tech listings are fewer, startups' losses bigger and investors a bit more cautious than 20 years ago. True, technology firms have raised a total of \$19bn through initial public offerings this year, the most since 2000 for the same period, and gained roughly 30% in value on average, according to Dealogic, a data-provider. The tech-heavy Nasdaq has risen by just 19%. But several big initial public offerings, notably of ride-hailing giants, have flopped. Lyft's share price languishes 12% below its opening price and Uber's fell by nearly 20% before recovering.

The sparky overall performance owes a lot to a bevy of lower-profile IPOs. CrowdStrike, a cyber-security firm which went public on June 12th, has seen its share price double. So has PagerDuty, which helps clients deal with disruptions in their computer systems and listed in April. Shares in Zoom, a video-conferencing service, have gained 176% since its IPO two months ago. Analysts predict another hit in the much-anticipated listing on June 20th, after *The Economist* went to press, of Slack, a corporate-messaging service.

Make no mistake: these companies aren't lucrative. The best of the lot, Zoom, eked out earnings of three cents per share in the first quarter. But in contrast to Lyft or Uber, it is easier to see how they may one day turn a profit. Rather than peddling cheap rides or pet food to millions of fickle individuals, the likes of Zoom,



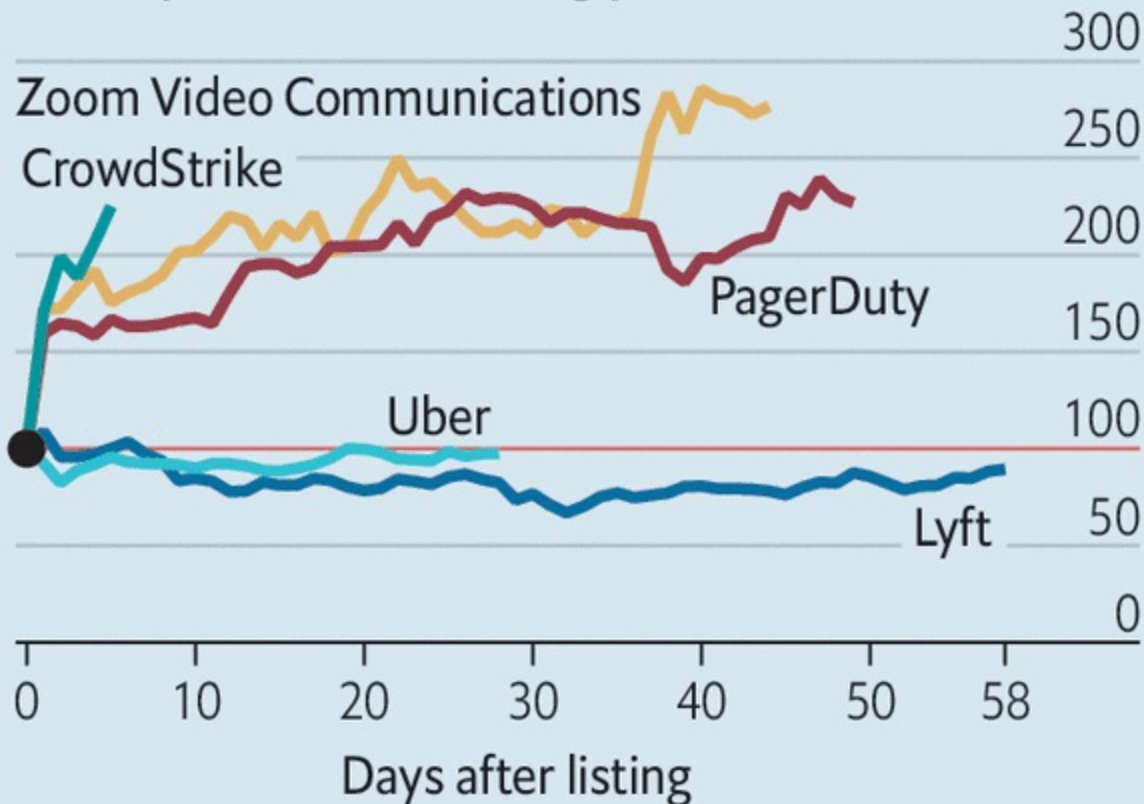
PagerDuty and Slack sell higher-margin subscriptions to tens of thousands of business customers. Revenues of all three are growing in the high double digits or more, year on year.

## Still or sparkling?

### Market capitalisation, June 18th 2019, \$bn



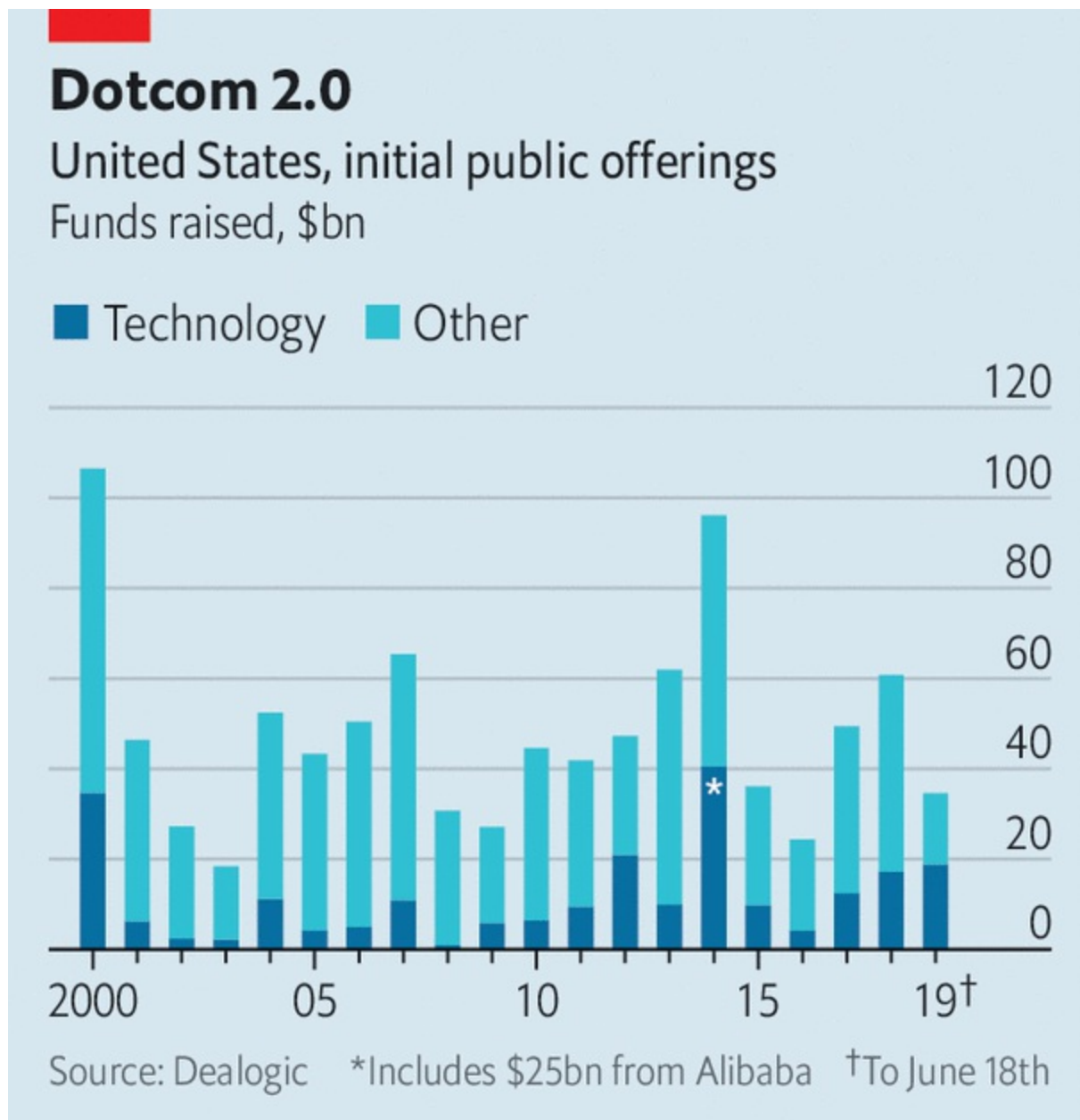
### Share prices, 2019, listing price=100



Sources: Datastream from Refinitiv; Nasdaq

Corporate software did not feature prominently in the original dotcom mania. Before the advent of cloud computing, selling and installing such programs was tedious and labour-intensive. Big firms like Oracle and SAP dominated the market with bundled products which had to be customised to meet a customer’s needs. Today cloud-based “software-as-a-service” (saas) lets business-to-business startups focus on doing one thing well. They can lure clients with free trials that, since adding an extra customer requires little more than a tweak to a database, is near costless. And they don’t sell “vapourware”, says Jennifer Tejada, boss of PagerDuty, referring to programs, common during the internet bubble, which existed only in press releases.

Slack stands to benefit doubly from this trend. It is a poster child for saas, as well as a venue where other such services come together. Few speak the same digital language; Slack provides translation and integration. Investors love such “platforms”, which explains its juicy valuation of \$16bn or so, not far off Lyft’s market value.



## The Economist

Admittedly, Slack and the others have so far had an easy ride. They have, in effect, outsourced marketing and sales to tech-obsessed early adopters who proselytise in their workplace until management too becomes a

convert and signs a deal. That explains why Slack is hugely popular among startups but not yet among bigger firms. Attracting them requires costly investment in marketing and a proper sales force. The company lost \$32m in the first quarter, 28% more than the year before, mainly trying to do just that.

To be sure, business-facing startups are less prone than an Uber to burn cash in a single-minded quest for scale. But if investors see hints of Uberification in Slack's earnings reports, its listing too could disappoint. That in turn may give pause to other startups preparing to go public, including WeWork, an office-rental company seeking a \$47bn valuation despite recently posting a quarterly loss of \$264m. Today's dotcom boom may fizzle before it bursts. ■

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**Profit warning****American drugmakers are raising prices. Again**

Donald Trump doesn't like it one bit



Jun 22nd 2019 | NEW YORK

“IF YOU THINK the cost of your drug will scare people from buying your drugs, then lower your prices.” That blunt warning was issued recently by Alex Azar, America’s health secretary, to global pharmaceutical giants. A new report by UBS, an investment bank, finds that Americans spent nearly two-thirds of all money spent globally on new drugs from 2012 to 2017. On June 14th Bluebird Bio unveiled a gene therapy to treat an inherited blood disorder that will cost nearly \$1.8m per treatment. Shortly before, Novartis, a Swiss giant, priced its gene therapy for spinal muscular atrophy at \$2.1m, making it the world’s most expensive medication.

Outrage over such headlines is a rare thing to unite President Donald Trump and his Democratic detractors. Many cheered the administration’s latest effort to force drugmakers to disclose the list price of drugs in television advertisements.

On June 14th Big Pharma struck back. Amgen, Merck and Eli Lilly sued Mr Azar (who used to work at Eli Lilly) and his department in order to block the rule. They argue that buyers seldom pay the full list price, since insurers and other middlemen wrest hefty (and often secret) discounts.

Working out how profitable drug firms are is not a simple matter. Their net margins of 11%, less than restaurants and one-fifth those of railways, do not exactly scream price gouging. But a fairer picture can be reached by adding back interest costs, adjusting for leases and, crucially, by also treating research and development expenses as an investment that is depreciated gradually over time. According to a recent study by Aswath Damodaran of New York University’s Stern School of Business, on this basis drug firms’ margins are 24%, higher than most other sectors (see chart).

## Prognosis: profitable

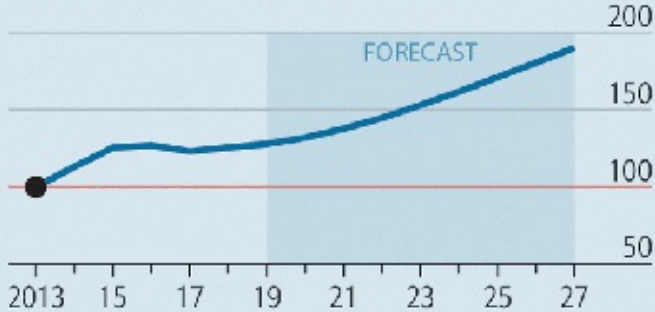
United States

### Returns\* on pharmaceutical R&D

12 biggest firms, %



### Private-health-insurance retail spending on prescription drugs, 2013=100

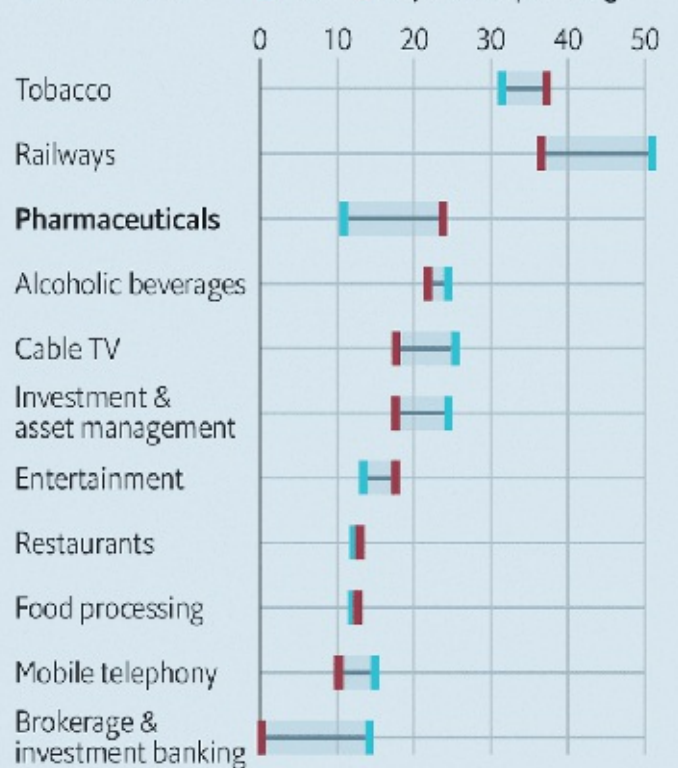


Sources: PwC; Deloitte; A. Damodaran, NYU Stern School of Business

### Margins, selected industries

2018 or latest, %

■ Net ■ Adjusted operating<sup>†</sup>



\*Internal rates of return

<sup>†</sup>After tax, capitalising leases and R&D

The Economist

Drug firms retort that the returns on that R&D investment will not be as good as they used to be. They have to spend ever more prospecting for blockbuster molecules. The alternative is to pay top dollar to acquire biotechnology firms which have already identified them. On June 17th Pfizer said it would pay \$11.4bn for Array BioPharma, which has developed therapies for cancer. In April Bristol-Myers Squibb approved a \$74bn purchase of Celgene.

Whatever the true level of pharmaceutical firms' financial returns, they could become juicier again. Although in the past four years spending on drugs by patients and private insurers has barely budged, an annual report published on June 20th by PwC, a consultancy, forecasts that it is about to rise again. Most of the increase will be the result of higher prices.

Peter Bach of Memorial Sloan Kettering, a leading cancer hospital in New York, thinks the million-dollar price tags are unjustified. Novartis, he argues, cherry-picked health-economic studies that supported its pricing. In 2012, his hospital refused to offer patients a new cancer drug from Sanofi after his analysis showed its high price was not justified by better outcomes. The French firm reduced it—just as Mr Azar would counsel. ■

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**Local heroes****African companies are expanding across the continent**

Leading businesses are stitching the region together



Jun 22nd 2019 | KAMPALA

TWENTY YEARS ago Patrick Bitature, a Ugandan tycoon, took his mobile-phone business to Nigeria. At first the cash was piling up so fast that it would not fit in the safe. But he found the business culture more cut-throat and less trusting than back home. Money started going missing. Eventually he retreated to the east African markets he knows best. “I was going to go to every country in Africa at the time,” he recalls, smiling at his naivety. “I was lucky not to lose my shirt.”

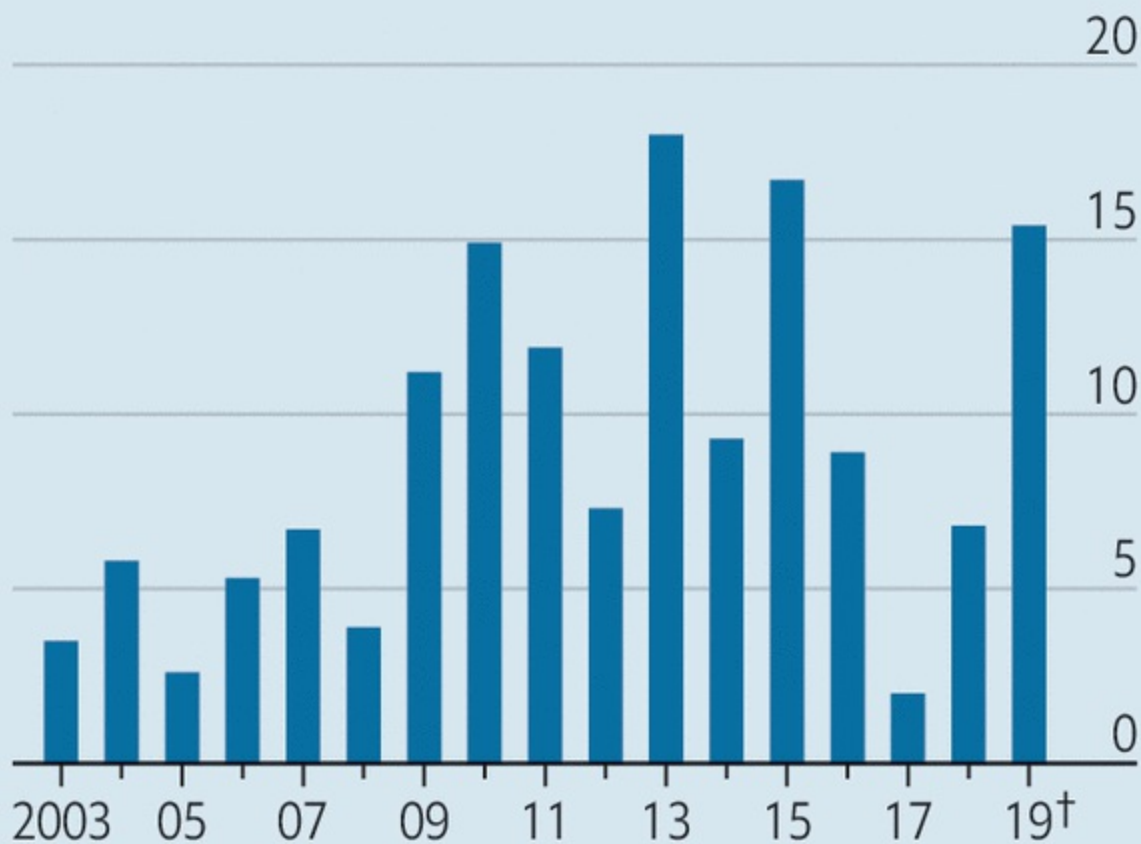
Plenty of African businesses have tried to conquer new markets over the years, only to return home sartorially compromised. Colonialism fragmented the continent and linked its economies to imperial capitals rather than to each other. That legacy locked many businesses into national silos. Today big European and American multinationals still dominate markets from logistics to soft drinks. African firms have announced \$72bn of foreign direct investments in new projects on the continent this decade, according to fdi Markets, a data provider. Companies from the rest of the world have made nearly nine times as much.

But the pan-African dream lives on. Two-thirds of African firms surveyed by McKinsey, a consultancy, in 2017, planned to enter new countries in the region in the next five years, compared with half of foreign multinationals in Africa. According to the Boston Consulting Group, the 30 biggest African companies operated in an average of 16 of the continent’s countries last year, twice as many as in 2008.

Leading African businesses are stitching the region together, making it easier for others to follow suit. Banks serve their corporate clients across multiple countries. Business leaders flit between megacities aboard Ethiopian Airlines, which flies to 36 African states.

## Neighbourly spirit

Intra-African FDI\* as % of total into Africa



Source: fDi Markets

\*Foreign direct investment (new projects only) †January-April

## The Economist

The largest firms already have the scale to take on multinational incumbents. Aliko Dangote, a Nigerian cement baron, has ventured into ten countries. Dangote Group has overtaken LafargeHolcim, a Swiss behemoth, as the largest cement producer in sub-Saharan Africa. Mr Dangote's plants, built by a Chinese contractor to two standard designs, are bigger, newer and more efficient than most others. He has the ear of presidents.

Intra-continental expansion is a response to two challenges. The first is finding customers. The combined economy of Africa's 54 countries is smaller than that of France. As they grow richer, individuals or businesses switch from informal purveyors to formal markets where big firms operate. But these customers are concentrated in pockets across a vast land mass.

To reach as many as possible, Shoprite, a South African retailer, has opened supermarkets in 15 countries. A similar logic drove OCP Group, a Moroccan phosphate producer, to create a sub-Saharan subsidiary in 2016. By investing in soil research, microcredit and logistics, it hopes to turn subsistence farmers into commercial growers—and buyers of its phosphate fertiliser. Other firms are taking similar steps.

The second challenge is uncertainty. Africa's weak supply chains, volatile currencies and fickle regulators with



a fondness for expropriation or capital controls, which make repatriating profits difficult, render the future blurrier than in mature economies. Businesses focused on a single country (or industry) face greater risks, notes Kartik Jayaram of McKinsey. Firms with a toehold in many places and sectors, like Dangote Group or Shoprite, are less exposed to a setback in any one of them.

As Mr Bitature’s experience reveals, crossing borders can backfire. Policymakers in other countries are prone to sudden “somersaults”, cautions Abdul Samad Rabi, whose BUA Group sells everything from cement to sugar but has stuck to native Nigeria. Foreign soil can be inhospitable even in the absence of political flips. Tiger Brands, a South African foodmaker, sold its stake in its Nigerian flour division to Mr Dangote for \$1 in 2015, three years after buying it from him for nearly \$200m. A depreciating naira hit Nigerians’ pockets, dampening demand, and drove up the cost of imports like wheat, which Tiger could not pass onto consumers because of stiff competition.

The strongest firms are those which are choosy. MTN, a large South African telecoms company, is pulling back from some smaller countries. But it is toughing it out in Nigeria, despite endless battles with regulators; it is a vast market, and gross operating margins of 44% stiffen the spine. OCP set out to deepen its presence in 15 African countries. It has winnowed the list down to five—including the regional giants, Nigeria and Ethiopia—where policies are most business-friendly. ■

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**Schumpeter****Boeing's boss wins a reprieve, not redemption**

Three tests to decide whether Dennis Muilenburg should keep his job



Brett Rydler

Jun 22nd 2019

FEAR OF FLYING is a strange thing. In the early days of flight, those who wanted to be airborne were considered crazy. These days, those who don't are seen as odd. Even habitual flyers engage in reassurance rituals: from prayers and hand-holding to pills and alcohol. That people get on aeroplanes at all is a matter of trust. They believe they are well made, that pilots are well trained and the industry well regulated. In its 103-year history, Boeing, the world's largest aircraft manufacturer, has sought to build that trust with a safety-first culture. This has been thrown into disarray since two of its 737 MAX passenger jets crashed in Indonesia in October and Ethiopia in March, killing all 346 passengers and crew on board.

Dennis Muilenburg, Boeing's boss, is a Bible-reading company lifer who looks the part, from the cut of his jaw to the azure of his eyes. Yet to many his metronomic, defensive response to the disasters has compounded the mistrust in Boeing. On June 18th, just as questions about his future were percolating at the Paris Air Show, he won a reprieve. IAG, the parent company of British Airways and Iberia, said it would buy 200 new 737 MAX aircraft, the first order for the jet since it was grounded over three months ago. Although IAG will receive big discounts and the planes will only be delivered between 2023 and 2027, it was a vote of confidence in the MAX's rejigged safety system.

The big challenge for Mr Muilenburg is to convince the flying public at large to renew their faith in Boeing. His job hangs on it.

Boeing's top brass has belatedly used the Paris show to offer full apologies for the crashes. The crisis, as well as being devastating for the families of those killed, has hit morale among the planemakers' employees. But amid civil lawsuits on victims' behalf, and potential criminal investigations by the Department of Justice and the FBI,

Boeing's army of lawyers still appear to vet every word that emerges from Mr Muilenburg's mouth. That has made a bad situation worse—not least because many countries where Boeing operates do not appreciate its buttoned-down, legalistic approach to crisis management. His relentless efforts to portray the disasters as just a blip in Boeing's sterling safety record suggest a man eager to get back to business as usual. In civil aerospace Boeing is a business-to-business company. Its customers are airlines and leasing firms, not passengers. It shows.

The troubles Mr Muilenburg still faces are threefold. The first comes from downplaying the 737 MAX's problems, which carries legal risks. Shortly after the crash in Indonesia, Boeing hinted at maintenance and pilot problems at Lion Air, even though it soon discovered that its engineers had known 13 months before about a flaw in a cockpit warning system. The issue had not been reported to Boeing's senior executives, regulators or customers. The company has insisted that its anti-stall software, known as MCAS, did not compromise safety, even after investigators found that it overwhelmed pilots in both disasters, and has since been fixed. The firm has set up a committee to review the certification process of the MAX, even though it and the Federal Aviation Administration (FAA) maintain that the MCAS was designed in an orthodox way. Mr Muilenburg has admitted that self-certification, in which Boeing examines itself under FAA oversight, may need improvement.

The second problem is global regulation. After the Ethiopian tragedy, Mr Muilenburg called President Donald Trump to try to stop the FAA from grounding the plane. That set the tone for his tin-eared handling of the crisis. Since the groundings, he has repeated that the MAX will soon be back in business, once the FAA approves the MCAS software fix, as it is soon expected to. His apparent confidence in the FAA's authorisation raises further questions about its relationship with Boeing. It highlights a wider problem. After the Ethiopian disaster, the FAA was slower than its counterparts to ground the MAX. Other regulators, such as those in China, may be hesitant to follow the FAA's lead in approving the fix. Given a majority of Boeing's business is outside America, that matters.

The biggest danger is to Boeing's brand. Though the firm is part of a civil-aviation duopoly with Airbus, competition between the two is fierce. Reputation is vital. In the months following the Ethiopian disaster, a narrative has taken root that Boeing cut corners in bringing the 737 MAX into service in order to keep up with Airbus's popular A320neo. Some say this is unfair. But Boeing's reluctance to take its share of the blame may have lost it what Dómhnaíl Slattery, boss of Avolon, a large aeroplane-leasing firm, calls the "communications battle". As he told the *Seattle Times* during the Paris Air Show, Boeing appears to have forgotten about its biggest constituency: passengers. "What if the aeroplane gets back into the air and no one wants to fly it for 12 or 24 months?" Mr Slattery asked. "Every airline in the world will want to cancel or defer." The risks to Boeing's 737 MAX order backlog—of 4,550 jets at the end of May—remain huge, in other words. It was dealt a further blow in Paris when Airbus announced first orders for a long-range, narrow-body jet, the A321XLR, that will compete with a new mid-sized aircraft that Boeing will not launch for years.

#### End-of-year MAX

The share price of the \$210bn company suggests investors are supportive of Mr Muilenburg. The IAG deal has bought time. Yet it would be a grave mistake to imagine that Boeing's main task is to get the 737 MAX back in the sky fast. Instead it has to deal with the aura of incompetence and evasion surrounding the firm. To do that, Boeing's board should strip Mr Muilenburg of his dual chairman/chief executive role and appoint an independent chairman, who sets three tests. First, Boeing must publish an independent investigation into what went wrong. Second, it has to rebuild relations with foreign regulators who now matter more than the discredited FAA. Last, it has to establish that flyers believe the 737 MAX is safe. If Boeing cannot pass those tests by the end of the year, its board should ask Mr Muilenburg to leave. ■

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## Finance and economics

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**Deeper in the red****As growth slows, the spectre of local-government debt looms once more**

The central government urges spending, but regions are burdened by debt



Satoshi Kambayashi

Jun 22nd 2019 | XIANGTAN

A STATUE OF a golden bull, poised to charge, stands outside the headquarters of Xiangtan Jiuhua, a government-owned company that funds much of Xiangtan's infrastructure investment. It has seen better days: the gold paint is flaking and the torso is cracked. That makes it a fitting symbol for public finances in the sprawling prefecture of 3m people in central China, and scores of similar cities across the country, where the ambitions of local officials have collided with heavy debt loads.

Concerns about local balance-sheets in China have recurred over the past decade. Recently they have come into sharp focus again. Attempts to clean up local debts have not worked. And borrowing looks set to rise as the trade war rumbles on: China wants its provinces and cities to prop up growth by building roads and railways.

At just 38% of GDP, less than half the average in advanced economies, government debt in China might seem under control. But that misses much of what is happening. Local governments have long relied on off-balance-sheet debt to solve a perennial policy quandary. They are responsible for about 85% of public expenditures, yet command only 50% of revenues. Moreover, central authorities make it hard for them to borrow formally, hoping to limit their profligacy. So they have created entities such as Xiangtan Jiuhua, referred to as "local-government financing vehicles" (LGFVs). These are registered as companies. But creditors know—or, rather, assume—that the state stands behind them.

At last count China had 11,566 LGFVs. According to the IMF, when they are factored in, government debt rises to about 70% of GDP. This is worrying for three reasons. The first is the trajectory, with LGFV debts more than tripling over the past decade. The second is their opacity. Banks and bond investors think they must be safe, but even government auditors struggle to get a full picture of what is owed and where the money is going. Third, it

is China's poorer inland provinces that are most reliant on LGFVs. China International Capital Corp (CICC), a big domestic brokerage, has referred to them as a "grey rhino": a risk that, unlike a "black-swan" event, is obvious but easily ignored.

The government, to be fair, does not have its eyes closed. It has been trying to limit LGFV borrowing since 2010. Regulators have also sought to ease financial constraints on local governments, most notably through a giant debt swap in which local governments exchanged trillions of yuan in LGFV bonds for official bonds charging lower interest.

But big risks remain. LGFVs are becoming less able to pay back their debts. Their operating incomes cover only about 40% of their obligations due within one year, according to CICC. For a normal company, that would spell trouble. Moreover, local governments remain addicted to them. Stripping out the bond swap, LGFV borrowing rose at 20% annually over the past five years, far outpacing overall debt growth.

Last year China seemed to be getting serious about crimping off-balance-sheet borrowing. It wielded its most potent weapon: permitting defaults. On 15 occasions LGFVs failed to repay loans on schedule, according to Fitch, a ratings agency. That spooked markets. LGFVs' interest rates went up, and their bond sales slowed.

The impact was palpable. Local governments had less cash to spend, and Xiangtan was one of the casualties. It was forced to halt work on a highway around the city, which now stops abruptly at hoardings plastered in yellowing propaganda posters. A dirt track takes the place of an on-ramp. Zhou Juzhen, a retiree, has planted a small garden of chili peppers and green beans at its edge. "I wish the construction would resume," she says. "It would be much more convenient living next to a big road."

The slowdown in building has played out on a national level. Infrastructure investment was just 1.6% higher in May than a year earlier, a big comedown from the previous double-digit norm. Worried about slowing GDP growth, on June 10th the central government opened the door for provinces and cities to increase spending. It urged them to issue special bonds for big projects such as modernising power grids. Many think local governments will again turn to a familiar friend. "Faith in LGFVs is seemingly on the rise again!" exclaimed analysts with ICBC, a major Chinese bank.

But the government may find that last year's stringent debt-control campaign has made provinces and cities more reluctant to open their wallets. Local officials know that once growth stabilises, they are likely to face pressure to deleverage again, says Houze Song of the Paulson Institute, a think-tank in Chicago. There is a more radical option: the central government could in effect fund LGFVs directly. China Development Bank, a giant state-owned lender, has started to offer long-term loans to LGFVs to replace their short-term debts. This is similar to the bond swap, but allows LGFVs to get cheaper funding without testing the market.

Yet there are obvious drawbacks. For one thing, it puts the central government on the hook for LGFV liabilities. And if the programme is rolled out nationwide, efforts to get them to operate more responsibly would come to naught. So far the government has reportedly tested swaps in a few places. Xiangtan is one, not least because the prefecture includes the birthplace of Mao Zedong. China's leaders do not want to see defaults here, of all places.

At a river that bisects Xiangtan, giant pilings have been sunk to support a bridge. But the site has been abandoned, another victim of the local cash crunch. Fu Weijun, who works in a nearby steel mill, walks along its banks before his shift begins. It is just a matter of time before the bridge is completed, he says. "Western countries change too often. We can stick to the same path, no matter what." That confidence might be shaken in the coming years. ■

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**When pigs don't fly****UBS faces a China backlash because of a quip about pigs**

What some see as anti-foreign sentiment is probably a linguistic misunderstanding



Jun 22nd 2019 | SHANGHAI

AFRICAN SWINE FEVER has devastated China's pigs. The country's herd has shrunk by 20%, or roughly 100m, over the past year. The epidemic is now threatening to claim another victim: the standing in China of UBS, a Swiss bank.

Its troubles stem from a quip about the inflationary impact of the porcine pandemic, which has pushed up consumer prices. "Does this matter? It matters if you are a Chinese pig. It matters if you like eating pork in China," Paul Donovan, global chief economist of UBS's wealth-management arm, wrote in a note to clients. To some in China, the phrase "Chinese pig" looked insulting, even racist.

Screenshots quickly circulated among Chinese investors and analysts. Mr Donovan apologised and UBS deleted the note. Yet the anger was unabated. The Chinese Securities Association of Hong Kong called for Mr Donovan to be sacked. Haitong International Securities, a brokerage, said it would sever ties with UBS; China Railway Construction Corp decided against appointing it as a co-ordinator for a bond sale. As the pressure mounted, UBS put Mr Donovan on leave.

Some observers saw the reaction as a sign of rising anti-foreign sentiment as China's rift with America over trade deepens. Others spied a conspiracy. UBS has been one of the most successful foreign financial firms in China and is set to play a bigger role, having won approval to take majority control of its onshore securities unit. Chinese rivals might like to take it down a peg or two.

Yet at least some of the outrage was genuine. Calling someone a pig in China is deeply offensive. In context, it is clear that Mr Donovan meant actual hogs, not people. But his meaning was lost in translation and distorted on

social media. Had he referred to “pigs in China”, the controversy could have been averted. As Bloomberg, a news agency, put it, the result was a “costly language lesson”.

For those who know Mr Donovan, the injustice is obvious. He is a consummate professional, popular with colleagues—and an expert on inflation, having written a book on the topic in 2015. If UBS ends up firing him, it will have made a pig’s ear of the whole thing.

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**The hottest seat in banking****Who would be mad enough to take the top job at Wells Fargo?**

The crisis-plagued bank is struggling to find a new boss



Jun 22nd 2019

IT IS WITH relief—oops, I mean “regret”—that I must turn down your offer of the role of chief executive at Wells Fargo. Had you asked me four years ago I would have accepted. Back then Wells looked like a model bank, having come through the financial crisis unscathed by trading accidents or losses on toxic mortgages. Its retail arm was purring along—thanks, it seemed, to your employees’ brilliance in persuading people to open accounts. That brilliance turned out to be in fraudulently opening millions of spoof accounts, partly in order to shine in internal reports known as “Motivators”. I like a lively sales force, but Wells took it too far—and, more to the point, got caught.

Although the scandal broke back in 2016, the mess will still dominate the life of your next CEO. It is not the threat of litigation that worries me—with \$20bn of annual profits the firm can easily absorb the worst that America’s lawyers can throw at it. Far scarier are regulation and politics.

Federal supervisors have imposed more than a dozen restrictions on Wells until it shows it has better safeguards in place. These include capping assets at their 2017 level of \$1.95trn. This has hobbled the firm. Since then it has shrunk by 3% even as JPMorgan Chase’s assets have grown by 8%. Although the cap may be lifted in 2020, relations with regulators are still tense. All this when banks need scale and nimbleness to cope with technological change.

And then there is the political climate. Wells has come to symbolise all that is wrong with corporate America. It is an easy target: not just a bank, but one that set out to con the little guy. As the Democratic Party has tilted left, barely a day passes without one of its presidential candidates taking a pop at the moneymen. And Wells is often first in their sights.

Your next CEO will therefore have to do plenty of pandering to Congress. The House financial-services committee loved dragging in your previous chief executive, Timothy Sloan, for a kicking. How many days was it between the last of those ritualistic humiliations and his leaving—16? His predecessor, John Stumpf, kept his job for only 13 days after he was hauled in. Trips to Capitol Hill do not seem compatible with career longevity. I would hate to crash and burn live on C-Span.

I confess I sometimes indulge in daydreams about being feted for turning a banking behemoth around—who in finance doesn't want to be on the cover of *Fortune*, or seen as a contender to usurp Jamie Dimon as the industry's king? And I know a thing or two about mucking out stables. But this looks like a tougher gig than becoming Harvey Weinstein's PR guru.

And frankly, I worry that you wouldn't offer enough to make the risks worthwhile. The \$30m-odd I deserve would be far too contentious. What if I ended up in the same boat as Andrea Orcel, who quit UBS to join Santander which then dumped him after criticism of his lavish package? If I'd wanted to suck up to politicians for no money I would have become a journalist.

If I may, a word of advice. You should broaden your search beyond banking. That said, I'd steer clear of tech people at present—they are even less popular than us. Perhaps an accountant would do the trick, though not one from PwC—they messed up the Oscars, for goodness' sake!

Your best-known shareholder, Warren Buffett, recently admitted that Wells did "crazy things". I struggle to think of anything crazier right now than agreeing to take its reins while faced with a demoralised workforce, mistrustful regulators and a hostile Congress. Whomever you decide to approach next, I wish them the best of luck. They'll need it.

Yours sincerely,

[REDACTED]

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**Slasher flick**

## Can Germany's biggest lender survive on its own?

A lot will depend on the success of Deutsche Bank's restructuring plan



Jun 22nd 2019 | BERLIN

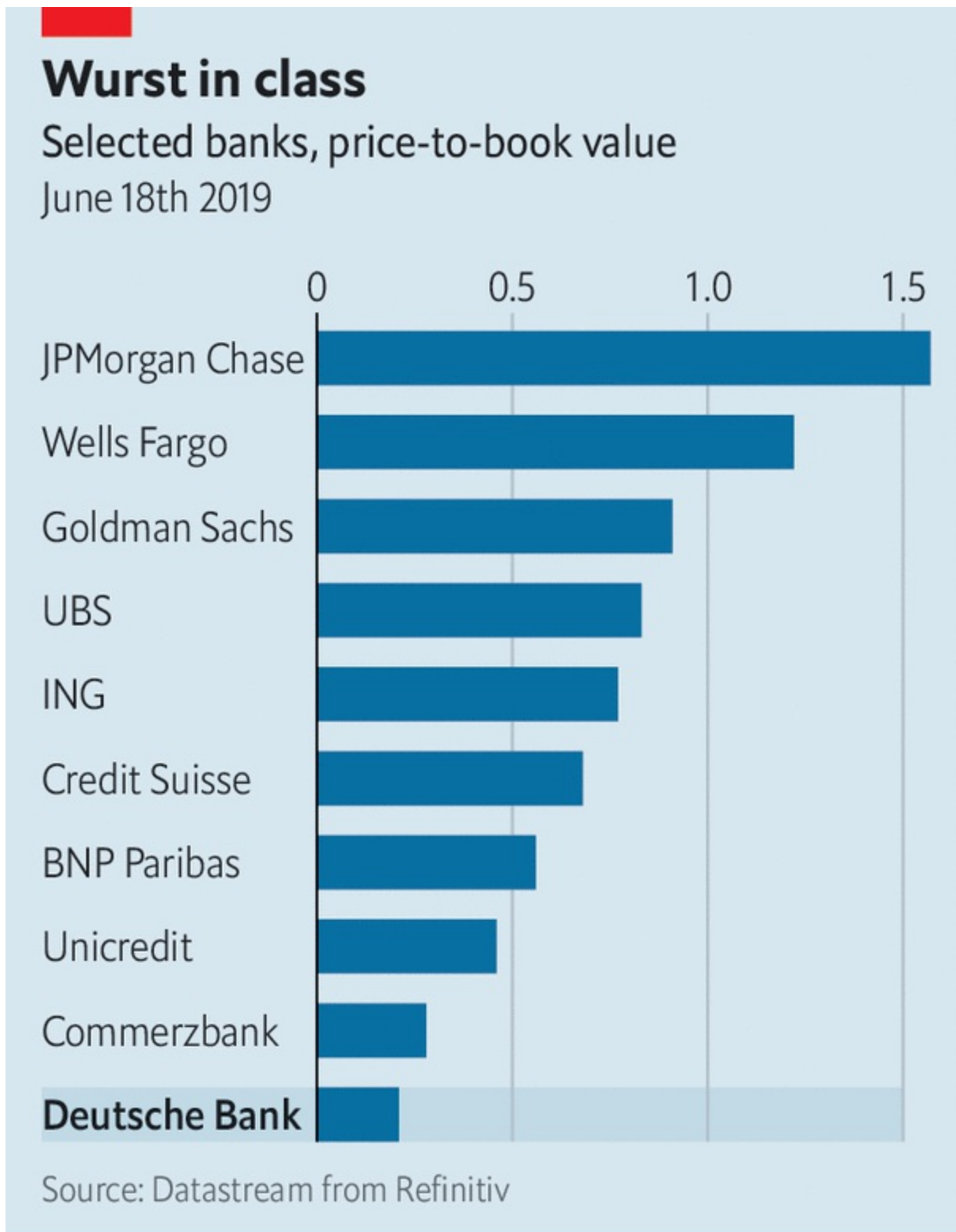
EARLIER THIS month, following the collapse of merger talks with Commerzbank in April, Deutsche Bank's share price hit the lowest point of its 149-year history. Fitch, a credit-rating agency, cut the bank's rating to two notches above junk. In May Christian Sewing, its chief executive, promised "tough cutbacks" in the ailing investment-banking business, with plans to be laid out alongside half-year results on July 24th. But on June 16th a leak in the *Financial Times* revealed the outlines.

The cuts (which Deutsche has not confirmed) go well beyond its investment-banking arm. Its rates and equities trading business outside Europe will be trimmed, and a "bad bank" created to hold non-core assets that generate little or no revenue. At up to €50bn (\$56bn), that is a sizeable chunk of Deutsche's risk-weighted assets. Cuts to the underperforming trading operations had been expected, but the idea of a non-core unit is new. Like several other big banks, Deutsche had shoved €128bn of debts into a bad bank in the wake of the financial crisis. After years of restructuring, it is hard to see how on earth it still has dud assets on its books. But apparently so.

Can the moribund Teutonic giant be shaken back into life? After the leak its share price rose 2%, only swiftly to sink again. Investors fear the changes are too little, too late. Deutsche's biggest problems are a failing investment-banking arm, high funding costs and the lack of a reliable profit generator, such as the private-wealth management units that keep Swiss banks going through lean years. Mr Sewing's restructuring plan does little to address any of these except the first.

Moreover, they are harder without profits. The firm cannot take big upfront losses. "Deutsche Bank cannot afford radical change," says Daniele Brupbacher at UBS, a Swiss bank (and rival to Deutsche). Under Germany's strong labour laws, slashing headcount would mean stiff social-insurance payments. Offloading dud assets is

expensive, too. Deutsche's post-crisis bad bank made losses of €14bn.



## The Economist

The retrenchment marks a definitive end to Deutsche's aspirations to become Europe's Goldman Sachs. Now it would settle for being a German version of BNP Paribas, a French universal bank with most of its activities in Europe. As well as a slimmed-down corporate and investment bank, Deutsche will still have Germany's biggest retail bank (plus retail operations in Italy and Spain) and dws, a solidly performing asset manager. But it is quite a comedown from the 1990s, when it took on Wall Street and, for a short time, became a big player in global

investment banking.

Many in Germany see the plans as a last-gasp effort to remain independent. UBS and ING of the Netherlands have already signalled their interest in merging with Deutsche. A takeover by a foreigner would be a big blow to German pride.

A lot will depend on how fast Mr Sewing can put his proposals into action. The leak is likely to force him to come clean about the details earlier than he had planned. They will probably include yet another purge of senior managers. According to the *Frankfurter Allgemeine Zeitung*, a daily, he might start by firing Garth Ritchie, the boss of Deutsche's investment-banking unit. In the new cost-conscious era Mr Sewing could take over—and run the sickliest division of an ailing bank. That may be an even more difficult task than it sounds. ■

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**Repeat business****In Argentina, the IMF has been neither toxic nor triumphant**

Even the opposition has resigned itself to the IMF's plan



Jun 22nd 2019

“WHAT GOOD is it to throw a man ten feet of rope if he is drowning in 20 feet of water?” asked Kenneth Rogoff, former chief economist of the IMF, in this newspaper 15 years ago. His question still bothers the institution he used to advise. Last June the fund uncoiled its biggest-ever loan: \$50bn for Argentina. Four months later it added \$6bn more. It hoped its generosity would rescue Argentina and salvage its reputation in a country that regards it as complicit in the economic disasters of 2001-02. But a year later, Argentina's economy is still far from safety. Will more rope be needed?

The first thing a drowning man should do is jettison excess weight. Argentina's government, led by Mauricio Macri, has slashed its fiscal deficit, aiming to balance the budget this year, excluding interest payments and some capital and social spending approved by the IMF. That austerity has helped squeeze imports, turning the trade deficit into a surplus.

But such fiscal rigour will be hard to sustain. And imports are not the only claim on Argentina's dollars. It must make substantial payments on foreign debt in 2020, when the inflow of dollars from the IMF's three-year loan will slow dramatically. Many analysts think it will eventually need a new, longer IMF loan to help it pay back the existing one.

Investors also fear a resumption of capital flight by residents, especially if Mr Macri looks likely to lose the October election to his populist opponents, led by Alberto Fernández and Cristina Fernández de Kirchner, a former president. Mr Macri's government is in a bind. Tougher measures to appease creditors will anger voters—and angry voters will alarm creditors, who fear Ms Fernández's return.



## Solidarity without success

Argentine pesos per \$, inverted scale



Source: Datastream from Refinitiv

### The Economist

That return is possible because growth has been slow to recover (the economy has shrunk for five quarters in a row) and inflation hard to repress: consumer prices rose by over 57% in the year to May. High inflation has put downward pressure on the peso (see chart). The peso's falls have, in turn, put upward pressure on prices. Argentines are quick to convert their deposits into foreign currency, and many wages and prices are set with an eye on the dollar. It is thus hard to stabilise prices without also stabilising the exchange rate.

Despite this, the IMF has discouraged the central bank from intervening directly in the currency markets to prop up the peso. In September it asked that the currency be allowed to float freely within a wide "non-intervention zone". But in April it had to change course. After a bad opinion poll for the Macri government sent the peso tumbling, the central bank said it would intervene within the zone if necessary. That announcement, as well as a good harvest, seem to have worked for now. The peso is up 5% against the dollar since its April low.

Some in Argentina think the size and speed of the IMF's loan meant it could not be tailored to the country's idiosyncrasies. Though Argentina might have liked a large, fast, customised loan, it had to settle for two out of the three. That said, the IMF has been remarkably willing to refit the agreement as circumstances require,

expanding its size, speeding up disbursements and even endorsing the central bank's new intervention policy in April.

The fund, and its biggest shareholder, America, seem eager to give this government the benefit of the doubt. For its part, the government has not blamed the fund for its predicament. Even the opposition, which defied the IMF when Néstor Kirchner, Ms Fernández's husband, was president in 2005, has said it will not walk away from the programme if it wins the election, though it will seek to renegotiate the terms.

The IMF has become more palatable, say some officials, because it has become less intrusive, leaving countries to decide how best to meet the macroeconomic targets it sets. But the fund itself is keen to highlight one conspicuous intrusion in Argentina's affairs: it has set a floor under social spending, requiring the government to devote at least 1.3% of GDP to cash-transfer schemes and other social safety nets. This is not only a "moral imperative", argues Roberto Cardarelli, the IMF's mission chief for Argentina, but a practical one too. Preserving social spending is necessary to limit the plan's unpopularity, and the less the plan is hated, the better its chances of success. What good is it to throw a man a rope if he sees it as a noose? ■

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**Loan away from home**

## Buy-out firms are the new banks in emerging markets

Declining credit quality in the rich world prods investors into pastures greener



Jun 22nd 2019

ENERGY PRODUCERS have long had India over a barrel. It is the world's third-largest oil importer, yet its pipeline density is a quarter of the global average. It aims to add 15,000km by 2022, awarding projects through strict online tenders. The few groups able to qualify can hope for sweet profits—if they can first find financing.

This is at last becoming easier. In emerging markets, a new breed of lenders has begun acting as credit supermarkets, offering anything from working capital to multi-year debt. They look and quack like banks, but are in fact buy-out firms investing mostly rich-world money. As demand for financing surges in fast-growing countries, they will proliferate, says Kanchan Jain of Baring Private Equity Asia. Her firm is nearing a four-year debt investment in a business that lays pipes in India.

The surge reflects investors' continuing hunt for yield. Ultra-low interest rates since the financial crisis have depressed returns in the West, nudging them towards economies with more alluring prospects. After stocks, bonds and private equity, private credit is their latest target. Last year over 50 emerging-market private-debt funds closed, having reached their funding target, up from 14 a decade ago. They raised \$9.4bn in total, a sevenfold rise since 2008. Michael Casey of Portico, an advisory firm, says fundraising volumes could easily double again without flooding the market.

Funds are filling a void left by Western banks, which have shunned faraway borrowers since post-crisis regulators asked for more capital to be held against exotic bets. Local rivals can lack firepower: the top 20 sub-Saharan banks together have less capital than one of Europe's big lenders.

## Travelling cheques

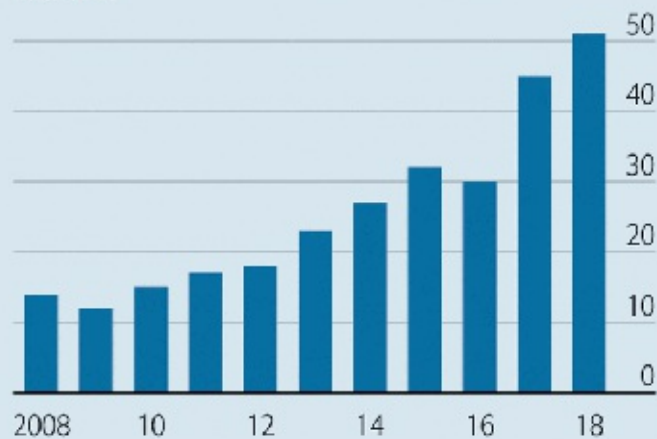
Emerging markets, private credit funds

Capital raised, \$bn



Source: EMPEA

Number



The Economist

Investors are also seeking pastures new to evade fierce competition in developed markets, where buy-out firms' efforts to take over from banks have already reached a peak. They now manage \$770bn in "alternative" debt assets. But credit supply is running ahead of demand: over \$300bn raised by funds in recent years has yet to be spent. Competition for deals has crushed margins and caused a decline in "covenants"—clauses requiring borrowers to keep overall debt levels under control. Less mature markets, oddly, are starting to look safer: taking no chances, funds lending there insist on robust covenants. Borrowers also tend to be half as leveraged, and funds themselves seldom carry any debt (many do in the West).

The asset class is also winning converts away from private equity. Finding acquisition targets can be tough in emerging markets, as owners of growing businesses, often families, are loth to give up control. Exiting them is even trickier. Prospective buyers are rare and thin capital markets complicate IPOs. All this hard work erodes returns to investors, says Holger Rothenbusch of CDC Group, the British government's overseas-investment arm. By contrast, debt investments, which rarely dilute shareholders, tend to be self-liquidating. Most also produce regular cash flows. That pleases liability-driven investors like insurers. Returns can be juicy: low teens for senior loans, higher for distressed debt.

There are pitfalls. Lending to a company rarely gives firms a board seat, making it harder to spot problems and scold management than if funds held an equity stake. And when things do go wrong, creditors' ability to enforce agreements or seize collateral can be weak. "I've had to try to bring things to an Indian court," says a former fund manager. "It's basically impossible." Some try to protect themselves by booking capital offshore; others limit themselves to high-quality borrowers and sponsors.

Another issue is currency risk. With liabilities in dollars, most funds want to be paid in the same currency. But few companies earning in an emerging-market currency can afford to buy multi-year dollar hedges. That often restricts funds' investable market to infrastructure projects backed by government guarantees, or companies pricing their wares in dollars, such as exporters or oil producers. To fuel a real investor frenzy, the asset class needs a stronger pipeline of deals. ■

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**Buttonwood****Low interest rates and sluggish growth may lead to currency wars**

Declaring trade peace might be the best way to get a cheaper dollar

Jun 22nd 2019

IN 2010, AS the euro zone's sovereign-debt crisis escalated, the euro fell sharply, from \$1.45 to \$1.19. Soon the talk in America was of a second round of quantitative easing by the Federal Reserve. Was this a coincidence? Many in euro land thought not. QE2, as it came to be known, seemed to them to be mostly a means to a weaker dollar. The grumbles went beyond Europe. That September Guido Mantega, Brazil's finance minister, said his country was under fire in an international currency war.

Now the bellyaching comes from America. On June 18th Mario Draghi, the president of the European Central Bank (ECB), said at a conference in Sintra, Portugal, that the bank stood ready to relax its monetary policy further if the euro-zone economy did not improve. Bond yields fell. So did the euro. President Donald Trump took to Twitter to denounce Mr Draghi for "unfair" currency manipulation. Earlier this month Steven Mnuchin, Mr Trump's Treasury secretary, had fired a warning shot in the direction of Beijing on currency policy. If China stopped trying to support the yuan, he seemed to suggest, that could be understood as an effort to weaken it.

The guns have been holstered again. The prospect of a pow-wow between Mr Trump and Xi Jinping, China's president, at a G20 summit in Osaka later this month has raised hopes that, at the very least, the trade war between their two countries does not escalate. A trade truce ought to cool the war of words over exchange rates, too—but not for long. Interest rates are low. The use of fiscal policy is constrained by either politics or debt burdens. A cheaper currency is one of the few ways left to gin up an economy. A world of sluggish GDP growth is one that is primed for a currency war.

## The significant seven

Chinese yuan per \$, inverted scale



Source: Datastream from Refinitiv

## The Economist

Despite Mr Draghi's best efforts, the exchange rate to watch is dollar-yuan, not euro-dollar. The yuan increasingly sets the tone for global currencies—and, by extension, for financial markets. China has allowed its currency to respond somewhat to market pressures since August 2015. But it has been kept in a fairly tight trading range against the dollar (see chart). These small changes matter. The currencies of China's big trading partners, such as the euro, have got caught up in the yuan's shifting tides, rising and falling in sympathy. Seven yuan to the dollar has been seen as an important threshold. Should the yuan ever breach that level, it would surely drag other currencies down with it.

Any hints that Beijing may be prepared to let the yuan go beyond seven are thus significant. Simon Derrick of BNY Mellon points to two developments in this regard. The first is the publication in late May of a seemingly well-sourced article in the *South China Morning Post* on trade negotiations with America. A sticking point, it said, was the yuan. China favours currency "flexibility"—not for an export advantage but to ensure stability. America is unsympathetic. Then, on June 7th, the governor of China's central bank, Yi Gang, told Bloomberg that a flexible currency was to be desired as it "provides an automatic stabiliser for the economy". He also

hinted that there was no red line at seven.

There is a topsy-turvy logic to currency wars. The winners are the currencies that fall in value. In such a race to the bottom, investors seek to back the losers. In times of trouble they will go for the usual boltholes: the yen, the Swiss franc and gold, all of which have been lifted by trade-war anxiety. The dollar stays strong because America has high interest rates, by rich-world standards, and a strong economy. But when growth slows and interest rates fall, says Kit Juckes of Société Générale, a French bank, other factors come into play. These include trade balances and valuation.

The yen stands out. Japan runs a current-account surplus. And the yen is cheap based on measures of purchasing-power parity, including rough-and-ready gauges, such as *The Economist's* Big Mac Index. The Swiss franc is also backed by a hefty current-account surplus, even if it looks expensive. Gold gets a look-in mainly because there are so few good alternatives to holding dollars.

In 2010 the cheap dollar irked everyone outside America. Now the dear dollar bothers America, or at least its president. In the slow-brewing currency war, America is both victim and perpetrator. "If you start a trade war with your biggest trading partners, they get a weak currency and you get a strong one," says Mr Juckes. If Mr Trump wants a cheaper dollar, declaring trade peace might be the best way to get it. Otherwise, America risks waging a currency war on itself.

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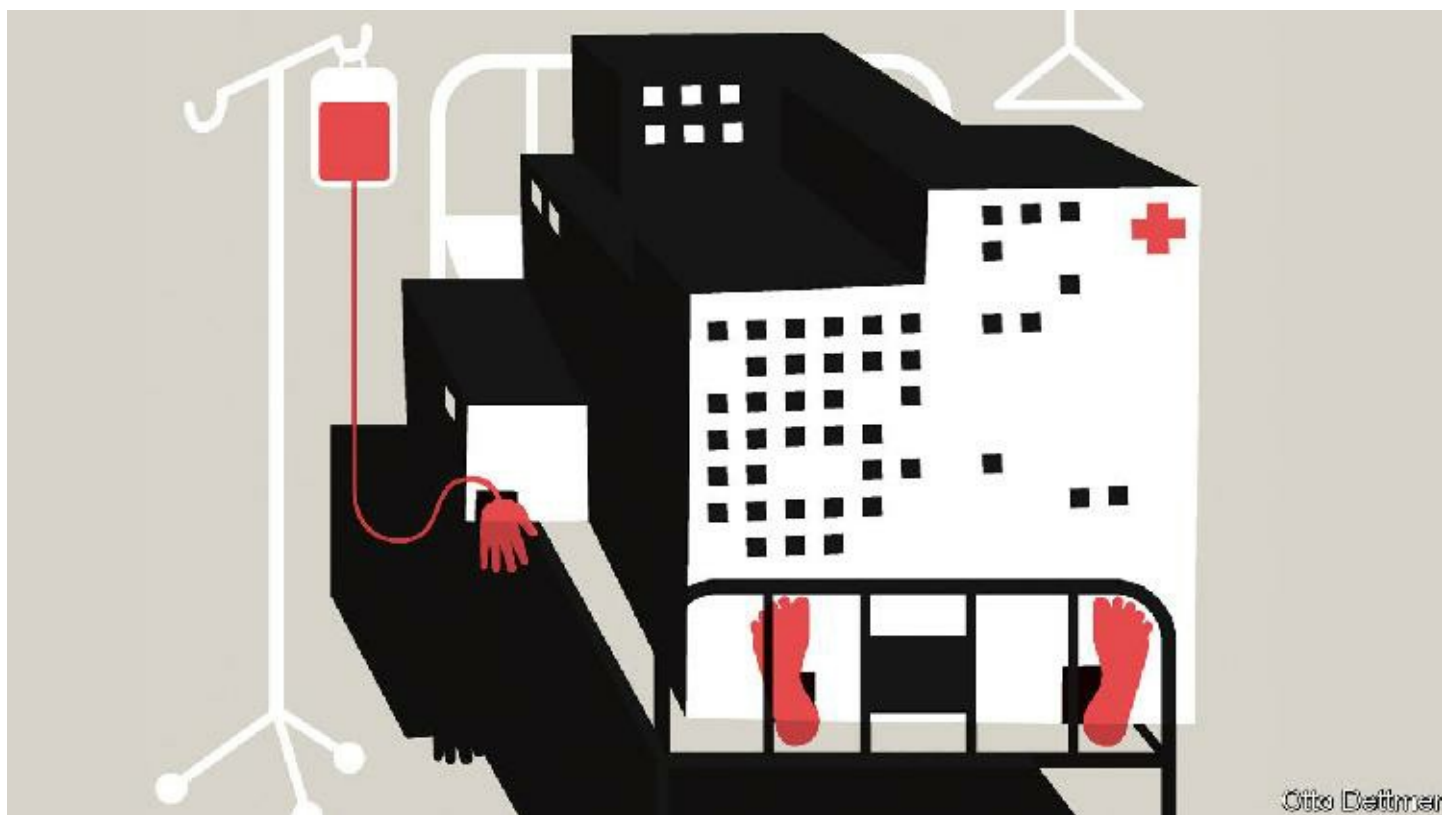
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**Free exchange****The rising cost of education and health care is less troubling than believed**

Misunderstanding the problem, politicians often prescribe the wrong cures



Jun 20th 2019

AMONG THE compensations of ageing is the right to bore youngsters with stories of the prices of yesteryear. Once upon a time a ticket to the cinema cost just five quid, and a hogshead of mead but a farthing. Of course, savvy youths know how to debunk such tales. Adjust for inflation and many things are cheaper than ever. Since 1950 the real cost of new vehicles has fallen by half, that of new clothing by 75% and that of household appliances by 90%, even as quality has got better. Tumbling prices reflect decades of improvements in technology and productivity. But the effect is not economy-wide. Cars are cheaper, but car maintenance is more expensive, and costs in education and health care have risen roughly fivefold since 1950. Though no mystery, this rise is often misunderstood, with serious economic consequences.

There are as many explanations for the ballooning cost of such services as there are politicians. But as a newly published analysis argues, many common scapegoats simply cannot explain the steady, long-run rise in such prices relative to those elsewhere in the economy. In “Why are the prices so damn high?” Eric Helland of Claremont McKenna College and Alex Tabarrok of George Mason University write that quality has improved far too little to account for it. Administrative bloat is not the answer either. In America the share of all education spending that goes on administration has been roughly steady for decades. Health-care spending has risen faster than GDP in rich countries, despite vast differences in the structure of their health-care systems.

The real culprit, the authors write, is a steady increase in the cost of labour—of teachers and doctors. That in turn reflects the relentless logic of Baumol’s cost disease, named after the late William Baumol, who first described the phenomenon. Productivity grows at different rates in different sectors. It takes far fewer people to make a car than it used to—where thousands of workers once filled plants, highly paid engineers now oversee factories full of robots—but roughly the same number of teachers to instruct a schoolful of children. Economists

reckon that workers' wages should vary with their productivity. But real pay has grown in high- and low-productivity industries alike. That, Baumol pointed out, is because teachers and engineers compete in the same labour market. As salaries for automotive engineers rise, more students study engineering and fewer become teachers, unless teachers' pay also goes up. The cost of education has thus risen because of the rising pay needed to fill teaching posts. Other factors matter too, and can explain, for instance, why Americans pay more than Europeans for health care and higher education. But across countries, none is as important as the toll exacted by cost disease.

Baumol's earliest work on the subject, written with William Bowen, was published in 1965. Analyses like that of Messrs Helland and Tabarrok nonetheless feel novel, because the implications of cost disease remain so underappreciated in policy circles. For instance, the steadily rising expense of education and health care is almost universally deplored as an economic scourge, despite being caused by something indubitably good: rapid, if unevenly spread, productivity growth. Higher prices, if driven by cost disease, need not mean reduced affordability, since they reflect greater productive capacity elsewhere in the economy. The authors use an analogy: as a person's salary increases, the cost of doing things other than work—like gardening, for example—rises, since each hour off the job means more forgone income. But that does not mean that time spent gardening has become less affordable.

Neither do high prices necessarily need fixing. Many proposed solutions would be good for growth but would not solve the cost-disease problem. Boosting the supply of labour by increasing immigration could depress costs in both high-productivity sectors and low-productivity ones. But the price of a college education in terms of sedans would remain eye-watering. Innovation in stagnant sectors, while welcome, would shift the problem of cost disease elsewhere. A burst of productivity growth in education—because of improved online instruction, say—should contribute to a decline in the price of education per student. But because a given instructor could serve many more students than before, teachers' potential income would rise, luring some would-be doctors away from the study of medicine and exacerbating the problem of cost disease in health care. A productivity boom in health care might shunt the cost disease to dentistry, or child care, or veterinary medicine.

The only true solution to cost disease is an economy-wide productivity slowdown—and one may be in the offing. Technological progress pushes employment into the sectors most resistant to productivity growth. Eventually, nearly everyone may have jobs that are valued for their inefficiency: as concert musicians, or artisanal cheesemakers, or members of the household staff of the very rich. If there is no high-productivity sector to lure such workers away, then the problem does not arise.

#### **A cure worse than the disease**

These possibilities reveal the real threat from Baumol's disease: not that work will flow toward less-productive industries, which is inevitable, but that gains from rising productivity are unevenly shared. When firms in highly productive industries crave highly credentialed workers, it is the pay of similar workers elsewhere in the economy—of doctors, say—that rises in response. That worsens inequality, as low-income workers must still pay higher prices for essential services like health care. Even so, the productivity growth that drives cost disease could make everyone better off. But governments often do too little to tax the winners and compensate the losers. And politicians who do not understand the Baumol effect sometimes cap spending on education and health. Unsurprisingly, since they misunderstand the diagnosis, the treatment they prescribe makes the ailment worse. ■

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Stopping bees swapping hives keeps disease down and productivity up.

### [Climate change: Greenland is melting](#)

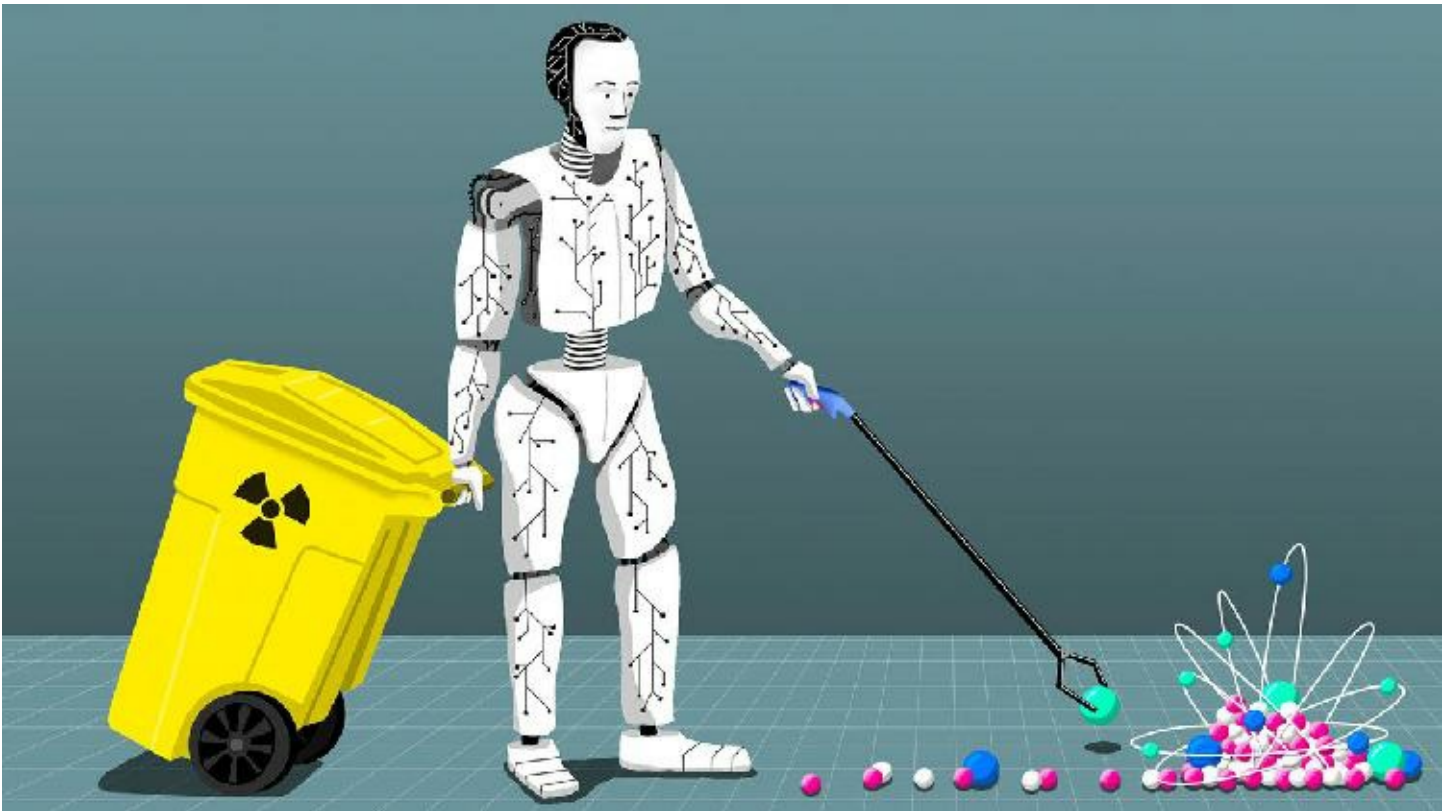
Greenland's ice sheet is melting unusually fast.

### [Clandestine warfare: Special Drone Service](#)

Submarine-launched drone platoons will soon be emerging from the sea.

**Dangerous work****Cleaning up nuclear waste is an obvious task for robots**

But designing 'bots that can do it is hard



Jun 20th 2019

SOME PEOPLE worry about robots taking work away from human beings, but there are a few jobs that even these sceptics admit most folk would not want. One is cleaning up radioactive waste, particularly when it is inside a nuclear power station—and especially if the power station in question has suffered a recent accident.

Those who do handle radioactive material must first don protective suits that are inherently cumbersome and are further encumbered by the air hoses needed to allow the wearer to breathe. Even then their working hours are strictly limited, in order to avoid prolonged exposure to radiation and because operating in the suits is exhausting. Moreover, some sorts of waste are too hazardous for even the besuited to approach safely.

So, send in the robots? Unfortunately that is far from simple, for most robots are not up to the task. This became clear after events in 2011 at the Fukushima Daiichi nuclear power plant in Japan, which suffered a series of meltdowns after its safety systems failed following a tsunami. The site at Fukushima has turned into something of a graveyard for those robots dispatched into it to monitor radiation levels and start cleaning things up. Many got stuck, broke down or had their circuits fried by the intense radiation.

**Intelligence test**

Stopping such things happening again is part of the work of the National Centre for Nuclear Robotics (NCNR). This is a collaborative effort involving several British universities. It is led by Rustam Stolkin of the University of Birmingham, and its purpose is to improve the routine use of robotics in nuclear power stations as well as to ensure that robotic trips into irradiated areas are less likely to end up as suicide missions.

One problem with the robots dispatched into the ruins of Fukushima Daiichi was that they were not particularly

clever. Most were operated by someone twiddling joysticks at a safe distance. Such machines are awkward to steer and their arms are tricky to move accurately when viewed via a video screen. Dr Stolkin reckons the answer is to equip them with artificial intelligence (AI), so that they can operate autonomously.

The nuclear industry, though, is extremely conservative and not yet prepared to let autonomous robots loose within its facilities. So, for the time being at least, AI will be used to assist human operators. For example, instead of relying on a remote human operator to manipulate all its controls, an AI-equipped robot faced with a pile of different objects to move would employ a camera to understand those objects' shapes and positions relative to one another. It could then plan how best to grasp each object and move it to, say, an appropriately designed disposal skip without it colliding with anything else in the vicinity.

A human being would remain in overall control of the process via a motorised joystick that exerts forces on the operator's hand similar to those he or she would feel by actually grasping the object. But although the operator still uses the joystick to move the robot's arm to carry out a particular task, it is the AI which takes care of the details. It makes sure the arm swings in exactly the right direction and picks things up properly. Such an arrangement has already been successfully tested at the Springfields nuclear-fuel facility in north-west England. It was used to cut up contaminated steel with a high-powered laser.

Other members of NCNR are examining different aspects of the problem. At the University of Bristol, Tom Scott leads a group working on means for robots to identify materials, including various sorts of plastic, from the "fingerprints" provided by the distinctive ways they scatter laser light. At Queen Mary, a college of the University of London, Kaspar Althoeffe's team is working on radiation-resilient tactile sensors for robots' fingers. Gerhard Neumann of the University of Lincoln is developing advanced navigation systems. And to ensure robots' circuits don't get frazzled, Klaus McDonald-Maier at the University of Essex is developing electronics toughened against the effects of radiation, including circuits that automatically detect and correct errors.

Besides helping run nuclear power stations, all this will also assist with the growing need to clean up and recycle nuclear waste—and not just because of disasters like Fukushima. Early members of the nuclear club, such as America, Britain, France and Russia, have accumulated a vast legacy of the stuff. In Britain alone, some 4.9m tonnes of contaminated nuclear material are in need of safe disposal.

A lot of this is found at one of the most hazardous industrial sites in Europe, Sellafield, also in north-west England. Sellafield began producing plutonium for bombs in 1947. In 1956 the world's first commercial-sized civil nuclear power station opened there. The site went on to become a centre for reprocessing nuclear fuel. Cleaning up Sellafield's decaying buildings and nuclear-waste storage facilities will take decades. Robots with autonomous abilities would greatly hurry that process along.

Nor is it just inside buildings that robots can help. This April Dr Scott and his colleagues at Bristol completed an aerial survey of the Red Forest in the Chernobyl exclusion zone in Ukraine using robotic drones. Even 33 years after the accident at the site's number four reactor, they found previously undetected radiation hotspots.

Unlike a neat and tidy factory, where robots can be programmed to undertake repetitive tasks without any surprises, decontaminating an old nuclear site requires the ability to operate in an unstructured environment. In some cases, operators may not even know what they might find inside a building. Devising artificial intelligence clever enough to deal with all this will be tricky. But if Dr Stolkin and his colleagues succeed, their efforts are likely to have a wider impact, stretching even into the world of jobs that people are, at the moment at least, content to do themselves. ■

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**Dinoflagellates and copepods****The bioluminescence people find so attractive is a defence mechanism**

It drives away the predators of microscopic plankton



REX/Shutterstock

Jun 22nd 2019

ONE OF NATURE'S most beautiful phenomena is the nocturnal bioluminescence visible in the world's oceans, particularly on shores where waves are breaking and in the wakes of moving objects such as swimmers and ships. This ghostly light is produced by single-celled planktonic creatures called dinoflagellates. Ironically, dinoflagellates are also responsible for one of nature's nastiest phenomena—red tides. These are water-discolouring, toxin-generating blooms of the organisms. The toxins kill fish and other large wildlife. And they accumulate in filter-feeding bivalve molluscs of the sort that end up on dinner tables, to the serious detriment of the diner.

Toxin-generation is clearly defensive. The purpose of bioluminescence is less clear. But many of those who think about such matters suspect that it, too, has a defensive purpose. And work just published in *Current Biology* by Erik Selander and Andrew Prevedt of Gothenburg University, in Sweden, confirms that hypothesis.

Dr Selander and Mr Prevedt conducted their experiments on *Lingulodinium polyedra*, a common dinoflagellate. They raised, in tanks, several colonies of a strain of *L. polyedra* that is unable to produce defensive toxins. These tanks also contained colonies of other species of plankton, thus creating mixed communities. In some cases, the researchers tinkered with the dinoflagellates' internal biological clocks, to rob them of their ability to glow during the experimental period. In some, they let the critters luminesce normally. And to some of these normally luminescing cultures they also added a fat called copepodamide to the water. This substance is produced by small crustaceans called copepods that often graze on dinoflagellates. Then, once all the colonies were flourishing, they unleashed some copepods on them.

They expected the copepods to gobble up the toxin-free dinoflagellates quickly. And this proved true in those

colonies where the creatures had been robbed of their luminescent abilities. While *L. polyedra* made up only a quarter of the possible prey items in these colonies, they constituted three-quarters of the copepods' diets. By contrast, in colonies where *L. polyedra* were able to glow normally, the dinoflagellates formed only a quarter of the copepod diet. Meanwhile, in the third set of colonies—those in which the dinoflagellates had been primed to the presence of copepods by exposure to copepodamide—they flashed brightly as the copepods approached, and in doing so drove the crustaceans instantly away. In this case *L. polyedra* made up only 2% of copepods' diets.

Precisely why a bright flash drives copepods away is unclear. The simplest explanation is that it blinds them temporarily, and they did not wish to repeat the experience. Another suggestion is that the flashes attract predators of copepods. Whatever the details, though, the likely explanation for the bioluminescence caused by waves, swimmers and ships is that the pressure their passage generates triggers anti-predator flashes on a grand scale, and that the light which people find so attractive is thus actually a warning to scram. ■

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**Beekeeping****Stopping bees swapping hives keeps disease down and productivity up**

The probable reason is that they don't then spread mites



Jun 22nd 2019

MUCH GUFF has been written in recent years about the risk of honey bees disappearing. They are not—which is hardly surprising, because unlike most other insects they are domesticated animals and their numbers are therefore controlled ultimately by human desire for the honey they produce and the pollination services they provide. Estimates by the UN Food and Agriculture Organisation suggest that, far from falling, the number of hives in the world is increasing by about 2% a year.

This is not to say, however, that beekeepers have had it easy. A decade ago a mysterious phenomenon called colony-collapse disorder, in which worker bees deserted hives for no apparent reason, struck apiarists in Europe and America. More prosaically, crowding brought about by domestication can promote disease. A particular risk is *Varroa destructor*, a parasitic mite that has been spreading through the world's hives since the 1970s. The mites themselves suck body fat from their hosts. They also carry a virus that affects bees' development, deforming the insects' wings.

Travis Dynes of Emory University, in Atlanta, Georgia, and his colleagues may, however, have found a straightforward way of improving bees' prospects in mite-infested areas. In a paper published in *PLOS One* they report on a study carried out in apiaries around Athens, Georgia, which did just that by changing the arrangement and appearance of their hives.

Hives in apiaries are usually laid out a metre or less apart at the same height above the ground and in a regular grid formation. They are generally painted the same colour and usually have their entrances facing in the same direction. It has been suggested that this arrangement may confuse bees when they return from foraging trips, leading them to drift between their natal colony and others. If true, that would probably aid the spread of mites.

Dr Dynes and his team therefore compared three conventional arrangements of eight hives with three others in which the hives were painted in different colours and arrayed in circles, with each hive ten metres from its nearest neighbours. The entrances of these hives faced outward from the circle and each bore a symbol, different from any of the others, to increase its visual distinctiveness. As a final touch, the hives were also raised to various heights above the ground.

To understand better what was happening, Dr Dynes and his colleagues marked a representative sample of the workers in each hive with individually numbered tags. The result was a clean sweep for the new arrangements. Their bees drifted less between hives, supported fewer mites, produced more honey and survived the winter better than their conventionally housed counterparts.

How easy it will be to translate Dr Dynes's insights into the world of commercial beekeeping remains to be seen. Apiarists maintain hives at high density for good reason—they may have to manage hundreds in a limited area. But even if they cannot compromise on density, there is nothing to stop them painting their hives different colours, randomising hive's heights and the orientations of their entrances, and marking them with symbols. If that helps defeat mites, the effort involved will surely have been worthwhile. ■

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**Climate change****Greenland's ice sheet is melting unusually fast**

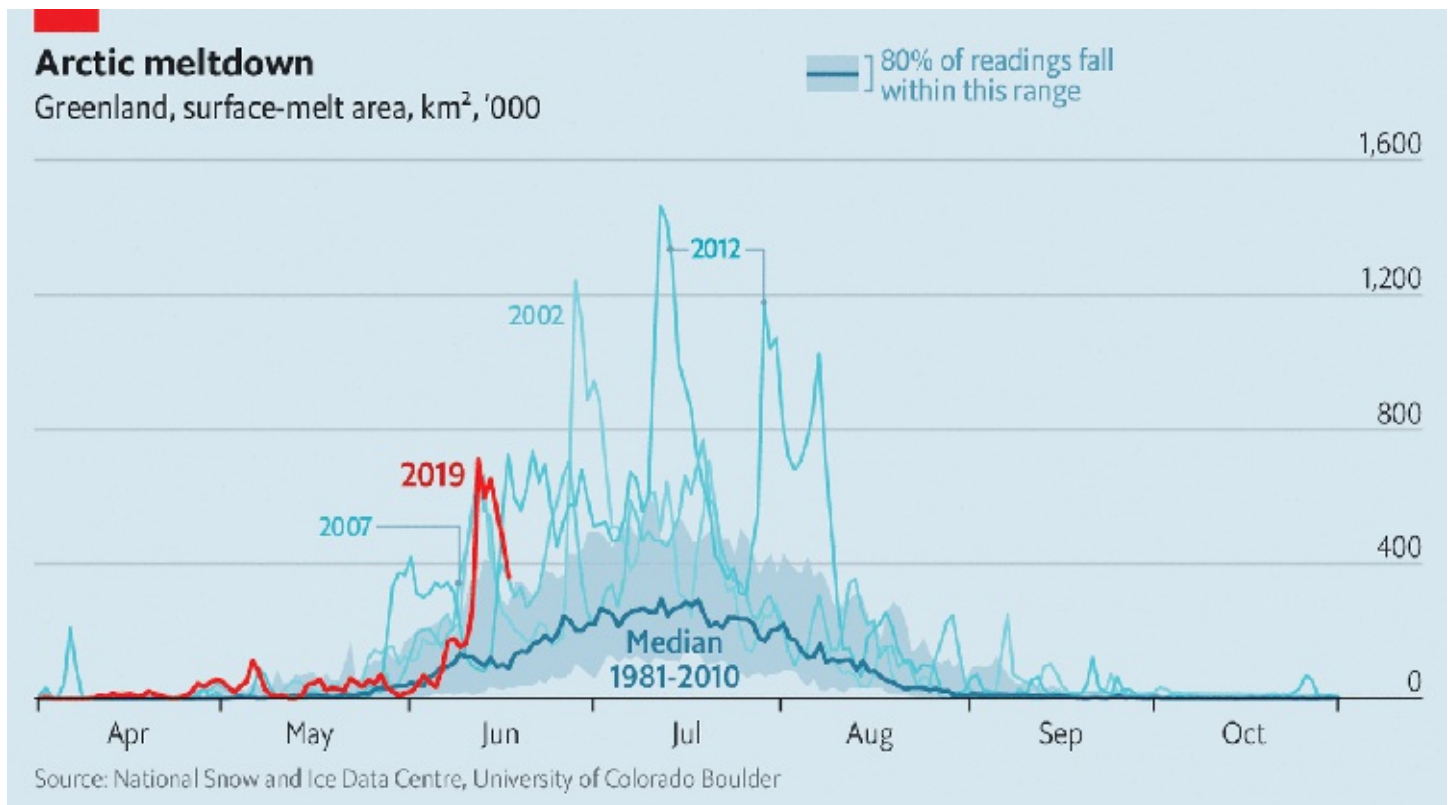
That may raise the sea level by an extra millimetre this year

Jun 22nd 2019

GREENLAND'S MISLEADING name is the result of a marketing campaign by Erik the Red, a tenth-century Norse explorer who wished to attract settlers to its icy landscape. Little did he know that the island had been covered by lush forests many millennia before he was born. Nor could he have fathomed that, a millennium after his death, the vast ice sheet that gave the lie to his inviting description would be in rapid retreat.

That sheet holds enough water to raise the world's sea level by more than seven metres, should it all melt and run off into the oceans. For this reason, climate scientists monitor the sheet's seasonal trends closely. In particular, they study the spring melt that leads up to the late summer ice minimum, after which the sheet starts to grow again.

The latest data show that the area of melting ice is unusually high this year. On June 12th 712,000 square kilometres of the sheet (more than 40% of it) were melting. That is well outside the normal range for the past 40 years (see chart).



The Economist

Several things are to blame. First, a natural cycle known as the North Atlantic Oscillation is encouraging ice-melt. Then there is long-term warming driven by rising greenhouse-gas emissions. Third, climate change has also weakened the jet stream, permitting a warm and humid weather system to settle over north-eastern Greenland. As a result of all this, the seasonal ice-melt began two weeks early. And according to data published on the Polar Portal, a Danish climate-research website, Greenland is currently losing 3bn tonnes of ice a day. That is roughly three times the average for mid-June in the period from 1981 to 2010.

The three previously recorded losses at this scale, in 2002, 2007 and 2012, each portended a record shrinkage of the sheet's volume at the end of the summer. This year's is likely to do the same. As Thomas Mote of America's National Snow and Ice Data Centre observes, although a switch in the weather could still turn things around, the early melt will result in darker snow and ice, which absorb more sunlight and hasten the melting process.

Jason Box of the Geological Survey of Denmark and Greenland reckons that if this year is anything like 2012 (which set the current record for ice melt), melting ice from Greenland will raise the sea level by a millimetre. That is on top of the 2.5mm-a-year rise brought about by other causes, such as thermal expansion of the oceans in response to global warming. Greenland may not be green yet, but it is far less icy than in Erik's time. ■

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## Clandestine warfare

### Submarine-launched drone platoons will soon be emerging from the sea

Commando operations are about to be robotised



Lockheed Martin

Jun 22nd 2019

USING SUBMARINES to land spies and launch raids is nothing new, but America's navy is planning to add a twist to the idea by employing drones as the spies and commandos in question. Heterogeneous Collaborative Unmanned Systems (HCUS), as these drones will be known, would be dropped off by either a manned submarine or one of the navy's big new Orca robot submersibles. They could be delivered individually, but will more often be part of a collective system called an encapsulated payload. Such a system will then release small underwater vehicles able to identify ships and submarines by their acoustic signatures, and also aerial drones similar to the BlackWing reconnaissance drones already flown from certain naval vessels.

Once the initial intelligence these drones collect has been analysed, a payload's operators will be in a position to relay further orders. They could, for example, send aerial drones ashore to drop off solar-powered ground sensors at specified points. These sensors, typically disguised as rocks, will send back the data they collect via drones of the sort that dropped them off. Some will have cameras or microphones, others seismometers which detect the vibrations of ground vehicles, while others still intercept radio traffic or Wi-Fi.

HCUS will also be capable of what are described as "limited offensive effects". Small drones like BlackWing can be fitted with warheads powerful enough to destroy an SUV or a pickup truck. Such drones are already used to assassinate the leaders of enemy forces. They might be deployed against fuel and ammunition stores, too.

A week-long demonstration of HCUS is planned for later this year. It will test covert deployment, the transfer of data, automatic recharging and the placing of ground sensors. It will culminate in a "remote operator on-demand offensive attack on a simulated target".

Unmanned systems such as HCUS thus promise greatly to expand the scope of submarine-based spying and special operations. Drones are cheap, expendable and can be deployed with no risk of loss of personnel. They are also “deniable”. Even when a spy drone is captured it is hard to prove where it came from. Teams of robot spies and saboteurs launched from submarines, both manned and unmanned, could thus become an important feature of the black-ops of 21st-century warfare. ■

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## Books and arts

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**The lonely hidden army****China's grand, gloomy sci-fi is going global**

It provides an outlet for subtle dissent



Jun 22nd 2019 | BEIJING

IN THE FUTURE, when the Sun runs out of fuel and begins to expand, Earthlings dig thousands of mountain-sized rockets into their planet's surface and use them to propel their home away from certain destruction. Billions die, as to turn the Earth into an effective mobile ark, its natural rotation must be halted. The resulting tsunamis wipe out entire continents, and with them all life not safely ensconced underground.

This is the plot of “The Wandering Earth”, a Chinese film adapted from a short story of the same name by Liu Cixin, China's leading writer of science fiction. After taking over \$700m in cinemas, mostly in China, it launched on Netflix in May, making it the first Chinese sci-fi movie to go global. Like much Chinese sci-fi, the story is both darker and more grandiose than many Western blockbusters. The implicit loss of human life is on a par with some Marvel movies, but without the superheroes to soften the blow. Startlingly, the moral authority of the security forces is never challenged in the film. Far from being villains, they help save the world.

As with other Chinese works in the genre, it is tempting to draw parallels with the Communist regime, even when the writers themselves do not—and dare not—make those analogies explicit. For Western readers, Chinese sci-fi thus offers a window into the country's hopes and fears. Especially its fears.

**Masters and slaves**

As China's economy has grown over the past 30 years, its sci-fi writers' vision has expanded, too. Their stories tend to focus on Earth itself—eschewing galaxies far far away and long ago—while being conceived on a stupendous scale. One recurring wide-angle shot in “The Wandering Earth”, for example, shows the planet gliding through space on a pincushion of blue flame, its atmosphere trailing off into a vacuum.



Other Chinese science-fiction stories unfold in similarly mindboggling dimensions. In “Mountain”, another tale by Mr Liu, the alien ship that enters Earth’s orbit is so massive that its gravitational pull creates a tower of water in the ocean off the coast of Taiwan, up which the protagonist ascends. In another, “Sun of China”, a rural man moves to Beijing and finds work cleaning skyscraper windows. His industry and enterprise eventually lead him to manage the great artificial sun which China launches to light up its cities.

Chinese sci-fi took its first step towards the global stage in 2014 with the English publication of “The Three-Body Problem”, the first book in a trilogy by Mr Liu. It tells the story of Earth’s first contact with an alien civilisation, the Trisolarans, whose planet is stuck in climatic chaos as it oscillates wildly between the three stars in its stellar system. The Trisolarans covet the environmental stability that comes with the relative dullness of Earth’s solar system and, armed with technological superiority, plan to take over. Barack Obama name-checked the book while he was president. Mark Zuckerberg liked it. The boss of Xiaomi, one of China’s biggest smartphone companies, has made the trilogy required reading for his employees. Li Yuanchao, China’s former vice-president, is also a fan.

Mr Liu’s epic yarns have been well-received abroad, but China’s darkest sci-fi stories have not yet left home. Some of the most popular are written by his contemporary, Han Song. Mr Liu has been compared to the British futurist Arthur C. Clarke, says Mingwei Song of Wellesley College in Boston; Mr Han, meanwhile, is sometimes likened to Philip K. Dick, an American dystopian. Mr Liu’s stories are scientifically rigorous; Mr Han’s are allegorical and uncanny—but also grittier and more subversive. Mr Liu offers lucid descriptions of hypothetical Chinese futures. Mr Han conjures ugly parallels of the present.

One of his stories, “The Passengers and the Creator”, plays out on a Boeing passenger jet. For its occupants, the aeroplane constitutes the entire universe. A closed economy of human flesh and sex-slavery sustains a surreal hierarchy based on seat numbers; eventually the hero finds a way to guide the plane out of the band of night in which it has been perpetually flying, down to Earth and into the light. Some readers have detected an allegory for the Chinese state—a people imprisoned by their mindset, cocooned in a bubble that must eventually be pierced.

#### **Heaven and Earth**

Mr Han has written a trilogy, too—this one firmly rooted on Earth. “Hospital” describes a future in which a benevolent artificial intelligence (AI) aspires to help humans enjoy long and happy lives. But something has gone wrong, and all of the citizens are treated as patients, in a horrifying case of Munchausen syndrome by proxy. Even after death, the AI sees that its subjects remain part of the system, running simulated versions of their lives.

While Western sci-fi is often alarming, the truth is usually worth discovering. Even in the grimmest Western fables, such as the film “Soylent Green” (1973)—which ends with the revelation that the titular foodstuff is made of people—audiences at least have the comfort that drawing back the curtain might lead to positive change. Mr Song suggests that, by contrast, Chinese sci-fi makes a dystopia out of the act of discovery itself, often presenting the truth as not worth knowing, or not worth the risk. Parallels with the highly controlled flow of information in today’s China, and the danger associated with even trying to circumvent it, are hard to ignore.

For all the camouflage offered by its fantastical canvas, and even as it gains admirers abroad, Chinese science fiction does not escape censorship at home. In the original manuscript of Mr Liu’s trilogy, for example, the pivotal incident is the killing of the protagonist’s family by Red Guards during the Cultural Revolution. The English translation retains that crux. But in the published Chinese version, notes Mr Song, the order of the chapters is changed so that the turmoil of that era is no longer central to the plot. Graphic descriptions of the murder are excised.

The censors don’t yet appear to have caught up with Mr Han. The second novel in the “Hospital” trilogy even won Chinese sci-fi’s top honour in 2017, the first time so subversive a book had taken it, says Mr Song. Mr Han is still cranking out sci-fi stories. For his part, Mr Liu has not written a novel since the final instalment of “The

Three-Body Problem”, instead focusing on movies and scripting “Wangzhe Rongyao” (“Honour of Kings”), a video game that was the world’s most popular in 2017.

A crop of younger writers are now emerging in the duo’s wake. “Waste Tide”, by Chen Qiufan, takes place on an island devoted to electronics refuse in a fictionalised South China Sea. A member of the lowest caste, Mimi, toils away recycling computer components for her masters. One day she is infected by a virus from the rubbish, gaining special powers and igniting class warfare. The setting is not too far divorced from parts of real-life China, in which the by-products of the electronics industry create uninhabitably toxic environments.

The writers of Chinese science fiction anticipated their genre’s rising profile. In 2010 Fei Dao, another author, described its devotees as a “lonely hidden army”. Chinese sci-fi, he said, might “unexpectedly rush out and change heaven and Earth”. That has not quite happened yet. But in the future, anything is possible. ■

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**Orwell's elephant****A writer's journey through Myanmar**

Like its shifting name, the country is mercurial



Jun 22nd 2019

**A Savage Dreamland: Journeys in Burma.** By David Eimer. *Bloomsbury*; 384 pages; £20. To be published in America in September; \$34.

LIKE ITS mercurial name, which shifts between one imposed by British colonisers and another by its generals, Burma, or Myanmar, is a country that defies easy categorisation. About the size of Germany and Poland combined, it is bigger and more diverse than its status on most maps suggests. It is also far more complex than it may seem. A major supplier in the global drugs trade, it is riddled with ethnic conflicts and still crippled by the legacies of imperialism and 50 years of military rule.

David Eimer, a former South-East Asia correspondent for the *Daily Telegraph*, a British newspaper, tries to capture this quicksilver place in “A Savage Dreamland”. He is an intrepid reporter. He takes the reader down dirt-track roads, on the back of motorbikes or in a shaky bus on which his neighbour vomits up his curry; into rat-infested cinemas in Yangon; and around dilapidated colonial buildings and the bombastic military museums of Naypyidaw (the soulless capital built by the armed forces in 2005).

He goes to places where tourists, and many journalists, fear to tread—such as Shan state, where he encounters rival armies and is probed by a lieutenant-colonel on the battle-readiness of the enemy. His interlocutors show just how diverse the country is: a gay Rohingya Muslim man in a society where Muslims are persecuted and same-sex relationships are illegal; a feminist film-maker who disavows Aung San Suu Kyi, the dissident turned democratically elected leader; and Tashi, an 18-year-old Tibetan who says most of his compatriots living in Burma would prefer to be across the border in Tibet, as it is more developed. “They have roads and television.”

Mr Eimer backs his reporting with historical research, mostly focused on colonialism and its aftermath. He charts the litany of errors made by the British, the effects of which endure. They appeared to promise autonomy to minority groups if they fought on the British side against the Japanese and the Bamar (the majority ethnic group) in the second world war. Many of the repressive laws they introduced remain on the statute books. They employed Indians to do many jobs instead of locals, stirring anti-immigrant sentiment. He quotes a British adviser in the 1940s who encapsulated a purblind view of the Burmese as lazy and easy-going: “The Burman was a happy-go-lucky sort of chap, the Irishman of the east, free with his smiles.”

The character who appears most frequently is George Orwell, who was based in Burma as a reluctant “colonial enforcer”; his grandmother was born in the country. Mr Eimer reverentially visits the family home. He cites Orwell’s work on Burma and sketches its background.

This homage inadvertently highlights the contrast between Orwell’s lean prose and “A Savage Dreamland”, which, for all its gripping vignettes, can be baggy and repetitive. Sometimes Mr Eimer relies too heavily on anecdote and supposition. Perhaps this is a risk of charting such a wildly varied country. In “Shooting an Elephant”, a short story set in Burma, Orwell writes that, in East Asia, “a story always sounds clear enough at a distance, but the nearer you get to the scene of events the vaguer it becomes.” Mr Eimer’s book takes readers closer to his fascinating subject, and leaves some of its mysteries unsolved. ■

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**Down to the river****Sweet Thames, run softly till I end my song**

A history of the river, by a writer who is immersed in it



Jun 22nd 2019

**The Way to the Sea: The Forgotten Histories of the Thames Estuary.** By Caroline Crampton. *Granta*; 336 pages; £16.99.

IF LONDON IS one of the world's great cities, the Thames is one of its greatest rivers. The landscapes through which it flows are saturated in history; today it remains a vital artery for the capital. In "The Way to the Sea", Caroline Crampton takes readers from the river's source to its estuary and the open sea. En route she tells fascinating stories of the Thames past and present.

There are many books about the Thames. What sets Ms Crampton's apart is the confluence of her personal history with the river. After sailing over from South Africa in a yacht, her parents began their life in London at a mooring near Tower Bridge. Ms Crampton spent much of her youth on the water. She celebrated the end of her studies at Oxford by leaping fully clothed into the Isis—as the Thames is known as it flows through the city.

Its different names are one of the river's many idiosyncrasies. It rises in the Cotswold hills, but when she visits the place Ms Crampton finds no water there at all. The source is fed by a spring, which requires large amounts of rainfall to make it to the surface: "Rounded pebbles, which had clearly been well tumbled by a swift stream, lay eerily still amid knotted weeds, beached on the dusty earth." Oxford is a pivotal point for the river. The bucolic calm on the banks gives way to graceful colleges, and thereafter to urban development as the Thames approaches London.

Ms Crampton considers her subject from military, commercial and artistic perspectives. She writes of the Danish warlord Thorkell the Tall, who marched his army up both banks in the 11th century. She tells of the

craze for pleasure-boat trips in the river's upper reaches during the late 19th century, and dwells at length on William Morris, the Victorian Arts and Crafts revivalist. Morris railed against the new settlements along the Thames, along with the industrialisation that accompanied them. He disapproved of the hordes of day-trippers, though naturally he enjoyed his own outings on the water.

The estuary is Ms Crampton's real delight, a vast area where river and sea merge that has never received the same attention as the Thames itself. She wonderfully evokes the shifting moods of the estuary's waters. "I have never seen a painting or a photograph," she writes, "that can fully capture the way light slides between mud and water, smudging sea and sand and sky together at the horizon." She brings the same descriptive talent to bear on the adjacent marshes and mudflats. Some aspects of these vistas, she points out, have not changed very much since Charles Dickens and Joseph Conrad wrote about them in their books.

The estuary is also where Ms Crampton's history reaches the present. As the capital's rising population overflows its boundaries, estuary towns are expanding, complementing a giant wind farm and a new megaport. For all the city's reliance on finance, the Thames remains a conduit for its commerce. Ms Crampton's account of her lifelong relationship with this storied waterway is as elegant and sinuous as the river she loves. ■

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**The gig economy****What the music industry reveals about economics**

And vice versa



Jun 22nd 2019

**Rockonomics.** By Alan Krueger. *Currency*; 336 pages; \$28. *John Murray*; £15.99.

WHAT CAN music tickets tell you about supply and demand, and the working of secondary markets? How do operas in early 19th-century Italy provide a natural experiment in the impact of copyright law on creativity? And how do the finances of a global concert tour illustrate Baumol's cost disease? These are the sorts of questions that Alan Krueger, a chairman of the Council of Economic Advisers under Barack Obama, answers in "Rockonomics". Mr Krueger died in March, before the publication of his book—which, as its title hints, sets out to emulate "Freakonomics" (a bestselling pop-economics compendium from 2005), only with added guitar solos.

The economics of the music industry matter for several reasons, Mr Krueger argues. For a start, they illuminate how the business works, which is widely misunderstood, despite the role of music in many people's lives. They provide an early and informative example of an industry coping with digital disruption. But Mr Krueger dreams that his inquiry might attest to the value of the discipline of economics itself, and help restore its reputation with both the public and policymakers. "A broader audience might be willing—even eager—to listen if the story of the economic forces disrupting our world is told through the prism of the music industry," he writes.

Mr Krueger's love of music shines through as he anatomises the industry's finances and its increasingly "winner takes all" nature. Today the top 5% of performers claim 85% of concert revenue, for example, and the top 1% take 60%. He looks at how recording and touring revenues have changed, the business model of streaming, how contracts work and whether political activism makes business sense for artists. He analyses why tickets are usually underpriced—and how Taylor Swift (pictured on previous page), Jay-Z and others have

pioneered “slow ticketing”, whereby tickets are released gradually, so shows do not sell out straight away.

He also provides much wonkish detail on radio royalties and the evolution of copyright law. (It turns out that the number and quality of new operas increased in the parts of Italy where Napoleon imposed French copyright law; Rossini and Verdi were among the beneficiaries.) He notes that William Baumol used the example of a string quartet when formulating his “cost disease” theory about the relationship between prices and productivity (see Free exchange). A detailed analysis of the peculiarities of the Chinese music market is followed by a nod towards behavioural economics and music’s impact on happiness. There are also interviews with solo artists, bands and music executives.

Because it focuses on a single field, “Rockonomics” lacks the variety of “Freakonomics”. Despite its aspirations, the book is more effective at using economics to explain the music industry than vice versa. For readers with a budding interest in economics, other tomes will prove a more effective gateway drug. But for anyone thinking of entering the music industry, or working in it already, “Rockonomics” is an eye-opening and entertaining read. ■

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**Johnson****How to change a word's meaning**

It is hard but not impossible



Jun 22nd 2019

“MISOGYNY” SEEMS a straightforward word. In dictionaries, it is “hatred of women”. In its etymology are the Greek verb *misein*, to hate, and *gyne*, women. The word, like the sentiment, has been around for a long time. Euripides, an ancient Greek playwright, was called a *misogynes*, or woman-hater. (“Well, in his tragedies, yes,” his peer Sophocles is said to have quipped, “but in bed at any rate he was a *philogynes*.”) The first known use of “misogynist” in English is from 1620—by a female group counter-attacking against a screed called “The Arraignment of Lewd, Idle, Froward [sic], and Unconstant Women”.

In fact, very few interesting words are quite so stable. As they are used, their meanings drift. Furthermore, they need not remain true to their etymological roots, a belief known to linguists as the “etymological fallacy”. The word “person”, for instance, comes from the Latin for “mask”; the word “tragedy” may derive from the Greek for “goat-song”. Over time, words evolve.

Much of that process is random. But it is also possible to make a conscious effort to shift how a word is used. One such bid is under way for “misogyny”. For decades, feminists have expanded its connotations beyond the idea of “hatred of women”. Recently Kate Manne, a philosopher at Cornell University, has become the voice of that campaign. She thinks the notion of a hatred for all women deep in the psychology of some men is philosophically untestable. In any case, few men, she says, really hate *all* women. Instead of misogyny meaning something men feel, she says it should designate something women face.

Ms Manne distinguishes between sexist beliefs and systemic prejudice. For instance, the idea that women have certain innate characteristics (being loving and nurturing, say) and natural roles that derive from them (wife, mother) is sexist. It is when women fail to behave as they “should” that her version of misogyny comes into

play—when men punish them for being too sexually active (or not enough), for neglecting their domestic responsibilities or for claiming “male” roles such as leadership. Her misogyny is the enforcement structure of sexism.

In her recent book “Down Girl”, Ms Manne argues for an “ameliorative” approach to concepts (one she draws from another philosopher, Sally Haslanger), whereby they are made fit for philosophical scrutiny. The vindictive psychology of some men is beyond such analysis, but the expectations widely imposed on women, and how non-conformists are treated, can be probed, and maybe even changed.

What words mean is generally determined another way: most linguists believe that they simply mean what people use them to mean. As virtually all modern lexicographers acknowledge, dictionaries are there to register actual usage, not to tell the mass of people that they are deploying a word incorrectly. If philosophers or activists want dictionaries to include a new meaning, they have to get people to use the word that way.

Sometimes they succeed. In 2012 Julia Gillard, Australia’s prime minister, gave her renowned “misogyny speech”, lambasting her rival Tony Abbott for referring to Ms Gillard “making an honest woman of herself”, and for posing by a sign reading “ditch the witch”. Traditionalists pounced; Mr Abbott didn’t hate all women, they said, so Ms Gillard obviously didn’t know what misogyny meant. In response, Macquarie, an Australian dictionary publisher, expanded its definition of the word to include “entrenched prejudice against women”.

There are other ways to wage a social struggle on the lexical front. Inventing a word is one; Ms Manne has written about “himpathy”, which she uses to describe outbreaks of disproportionate concern for the future of a man accused of harassment, rape or other violence towards women. The term is pointed and memorable, and is spreading online.

Repurposing an existing word is harder; the inertia of the older meaning must be overcome. But this can be done, as (more intentionally than Ms Gillard) theorists and activists managed with “queer”. Whether inventing or repurposing words, in refusing to kowtow to inherited concepts Ms Manne is emulating Friedrich Nietzsche, who said that philosophers “must no longer accept concepts as a gift, nor merely purify and polish them, but first make and create them, present them and make them convincing”. Sound argument is needed to persuade other philosophers of such intellectual leaps; to enlist the wider world, a compelling vocabulary is vital.

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## **Economic and financial indicators**

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Economic data, markets and commodities.

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## **Economic data, markets and commodities**

Jun 20th 2019

## Economic data

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	Gross domestic product				Consumer prices			Unemployment rate	
	% change on year ago:				% change on year ago:			%	
	latest	quarter*	2019†		latest	2019†			
United States	3.2	Q1	3.1	2.2	1.8	May	2.2	3.6	May
China	6.4	Q1	5.7	6.3	2.7	May	2.9	3.7	Q1 <sup>§</sup>
Japan	0.9	Q1	2.2	1.0	0.9	Apr	1.1	2.4	Apr
Britain	1.8	Q1	2.0	1.0	2.0	May	1.8	3.8	Mar <sup>  </sup>
Canada	1.3	Q1	0.4	1.6	2.4	May	1.7	5.4	May
Euro area	1.2	Q1	1.6	1.2	1.2	May	1.4	7.6	Apr
Austria	1.4	Q1	3.8	1.3	1.7	May	1.8	4.7	Apr
Belgium	1.2	Q1	1.1	1.2	1.9	May	2.2	5.7	Apr
France	1.2	Q1	1.4	1.2	0.9	May	1.3	8.7	Apr
Germany	0.7	Q1	1.7	0.8	1.4	May	1.4	3.2	Apr
Greece	0.9	Q1	0.9	1.8	0.2	May	1.3	18.1	Mar
Italy	-0.1	Q1	0.5	0.1	0.8	May	0.9	10.2	Apr
Netherlands	1.7	Q1	1.9	1.6	2.4	May	2.6	4.1	Apr
Spain	2.4	Q1	2.9	2.2	0.8	May	1.2	13.8	Apr
Czech Republic	2.6	Q1	2.2	2.6	2.9	May	2.5	2.1	Apr <sup>‡</sup>
Denmark	2.8	Q1	1.0	1.9	0.7	May	1.1	3.7	Apr
Norway	2.5	Q1	-0.3	1.7	2.5	May	2.6	3.5	Mar <sup>##</sup>
Poland	4.7	Q1	6.1	4.0	2.4	May	2.0	5.4	May <sup>§</sup>
Russia	0.5	Q1	na	1.2	5.1	May	4.9	4.7	Apr <sup>§</sup>
Sweden	2.0	Q1	2.4	1.6	2.2	May	1.7	6.8	May <sup>§</sup>
Switzerland	1.7	Q1	2.3	1.6	0.6	May	0.5	2.4	May
Turkey	-2.6	Q1	na	-1.7	18.7	May	16.1	14.1	Mar <sup>§</sup>
Australia	1.8	Q1	1.6	2.5	1.3	Q1	1.7	5.2	May
Hong Kong	0.6	Q1	5.4	1.8	2.9	Apr	2.3	2.8	May <sup>##</sup>
India	5.8	Q1	4.1	6.7	3.0	May	3.6	7.2	May
Indonesia	5.1	Q1	na	5.2	3.3	May	2.8	5.0	Q1 <sup>§</sup>
Malaysia	4.5	Q1	na	4.5	0.2	Apr	0.6	3.4	Apr <sup>§</sup>
Pakistan	3.3	2019**	na	3.1	9.1	May	8.4	5.8	2018
Philippines	5.6	Q1	4.1	5.7	3.2	May	3.6	5.1	Q2 <sup>§</sup>
Singapore	1.2	Q1	3.8	1.8	0.8	Apr	0.5	2.2	Q1
South Korea	1.6	Q1	-1.5	2.4	0.7	May	1.0	4.0	May <sup>§</sup>
Taiwan	1.7	Q1	2.3	1.8	0.9	May	0.3	3.7	Apr
Thailand	2.8	Q1	4.1	3.5	1.1	May	0.9	1.0	Apr <sup>§</sup>
Argentina	-5.8	Q1	-0.9	-1.1	57.3	May <sup>‡</sup>	49.2	10.1	Q1 <sup>§</sup>
Brazil	0.5	Q1	-0.6	1.0	4.7	May	4.0	12.5	Apr <sup>§</sup>
Chile	1.6	Q1	-0.1	3.0	2.3	May	2.1	6.9	Apr <sup>##</sup>
Colombia	2.3	Q1	nil	3.1	3.3	May	3.4	10.3	Apr <sup>§</sup>
Mexico	1.2	Q1	-0.7	1.4	4.3	May	4.2	3.5	Apr
Peru	2.3	Q1	-5.3	3.7	2.7	May	2.2	5.5	Apr <sup>§</sup>
Egypt	5.6	Q1	na	5.4	14.1	May	13.0	8.1	Q1 <sup>§</sup>
Israel	3.2	Q1	4.8	3.3	1.5	May	1.0	3.8	Apr
Saudi Arabia	2.2	2018	na	1.9	-1.5	May	-1.1	5.7	Q1
South Africa	nil	Q1	-3.2	1.5	4.4	May	5.0	27.6	Q1 <sup>§</sup>

Source: Haver Analytics. \*% change on previous quarter, annual rate. †The Economist Intelligence Unit estimate/forecast. ‡Not seasonally adjusted. ††New series. \*\*Year ending June. †††Latest 3 months. †††3-month moving average.

## Economic data

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	Current-account balance	Budget balance	Interest rates		Currency units	
	% of GDP, 2019†	% of GDP, 2019†	10-yr gov't bonds latest,%	change on year ago, bp	per \$ Jun 19th	% change on year ago
United States	-2.4	-4.7	2.1	-88.0	-	
China	0.2	-4.5	3.1	55	6.90	-6.2
Japan	4.1	-3.2	-0.1	-16.0	108	1.3
Britain	-4.1	-1.6	0.9	-51.0	0.79	-3.8
Canada	-2.6	-1.1	1.4	-74.0	1.34	-0.8
Euro area	3.1	-1.1	-0.3	-66.0	0.89	-3.4
Austria	2.1	0.1	nil	-68.0	0.89	-3.4
Belgium	0.1	-0.9	0.1	-61.0	0.89	-3.4
France	-0.6	-3.3	0.1	-63.0	0.89	-3.4
Germany	8.1	0.7	-0.3	-66.0	0.89	-3.4
Greece	-2.7	nil	2.5	-184	0.89	-3.4
Italy	2.0	-2.9	2.1	-46.0	0.89	-3.4
Netherlands	10.2	0.7	-0.2	-71.0	0.89	-3.4
Spain	0.5	-2.2	0.5	-84.0	0.89	-3.4
Czech Republic	0.2	0.2	1.6	-60.0	22.9	-2.3
Denmark	6.3	1.0	-0.2	-64.0	6.66	-3.1
Norway	8.1	6.5	1.4	-45.0	8.73	-6.0
Poland	-0.6	-2.0	2.4	-82.0	3.81	-2.1
Russia	6.9	2.1	7.5	-41.0	63.9	nil
Sweden	2.2	0.8	-0.1	-65.0	9.53	-6.1
Switzerland	9.6	0.5	-0.5	-48.0	1.00	nil
Turkey	-0.7	-2.3	17.9	93.0	5.84	-19.0
Australia	-2.4	-0.2	1.4	-130	1.46	-6.8
Hong Kong	4.5	0.5	1.6	-67.0	7.82	0.4
India	-1.8	-3.4	6.8	-102	69.7	-2.0
Indonesia	-2.7	-2.1	7.5	27.0	14,270	-2.4
Malaysia	2.0	-3.5	3.7	-52.0	4.17	-4.1
Pakistan	-3.8	-7.1	14.1	564	157	-23.1
Philippines	-2.0	-2.5	5.1	-169	51.9	3.0
Singapore	18.7	-0.6	2.0	-55.0	1.37	-0.7
South Korea	4.5	1.0	1.6	-102	1,176	-5.7
Taiwan	13.1	-1.2	0.7	-26.0	31.3	-3.7
Thailand	8.3	-2.9	1.8	-79.0	31.2	5.1
Argentina	-2.2	-3.4	11.3	562	43.5	-36.3
Brazil	-1.0	-5.8	6.0	-351	3.87	-3.1
Chile	-2.5	-1.4	3.4	-117	695	-7.6
Colombia	-4.2	-2.5	6.1	-51.0	3,251	-9.7
Mexico	-1.8	-2.3	7.7	-24.0	19.2	7.3
Peru	-1.7	-2.0	5.6	64.0	3.34	-1.8
Egypt	-0.9	-7.7	na	nil	16.7	6.8
Israel	2.9	-4.1	1.6	-43.0	3.60	1.1
Saudi Arabia	3.6	-5.4	na	nil	3.75	nil
South Africa	-3.2	-4.2	8.2	-99.0	14.5	-5.1

Source: Haver Analytics. <sup>55</sup>5-year yield. <sup>†††</sup>Dollar-denominated bonds.

## Markets

In local currency	Index Jun 19th	% change on:	
		one week	Dec 31st 2018
<b>United States</b> S&P 500	2,926.5	1.6	16.7
<b>United States</b> NAScomp	7,987.3	2.5	20.4
<b>China</b> Shanghai Comp	2,917.8	0.3	17.0
<b>China</b> Shenzhen Comp	1,526.8	-0.1	20.4
<b>Japan</b> Nikkei 225	21,333.9	1.0	6.6
<b>Japan</b> Topix	1,555.3	0.1	4.1
<b>Britain</b> FTSE 100	7,403.5	0.5	10.0
<b>Canada</b> S&P TSX	16,511.8	1.8	15.3
<b>Euro area</b> EURO STOXX 50	3,454.7	2.0	15.1
<b>France</b> CAC 40	5,518.5	2.7	16.7
<b>Germany</b> DAX*	12,308.5	1.6	16.6
<b>Italy</b> FTSE/MIB	21,221.4	3.7	15.8
<b>Netherlands</b> AEX	561.5	1.0	15.1
<b>Spain</b> IBEX 35	9,231.2	-0.1	8.1
<b>Poland</b> WIG	59,738.6	1.4	3.6
<b>Russia</b> RTS, \$ terms	1,361.1	1.3	27.7
<b>Switzerland</b> SMI	9,961.7	1.0	18.2
<b>Turkey</b> BIST	94,244.0	1.8	3.3
<b>Australia</b> All Ord.	6,728.5	1.5	17.8
<b>Hong Kong</b> Hang Seng	28,202.1	3.3	9.1
<b>India</b> BSE	39,112.7	-1.6	8.4
<b>Indonesia</b> IDX	6,339.3	1.0	2.3
<b>Malaysia</b> KLSE	1,666.5	1.0	-1.4
<b>Pakistan</b> KSE	34,656.1	-0.8	-6.5
<b>Singapore</b> STI	3,288.2	2.5	7.1
<b>South Korea</b> KOSPI	2,124.8	0.8	4.1
<b>Taiwan</b> TWI	10,775.3	1.5	10.8
<b>Thailand</b> SET	1,706.0	2.1	9.1
<b>Argentina</b> MERV	39,861.8	-2.6	31.6
<b>Brazil</b> BVSP	100,149.9	1.9	14.0
<b>Mexico</b> IPC	43,375.7	-1.0	4.2
<b>Egypt</b> EGX 30	14,132.2	-0.2	8.4
<b>Israel</b> TA-125	1,453.8	1.4	9.0
<b>Saudi Arabia</b> Tadawul	8,936.3	-1.6	14.2
<b>South Africa</b> JSE AS	58,564.7	-0.2	11.1
<b>World, dev'd</b> MSCI	2,161.6	1.3	14.7
<b>Emerging markets</b> MSCI	1,038.3	1.2	7.5

### US corporate bonds, spread over Treasuries

Basis points	Dec 31st	
	latest	2018
<b>Investment grade</b>	171	190
<b>High-yield</b>	491	571

Sources: Datastream from Refinitiv; Standard & Poor's Global Fixed Income Research.

\*Total return index.

## Commodities

<b>The Economist commodity-price index</b>				% change on	
2005=100	Jun 11th	Jun 18th*	month	year	
<b>Dollar Index</b>					
All Items	136.6	138.2	2.9	-7.4	
Food	147.7	150.7	6.4	1.9	
<b>Industrials</b>					
All	125.1	125.2	-1.2	-16.8	
Non-food agriculturals	117.8	119.8	2.1	-15.5	
Metals	128.3	127.6	-2.5	-17.4	
<b>Sterling Index</b>					
All items	195.4	200.4	4.9	-2.7	
<b>Euro Index</b>					
All items	150.2	153.6	2.9	-4.2	
<b>Gold</b>					
\$ per oz	1,326.3	1,348.6	5.8	5.8	
<b>West Texas Intermediate</b>					
\$ per barrel	53.3	53.9	-14.6	-17.2	

Sources: CME Group; Cotlook; Darmenn & Curl; Datastream from Refinitiv; FT; ICCO; ICO; ISO; Live Rice Index; LME; NZ Wool Services; Thompson Lloyd & Ewart; Urner Barry; WSJ. \*Provisional.

The Economist

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# Graphic detail

[Demography: Missing millions](#)

The UN revises down its population forecasts.

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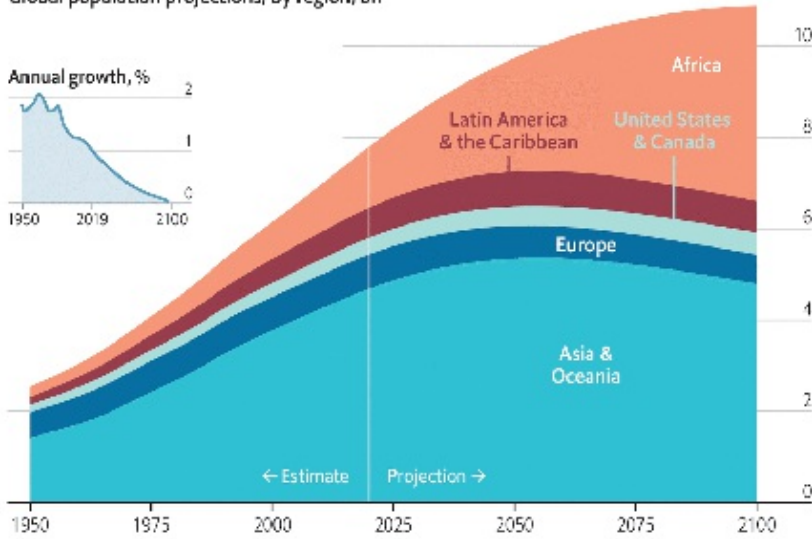
**Demography**

**The UN revises down its population forecasts**

Prescription drugs are saving lives in Africa, but ending them in America

→ This century, Africa will replace Asia as the driver of population growth

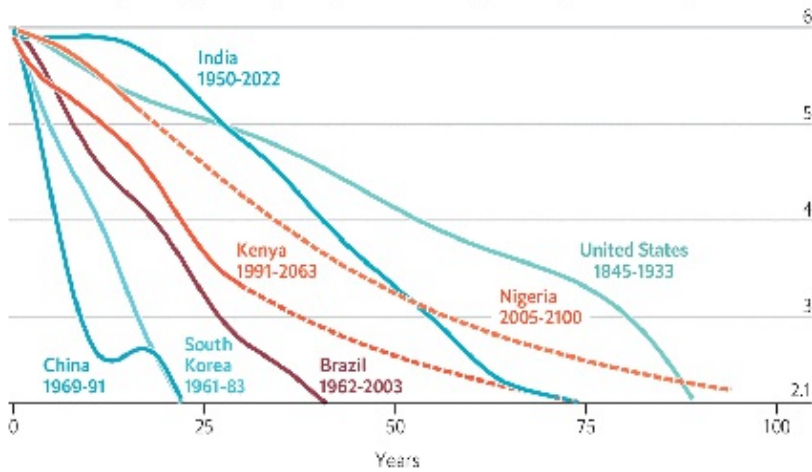
Global population projections, by region, bn



→ Birth rates have fallen everywhere, faster than they did in the West

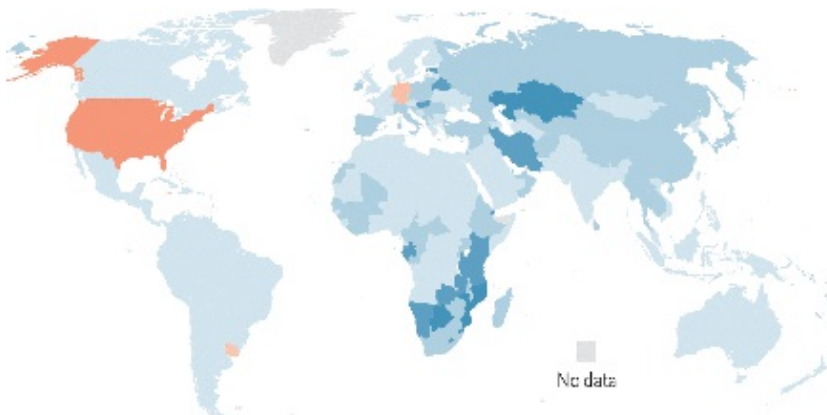
Total fertility rate, children per woman

Years from high fertility (around 6) to replacement fertility (around 2.1) --- Projection



→ In Africa, prescription drugs save lives. In America they are ending them

Change in adult mortality rate\*, 2010-15 to 2015-20, %



Sources: UN: Capim Index  
The Economist

\*Deaths under age 50 per 1,000 alive at age 15

Jun 22nd 2019

THE UNITED NATIONS is the world's most important watcher of human tides. Its demographers have a good record of predicting global population change, although they have made mistakes about individual countries. So it is worth paying attention when the UN revises its figures, as it does every few years. The latest bulletin is especially surprising.

Recent revisions have sent the projected global population upwards. The one released on June 17th cuts it back. The UN now thinks the world will contain a little over 9.7bn people in 2050 and just under 10.9bn in 2100. The first figure is 37m lower than the UN forecast two years ago. The latter is 309m lower—almost an America's worth of people revised away.

Birth rates are falling faster than expected in some developing countries. In the late 1980s Kenya had a fertility rate of 6.5, implying a woman could expect to have that many children. Two years ago the UN reckoned Kenya's fertility rate would drop to 2.1 (the point at which the population sustains itself naturally) only in the late 2070s. Because of new data, it now thinks Kenya will reach that point a decade earlier. Uganda also looks less fecund. A smaller cut to India's fertility rate has a big effect on the global population forecasts because India has so many people.

The UN's population model assumes that countries with fertility rates well below two will bounce back a little. Even in countries where babies have become rare, most people continue to believe that the ideal family contains two or even three kids. But the recovery keeps failing to happen in some places, so the demographers have changed their forecasts in a second way. They now expect some countries with extremely low birth rates, such as Italy, Japan and South Korea, to stay that way for years. Korea, which has a fertility rate of just 1.1, is now expected to have 30m people in 2100—down from 51m today.

Another change has to do with death. Most people are living longer. The biggest improvement is in east and southern Africa, where HIV is being treated better. In America, however, the opioid epidemic has pushed up the death rate, especially for men. The chance of a 15-year-old boy dying by the age of 50 is now higher in America than in Bangladesh. It would be nice if the American forecast, at least, proved to be too pessimistic. ■

Sources: UN; Gapminder

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# Obituary

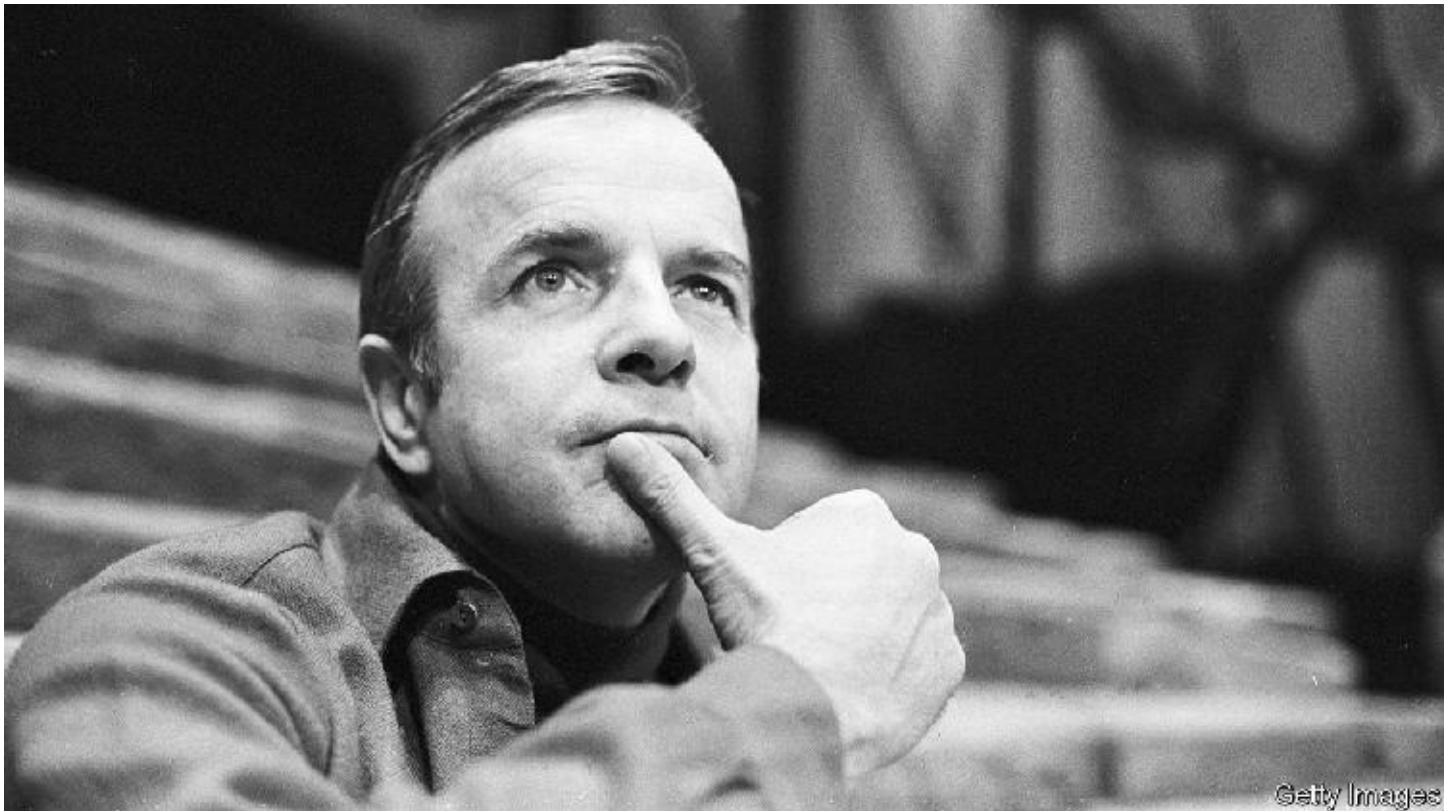
## [Franco Zeffirelli: The pursuit of beauty](#)

Obituary: Franco Zeffirelli died on June 15th.

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**The pursuit of beauty****Obituary: Franco Zeffirelli died on June 15th**

The director of spectacular operas, plays and films was 96



Jun 22nd 2019

THE FIRST time Franco Zeffirelli felt he was a special person was in the late 1940s, when he was in his 20s. Slim, blond and blue-eyed, he could smoulder like Montgomery Clift, all charm and corner-of-the-eye looks. People panted round him to get his favours, of one sort or another. He was merely playing small roles in theatre then, and painting sets, but he began to hear a buzz about him, a murmur of “Zeffirelli!”, even from the gallery seats.

The buzz persisted, and it grew, until in his early 40s—and still very good-looking—he knew real fame. Not, however, for acting, but for a decade of sensational productions in opera, theatre and film. His “Traviata” in Dallas in 1958 crowned the career of Maria Callas, now the most tear-inducing Violetta of them all, and his “Lucia di Lammermoor” the next year at Covent Garden launched the rise of Joan Sutherland, pulling out every dramatic stop in robes that shone with blood. His staging of “Romeo and Juliet” at London’s Old Vic theatre in 1960, with very young actors, was a wild success, and the film he based on it in 1968 was loved the world over, bringing a new generation to Shakespeare. His “Taming of the Shrew” the year before was a hit too, with Richard Burton and Liz Taylor both backing it and funding it, though they were so riotous on set that he could barely direct them. And for his six-hour tv film “Jesus of Nazareth”, his take on the life of Christ—to him, his best work—stars flew in from Hollywood to beg to be cast.

Opera, theatre, cinema: he could do them all. He was like a sultan with three wives, who while making love to one would think “Next time I have to try the other one.” Critics sniffed, as if a man should attempt only one thing in life. But for the public the name “Zeffirelli” was a magic thing. It meant splendour, sometimes on a massive scale: the Arena at Verona seething with white horses and Spanish dancers for “Carmen”, or “the Aida of Aidas” he staged there in 2006, with a huge gilded pyramid looming over a cast of hundreds. It meant no detail overlooked, no heartstring left untugged. “Too beautiful,” some said of his work. How could anything be

too beautiful? Beauty was beauty. There was no point in putting on backlit grey productions, shooting in bad light, revelling in ugliness. Beauty, spectacle and Zeffirelli went together.

Yet his name had once meant almost nothing. He was illegitimate, and his mother, obliged to conceal his father, had meant to call him “Zeffiretti”, little breeze, after a Mozart aria. A clerical error made him what he was. At school in Florence, asked to state his father’s name, he could give only the official “N.N.”, *nescio nomen*. After his mother’s death, when he was six, a cousin he called Aunt Lide brought him up. She stayed with him like a mother until she died, perhaps the only love, with that of his many dogs, he believed he could fully trust.

His greatest love, though, hitting him right in the forehead and the heart, was for Luchino Visconti. After they met, when he was still a bit-part actor and Luchino the leading director in Italy, Luchino got him better roles and made him his assistant on “La Terra Trema” and “Bellissima”, films in the neo-realist style. For several stormy years they lived together. He hated the word “gay” because it lacked virility, but was happy to be Luchino’s “creature”, enthralled by his talent, his teaching and his scented patrician ways. Not least, Luchino taught him how to lose his temper explosively, effectively—and then, in an instant, be charming again.

Charm certainly helped with the divas he met. He became one of Callas’s rare confidants, after hanging around her dressing-room door for weeks like a lovesick boy and fetching trinkets for her. It was he who suggested that she ought to try a lighter repertoire, and who tailored her triumphant Covent Garden “Tosca” in 1964 to reflect the strains in her own love-life. He also persuaded Sutherland, so stout and awkward, to loosen up, which made all the difference. In general he thought he directed women better than men. He was almost as easily moved to tears as they were.

It was not hard to see how his obsession had begun. As a child, sent to the Tuscan countryside each summer (an idyll he revisited in “Brother Sun, Sister Moon”, a gentle tribute to his patron saint, St Francis of Assisi), he was thrilled by peasant actors and lantern-light. Back in Florence, he built his own toy theatres. He began to study architecture and to look closely at the art all around him, but these efforts were not aimed at some well-paid profession. They informed the vaulted, glorious set designs and Old Master imagery of many of his productions—work which paid so poorly that for years, before the film of “Romeo and Juliet” made him rich, he had to boost his income by selling, sadly, the Matisse drawings that had been a present from his dear friend Coco Chanel.

As he became more famous and popular the critics increasingly sniped. They wanted art-house films, ugly dark elitist stuff, and mocked his work as reactionary. He knew what these people were, disrupters used by the Kremlin; he had watched communists at work as a child, but had never drunk that poisoned milk. He was a true socialist, whose duty was to move and delight the people, to make them dream. When critics panned “The Champ”, about a failed boxer, for being sentimental, or “Endless Love”, another tale of teenage lovers, as soft porn, the public still poured in.

It was perhaps inevitable, given his loathing of the left, that he should try politics eventually. He was no right-wing extremist, having fought bravely with the partisans against the fascists in the war; really he was an old-fashioned Catholic, the Vatican’s favourite director for its own events, who accepted that his way of life was sinful but trusted in forgiveness. He was also friends with Silvio Berlusconi, who paid for his villa in Rome. (He could no longer bear to live in Florence, full of stupidity and vulgarity.) So in 1994 he became a mostly absent senator for Mr Berlusconi’s party.

The place he represented was Catania in Sicily, where he and Luchino had shot “La Terra Trema” so many years before. He had hoped to help that poor and Mafia-ridden town. But his legacy, of course, was not political. It was in the spreading of beauty that he knew he would find that little breeze of immortality. ■

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