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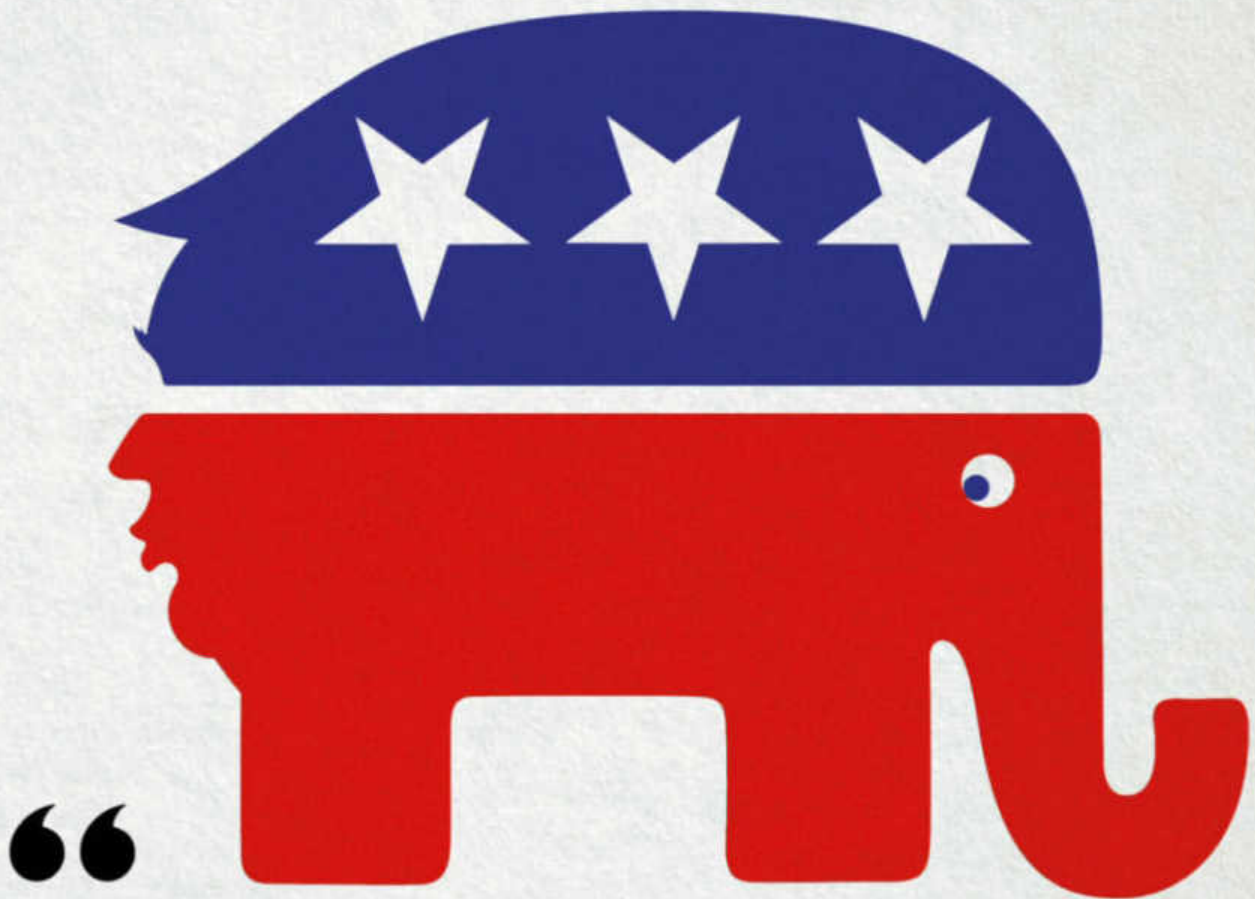
Sterling takes a pounding

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OCTOBER 15TH-21ST 2016

# The debasing of American politics





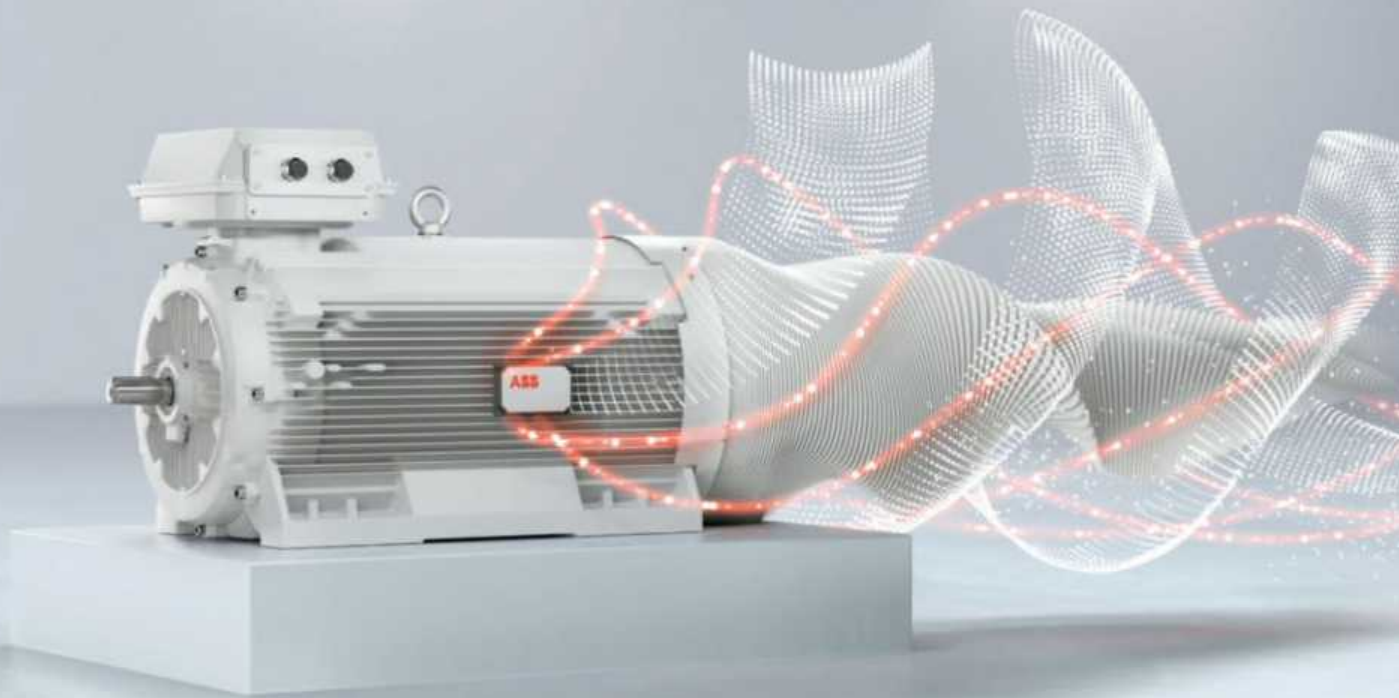


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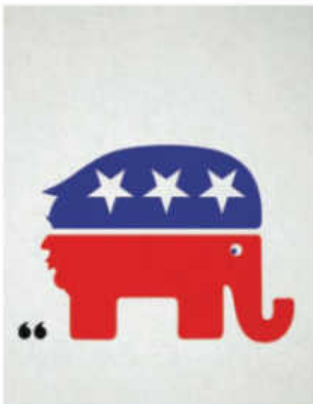
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## Politics



**Donald Trump** had the worst week so far of his presidential campaign. A tape from 2005 caught him making obscene and aggressive comments about women, which prompted many senior Republicans, including John McCain, to withdraw their support. Paul Ryan, the Speaker of the House, said he would now focus only on elections for Congress. In the debate, Mr Trump threatened to lock up Hillary Clinton if he wins the White House. There is a little over three weeks left until campaigning is over.

A judge in **Florida**, the biggest of the battleground states that will decide the election, extended the deadline for voter registrations in the state by a week because of the disruption caused by a hurricane.

The American government formally accused Russia of authorising the **hacking** of Democratic Party e-mails, which were published by the WikiLeaks website. It stopped short of blaming Russia for also trying to scan electronic voter rolls, but said those attacks did originate from servers in Russia.

**What next?**

**Thailand's** 88-year-old King Bhumibol Adulyadej died after 70 years on the throne. He was the world's longest-reigning monarch. His death may exacerbate Thailand's deeply fractious political divisions. For more coverage see our website at [economist.com](http://economist.com).

At least a dozen people were killed in Rakhine, a state in **Myanmar**, by suspected mil-

itants from the Muslim Rohingya minority. An outbreak of communal violence between the Rohingyas and the Buddhist majority in 2012 killed at least 100 people.

China's president and Communist Party boss, **Xi Jinping**, said there must be no "weakening, fading, blurring or marginalisation" of the party's leading role in state-owned enterprises. He said party control of such firms gave them a "unique advantage".

A bill that would have allowed for a plebiscite on gay marriage in **Australia** was blocked in Parliament. Opposition MPs want Parliament to legalise gay marriage, because, they say, a national referendum would be costly and incite homophobia.



**Hong Kong's** Legislative Council held a swearing-in ceremony for its 70 members following recent elections. Several of the legislators used the occasion to express displeasure with China's control of the territory and the lack of full democracy in Hong Kong. Three were barred from taking their posts because they failed to recite their oaths properly.

**Clamping down**

**Ethiopia** declared a six-month state of emergency following months of protests by the country's two largest ethnic groups. The scale of protest has intensified since a clash earlier this month between government forces and Oromo demonstrators in which at least 52 people died.

**South Africa's** respected finance minister, Pravin Gordhan, was ordered to appear in court on fraud charges. Critics say the charges are

politically motivated, following his falling-out with the president, Jacob Zuma.

More than 140 people were killed while attending a funeral in **Yemen** in an airstrike by Saudi war planes. The incident focused attention on Western backing for the Saudi's operations in its attempt to restore the ousted government of its southern neighbour. For the first time America carried out airstrikes against Houthi rebels after they had fired on a US navy warship.

**Man of peace**

Several days after Colombian voters rejected a peace agreement between the government and the FARC, a left-wing guerrilla army, **Colombia's** president, Juan Manuel Santos, won the Nobel peace prize. Both sides have maintained their ceasefire. The FARC's leader, Rodrigo Londoño, said he was willing to "enrich" the deal in response to criticisms of it, but not to renegotiate it. The government said it will start peace talks with the ELN, a smaller rebel group.

The head of state security for **Rio de Janeiro** resigned following a surge of violence since the end of the Olympic games. José Beltrame was credited with a "pacification" programme that had reduced crime. He is stepping down because of what he claims is a lack of commitment to rebuild neighbourhoods where drug lords have been pushed out.



The death toll soared in **Haiti** from Hurricane Matthew. Some 1,000 people are thought to have died in the storm, 60,000 were left homeless and 1.4m need assistance. Matthew was the strongest storm in the region in a decade.

**Making the case**

Painful preparations for **Britain's** exit from the EU started to take shape. A government proposal that would force companies to disclose the proportion of foreign workers they employ prompted a backlash from business. Legal cases were also lodged requiring Parliament to be consulted over negotiating the terms of leaving. In a further blow to the Westminster government, Nicola Sturgeon, **Scotland's** first minister, pressed ahead with plans for a second referendum on Scottish independence; 55% voted to stay in the UK in the first vote in 2014.

Vladimir Putin cancelled a trip to Paris after the **French** government accused **Russia** of war crimes in Syria. Russia accused Boris Johnson, Britain's foreign minister, of "Russophobic hysteria" after he called for anti-war protests outside the Russian embassy in London. Meanwhile, Russia strengthened its ties to **Turkey** by signing new trade deals and a natural-gas pipeline project.

Airbus threatened to sue the **Polish** government, after it scrapped plans for the French-German aerospace company to provide Poland with military helicopters. The government, led by the nationalistic Law and Justice party, instead opted for an American company which has a factory in the country. Trade unions were against the Airbus deal. Although diplomatically ill-advised, the row is likely to boost support for the government at home.

In **Germany** a Syrian migrant suspected of planning terrorist bombings and of links to Islamic State killed himself in the prison cell where he was being held. The suspect had been turned in by three refugees, also Syrian, who overpowered him when he asked for help hiding from police.

**Bob Dylan** won the Nobel prize for literature for creating "new poetic expressions within the great American song tradition".



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## Business

**Pound against the dollar**  
\$ per £



Source: Bloomberg

The pound took another battering in currency markets, at one point falling below \$1.20, as investors reacted negatively to the British government's indication that it is set on a hard exit from the European Union. Trading was febrile, with sterling plunging by 6% within a few minutes in Asia. The "flash crash" turned out to be more than a fleeting event, as the pound continued to suffer from fears about the economic effects of Brexit.

One of those effects was brought home to British consumers when **Tesco**, a supermarket chain, ran low of certain products made by **Unilever**, after the conglomerate failed to get Tesco to pay for the higher cost of importing commodities. Items that shoppers found in short supply included Marmite, a spread made from brewing by-products, which is famous for being both loved and loathed.

### A sour Note

Samsung decided to stop selling its **Galaxy Note 7** smartphone following further reports of the device catching fire. It has only been on the market since August, as a rival to larger versions of the iPhone. It is one of the most remarkable, and swiftest, reversals of fortune for a consumer product. Samsung reduced its estimate of quarterly profit by a third, but the damage to its reputation may end up costing it a lot more.

**Twitter's** share price plunged again, amid rumours that potential suitors interested in taking it over are backing away. The social-media company is

struggling to monetise revenue from advertising, and the growth in the number of people who use it has slowed.

In a controversial move, **China** published guidelines that will allow companies to exchange debt they owe to banks for shares. Corporate debt has ballooned in China in recent years, to around \$18 trillion. In March the government raised the idea of debt-for-equity swaps, but it was resisted by some bankers for fear of propping up zombie firms. The government says that only viable companies will qualify for the scheme, which it promises will be market-driven.

**Oil prices** shot up when Vladimir Putin threw his weight behind a proposal by OPEC to rein in production. Russia is the biggest oil producer outside the cartel and is willing to participate in freezing or even cutting output, which Mr Putin said would be "the right decision" to maintain stability in energy markets. Brent crude traded above \$53 a barrel for the first time in a year following his remarks. But the International Energy Agency threw cold water over the rally when it reported that OPEC had raised production in September to a record 33.64m barrels a

day, adding to a worldwide glut of oil despite forecasts of much-reduced demand.

Once praised for steering **Wells Fargo** through the financial crisis relatively unscathed, John Stumpf resigned as chief executive of the bank with immediate effect. He had faced intense criticism over the past month for his handling of a scandal that involved staff creating fake customer-accounts to hit sales targets. Mr Stumpf's appearance before Congress was a PR disaster.

### Double stakes

**William Hill**, a betting company based in Britain, confirmed it was in merger talks with **Amaya**, the Canadian owner of the Full Tilt and PokerStars websites. It is the latest move towards consolidation in the gambling industry, where many of the big players have combined forces over the past year. A deal could be worth £4.5 billion (\$5.5 billion).

**Boeing** once again pushed back the date for the first manned flight of its new space taxi, and now hopes that a crew will take the helm of its CST-100 Starliner in mid-2018. The aerospace company is racing with Elon Musk's SpaceX to be the first to take

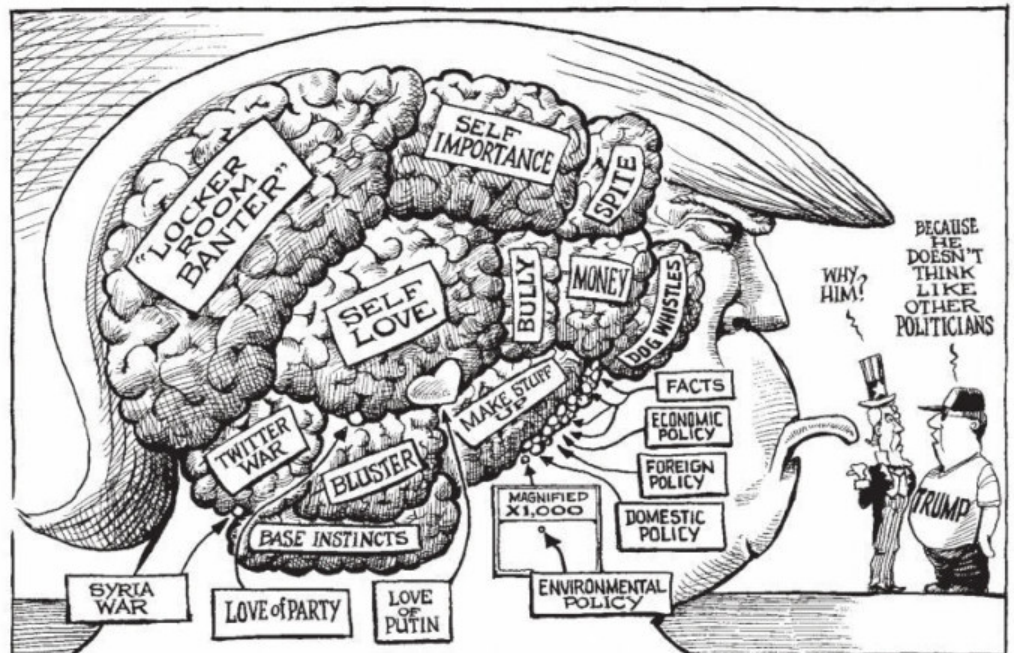
American astronauts back into orbit again following the end of NASA's space-shuttle programme in 2011.

The Japanese government published its findings into suicide driven by **overwork**, known as *karoshi*. Its survey found that more than a fifth of companies employed staff who did up to 100 hours of overtime a month, in a culture that prides itself on putting the hours in at the office. By industry, IT workers were the most stressed; 44% of IT companies said their employees put in more than 80 hours of overtime a month.

### Wired for sound

Amazon launched its new **music-streaming service**. It enters a market dominated by Spotify and Apple, but it is differentiating itself by emphasising the artificial intelligence aspect of its service. Users that own one of Amazon's voice-controlled Echo speakers can ask it to fetch the "latest song" by an artist, to find a song by relaying the lyrics if the title is unknown, or play music to suit a certain mood (and it won't turn itself off if "The Sound of Silence" is requested).

Other economic data and news can be found on pages 88-89



# The debasing of American politics

Healthy democracies depend on unwritten rules. The Republican nominee has trampled all over them



HOW do people learn to accept what they once found unacceptable? In 1927 Frederic Thrasher published a “natural history” of 1,313 gangs in Chicago. Each of them lived by a set of unwritten rules that had come to make sense to gang members but were still repellent to everyone else. So it is with Donald Trump and many of his supporters. By normalising attitudes that, before he came along, were publicly taboo, Mr Trump has taken a knuckle-duster to American political culture.

The recording of him boasting about grabbing women “by the pussy”, long before he was a candidate, was unpleasant enough. More worrying still has been the insistence by many Trump supporters that his behaviour was normal. So too his threat, issued in the second presidential debate, to have Hillary Clinton thrown into jail if he wins. In a more fragile democracy that sort of talk would foreshadow post-election violence. Mercifully, America is not about to riot on November 9th. But the reasons have less to do with the state’s power to enforce the letter of the law than with the unwritten rules that American democracy thrives on. It is these that Mr Trump is trampling over—and which Americans need to defend.

## Hurt locker

If this seems exaggerated, consider what Mr Trump has introduced to political discourse this year: the idea that Muslims must be banned from entering the country; that a federal judge born of Mexican parents was unfit to preside over a case involving Mr Trump; that a reporter’s disability is ripe for mockery; that “crooked” Mrs Clinton must be watched lest she steal the election. Daniel Patrick Moynihan wrote that when many bad things happen at once, societies define deviancy down, until the list of what is unacceptable is short enough to be manageable. When parents wonder if a presidential debate is suitable for their children to watch, Mr Trump’s promise to build a wall on the Mexican border no longer seems quite so shocking.

This way of doing politics is not new. Mr Trump is bringing into the mainstream a strain of for-profit bigotry and pessimism that believes life in the world’s richest, most powerful country at the beginning of the 21st century could not possibly get any worse (see Schumpeter). On this view, it is not specific policies that are at fault, but the system itself, which must be broken in order to solve America’s problems.

Mr Trump’s reality-television persona makes that proposition appear less alarming. It creates an ambiguity about how serious he is, and how seriously his audience needs to take him. With each outrage he has an iota of plausible deniability (“he’s just being Trump!”). With each sign that he is unfit to be head of state, some supporters can cling to an alternative reality (“I believe he’s a good man, really, and he’s a great businessman, so he’ll surely hire a great team”).

Not all those at Trump rallies are bigoted. But they are prepared to stand next to someone shouting chauvinist abuse or wearing a “Trump that bitch” t-shirt and conclude that if that’s

what’s needed to defeat Mrs Clinton, then so be it. The best of Mr Trump’s supporters hope that, by letting a wrecking ball loose to demolish the slums and tenements of Washington politics, public life can be rebuilt—so that it represents real people, rather than elites and interest groups. When people conclude that politics is disgusting or absurd they lose faith in it. That usually makes things worse.

If Mr Trump actually wins the election, Republicans will have to meet the expectations he has created—of protectionism, spending increases allied to tax cuts, hostility to foreigners and a retreat from decades of foreign policy. That would make America poorer, weaker and less secure. Meanwhile, the Republican Party would still need the support of those who have cheered on Mr Trump (see Lexington). Far from being renewed, politics would become even nastier and more brutal.

If Mr Trump loses, Mrs Clinton will begin her presidency with tens of millions of people believing that she ought to be in jail. Perhaps he will lose so comprehensively that he takes the Republican majorities in both chambers down with him. That would afford Mrs Clinton at least two years, before the next mid-term elections, during which she might push through an immigration reform, increase spending on infrastructure and change the balance on the Supreme Court. These would be big achievements, but something close to 40% of voters would feel they were being steamrolled by a hostile government. Politics could become yet more polarised.

Partly because Mrs Clinton is mistrusted and disliked, the more probable outcome in November is that she will be the next president but will face a House of Representatives controlled by Republicans—and perhaps a Senate, too. This is a recipe for furious, hate-filled gridlock. There would be more government shutdowns and perhaps even an attempt at impeachment. It would also mean yet more government by executive actions and regulation to get around Congress, feeding the widespread sense that Mrs Clinton is illegitimate.

Tied down and unpopular at home, Mrs Clinton would be weaker abroad as well. She could less easily take risks by, say, standing up for trade or robustly seeing off challenges to American power from China and Russia. America’s role in the world would shrink. Frustration and disillusion would grow.

## The city on a hill

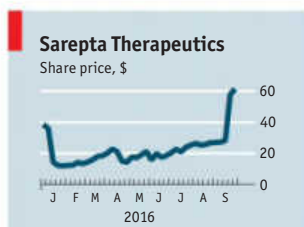
Must it be this way? Once you start throwing mud in politics, it is very hard to stop. Yet, every so often, you get a glimpse of something better. When Todd Akin lost a winnable Senate seat in 2012, after haplessly trying to draw a distinction between “legitimate rape” and the not so legitimate sort, Republican candidates and political consultants took notice.

Such a realisation needs to strike home on a grand scale. Healthy politics is not gang warfare. It involves compromise, because to yield in some areas is to move forward in others. It is about antagonists settling on a plan, because to do nothing is the worst plan of all. It requires the insight that your opponent can be honourable and principled, however strongly you disagree. The 2016 election campaign has poured scorn on such ideas. All Americans are worse off as a result. ■

## Pharmaceuticals

## Bad medicine

## Approving an unproven drug sets a worrying precedent



**D**UCHENNE muscular dystrophy is a horrible disease. Afflicting mainly boys, it weakens their muscles and eventually confines them to wheelchairs. In the end, typically when they are in their 20s, it kills them. Patients and parents are understandably

elated, therefore, at the decision taken last month by America's drug agency, the Food and Drug Administration (FDA), to approve the first treatment for Duchenne. No one could fail to be moved by their campaign to win approval. At an FDA meeting this year one sufferer pleaded: "please don't let me die early."

Nonetheless, the decision bodes ill for drug discovery in America. Sarepta Therapeutics, the firm behind the drug, did not meet the usual standards for approval to market it. Staff at the FDA's drug-evaluation division are sceptical about the efficacy of Exondys 51 (also known as eteplirsen). They argue that the clinical evidence before them involved a flawed experiment on only 12 patients. But Janet Woodcock, the division's director, overruled them. The FDA has asked Sarepta to conduct further trials to confirm that its drug works.

Shareholders in Sarepta do not have to wait that long to reap the benefits. After the news of the approval broke, the firm's share price rose from \$28 to \$49. On September 28th a health insurer announced that it would pay for the drug in certain cases (others are not so keen). The treatment will not come cheap: its gross annual cost could be as much as \$665,600 per patient. Ms Woodcock made the argument that Sarepta needed to be "capitalised" to fund more research. Her wish has now been granted. Sarepta looks a picture of corporate health: it has

been doing deals, securing the rights to another anti-Duchenne drug on October 4th, and issuing new shares.

The judgment is the more worrying because it does not come out of the blue. Politicians have been urging the FDA to be more responsive to the needs of patients; the families of Duchenne sufferers did what anyone would, given the choice between the certainty of a bad outcome and the possibility of a better one, and campaigned for treatments to come to market. Exondys 51 was approved under a special programme that allows drugs to go on sale more quickly when they treat grave conditions with unmet needs. But that should not mean that standards for clinical trials are watered down.

## Patients, not always a virtue

The pact between drugmakers and society is that innovative drugs win market exclusivity as a reward for the money that has been spent developing them. Weakening the FDA's standards for approval has two pernicious effects. First, it creates an incentive for meaningless innovation: for drug companies to tilt investment towards drugs that may not work but which patients definitely want, and towards pursuing novelty at the expense of efficacy. Second, it passes more of the risk involved in drug development to consumers and taxpayers. Politicians in America routinely castigate the pharmaceutical industry for charging too much for its products. And now Sarepta's post-hoc testing programme will, in effect, be paid for by the American government and by insurers.

Payers ought to dump this conundrum back into Sarepta's lap and insist on a rebate arrangement if the drug proves to be ineffective. And in the future the FDA ought to stick to the clear standard that has served it well for decades: do not approve a drug unless it has been shown to work. ■

## Intervention in Yemen

## The forgotten war

## The West must help Saudi Arabia limit its air campaign in Yemen, and then end the conflict



**T**HE air strike that blasted a funeral in Sana'a on October 8th did more than kill around 140 civilians and wound 500: it drew rare attention to Saudi Arabia's 20-month war in Yemen and strained its alliance with America, which is now reconsidering its military support for the campaign (see page 44).

Critics say it is time for the West to abandon its embarrassing alliance with the Saudis. How, they ask, can the West denounce the carnage in Syria when its own ally is bombing civilians in Yemen? If the Saudis, with Western support, can intervene to defend the government of Yemen, why should Russia not defend Bashar al-Assad's regime in Syria? Morally

and perhaps legally, America and Britain are implicated in Saudi actions: they sell warplanes and munitions to the Saudi regime; they also provide air-refuelling and help with targeting. What is more, critics say, Saudi Arabia is a woeful ally against jihadism. Indeed, it inflames global extremism through its export of intolerant Wahhabi doctrines.

These arguments have strength. On balance, though, the West should not forsake the Saudis; instead it should seek to restrain the damage of their air campaign, and ultimately bring it to an end. But Western support cannot be unconditional.

Start with the moral balance. The two conflicts are both horrible, but not equally so. About 10,000 people have died in Yemen: too many, but far fewer than the 400,000 or more who have perished in Syria. The Saudi-led coalition has not used poison gas—though it has been careless, and probably worse. It ►►

▶ has bombed several hospitals. The blockade of Yemen and the damage to its infrastructure are causing dire hardship; famine looms, with half the country going hungry or malnourished.

The political context is different, too. The Assad dynasty took power in a coup, and kept it through brutality. Its crushing of peaceful protests in 2011, and the indiscriminate killing it has carried out since then, removed what speck of legitimacy it still had. By contrast Yemen's president, Abd-Rabbo Mansour Hadi, though weak and flawed, at least presided over a broad coalition established through UN-backed negotiations following the resignation of the former strongman, Ali Abdullah Saleh. The Shia Houthis and Mr Saleh, backed by Iran, overturned that deal by force. They often fire missiles at Saudi cities; these cause limited damage, but are indiscriminate.

The West has little reason to join the war, but has much at stake if it goes wrong. Al-Qaeda's local arm has been strengthened, and even took over the port of al-Mukalla for a time. The Houthis have started firing missiles at ships in the Bab al-Mandab strait, one of the world's vital sea lanes; America launched "limited" cruise-missile strikes against Houthi-controlled radar sites after attempts to attack one of its warships.

The West's involvement derives from its long alliance with the Al Sauds, which dates back nearly a century, as well as its extensive commercial interests in the Gulf. Over the decades, Saudi monarchs put up with many American blunders in the Middle East—the invasion of Iraq in 2003, for example. They were shocked by how the West abandoned the former Egyptian dictator, Hosni Mubarak, during the mass protests of 2011. Last year's deal between America and Iran to restrict the latter's nuclear programme, and Mr Obama's offhand tone about

the Saudis, deepened their fear of abandonment. Congressional approval for a bill to allow the families of victims of the September 11th 2001 attacks to sue Saudi Arabia, overriding Mr Obama's veto, is evidence that the disenchantment is mutual.

Yet there are good reasons for the West to maintain ties to Saudi Arabia. The alternative to the Al Sauds is not liberalism but some form of radical Islamism. Saudi Arabia is the world's biggest oil exporter, and guardian of Islam's two holiest shrines. Better these be in the hands of a friendly power than a hostile one. Belatedly, Saudi Arabia has become a vital partner in the fight against jihadists; it is better placed than the West to challenge their nihilist ideology. The chaos of the Middle East stems at least in part from Sunni Arabs' sense of dispossession. The best hope of containing the mess is to work with Sunni powers like Saudi Arabia.

### Hold their hand, hold them back

So the West should stay close to the Saudis, uncomfortable though this may be. It must encourage them to reform economically and politically, while acknowledging Gulf leaders' concern about the spread of Iranian influence. Western support cannot be "a blank cheque", as America bluntly puts it; the more the West helps Saudi Arabia wage war in Yemen, the more it becomes liable for potential war crimes. If the Saudis want to fight with Western weapons, they must respect the laws of war. Above all, the West should use its influence to help the Saudis end the bloody stalemate. They should promote a reasonable power-sharing settlement that includes the Houthis. That would make Yemen a model for the future of Syria, not a pale copy of it. ■

## China's property market

# Rotten foundations

In real estate as elsewhere in its economy, China's short-term fixes mask deep structural problems



JUST over a year ago, policy-makers were having conniptions about China's tumbling stockmarkets. Now it is China's frothy property market that is causing worries at home and abroad. Because the property sector accounts for about a quarter of demand in the world's second-largest economy, a market collapse would have far more than a local impact. In fact, for now, China can probably avoid a disastrous crash (see page 67). But it shows little sign of being able to implement the fundamental reforms needed to fix the distortions that make the market so volatile and, in the long run, dangerous.

One reason for optimism that a crisis can be averted is that the risk has been identified. With property prices in many big cities soaring—by more than 30% a year in Shanghai, Shenzhen and Nanjing—even the central bank's chief economist has warned of a "bubble". Wang Jianlin, China's richest man (and a property developer), last month went further, calling it "the biggest bubble in history". Foreign-bank economists, local brokers and state-run think-thanks have all joined in. Fears have been stoked by a steep rise in mortgages this year. In July and August, they accounted for nearly 80% of new bank loans.

The government is clearly heeding the warning signs: in the past two weeks rules on property purchases have been tightened in some two dozen places, suggesting a central-government push to tell municipalities to curb their local excesses. Tightening measures (typically raising the percentage of a purchase price to be paid as a cash down-payment) can be effective. And despite the recent mortgage boom, Chinese households still have strong balance-sheets. When shadow banks began to lend to homebuyers to cover their down-payments earlier this year, regulators quickly snuffed out the practice—a telling contrast with the authorities' inaction last year when hidden borrowing helped inflate the stockmarket bubble.

The upturn has also been a powerful reminder of just how insatiable demand for property remains in China. Fitch, a ratings agency, calculates that it will need about 800m square metres of new housing—roughly the size of Singapore—every year between now and 2030 to meet demand from people moving to cities and buying nicer homes. That is in fact less than the billion or so square metres that China has recently completed every year, but still remarkable.

The market for all those homes, however, remains subject to serious distortions, thanks to government policy. The most fundamental is that the government does not make it possible to build homes where people want to live. Because it wants to ▶▶

▶ contain the growth of the big cities, little urban land is made available. Scarcity drives prices up; builders and homebuyers alike pay a steep premium to be there. Smaller cities still have a vast inventory of unsold homes. The current rally has done little to chip into it. Matching supply and demand is often not the main consideration: land sales are an important source of local-government revenue. Nor may everybody live where they want, as residence permits can still be used to block outsiders.

### My home is my nest egg

A further distortion lies in a repressed financial system that restricts investment opportunities. Capital controls hamper legal investment abroad; state banks keep deposit rates low; the stockmarket has been a rollercoaster. So property looks a very attractive destination for surplus cash. Surveys suggest that, of

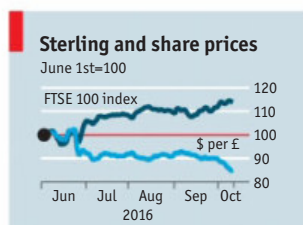
those buying homes in China these days, perhaps one-fifth are doing so as investors rather than owner-occupiers. State-owned enterprises, limping in their core businesses but resisting break-up and reform, have turned to property development to make up for flagging profits.

The cooling measures in so many Chinese cities do nothing to tackle these structural issues. No wonder. They are at the heart of the Communist Party's abiding dilemmas: how to maintain rapid economic growth without increasing the risks of an abrupt "hard landing", and how to let markets flourish while maintaining the party's control. At least when it comes to property, solutions are at hand. China must press on with opening its financial system and, most crucially, overhaul its land policy. If not, property mania will sweep its big cities again and again, and those booms will one day end in a bust. ■

## Sterling

# Taking a pounding

### The fall in sterling hints at how painful a "hard" Brexit would be



RARELY do people compare the British pound to the Nigerian naira, Azerbaijani manat or Malawian kwacha. But on a measure of year-to-date change against the American dollar, sterling is near the bottom of the

154 currencies tracked by Bloomberg. The pound is down by 15% on a trade-weighted basis since the Brexit vote, and is plumbing the depths it reached in the 2008-09 financial crisis (see Buttonwood).

The cause of sterling's fall is the realisation that Theresa May's government is moving towards a "hard" Brexit, which involves Britain leaving the European Union's customs union and its single market. It is also driven by the fear that Britain is turning into a xenophobic, interventionist and unpredictable place, with calls to clamp down on foreign workers and foreign capital. For a country that is used to attracting swathes of investment from abroad because of its membership of the single market and stable political climate, this is a huge shift.

With Britain's current-account deficit (a measure of what it borrows from abroad) equal to a gigantic 6% of GDP, it is also a dangerous one. True, Britain is not heading for a balance-of-payments crisis. Its debts are issued in its own currency, so the cost of meeting its obligations will not soar as the currency falls. And Britain's net capital flows tend to come in the form of foreign direct investment (FDI), as opposed to deposits or short-term debt. FDI will not disappear overnight in the way that deposits could. But it can be hard to recover from a loss of confidence. If foreign investment dries up, and the pound stays weak, Britons will be left permanently poorer.

### The penny needs to drop, too

Unfortunately, far too many in Mrs May's government are complacent about this. Many Brexiteers wrongly conclude that the pound's slump is nothing but good news. Their argument is that a weaker pound will send exports soaring, herald a manufacturing renaissance and "rebalance" the economy away from services. Yet recent experience suggests that British

exports do not respond quickly or strongly to a cheaper currency. The volume of exported goods is actually lower than it was before the Brexit vote. Exporting requires importing of supplies and other materials, and these are now more expensive. Within just a few weeks the year-on-year change in producer prices has neared 10%, the highest since 2011.

The Brexiteers also fail to acknowledge the immediate hit to living standards that the pound's slump has caused. Britons enjoy consuming things from abroad. Some 5% of household spending goes on foreign holidays. Domestic prices are affected, too: the pressures surfaced this week in a dispute between Tesco, a supermarket, and Unilever, a consumer-goods firm, which wants to increase the price of brands such as Marmite, a yeasty spread. Inflation may jump from its current level of 0.6% to 3% by next year, well above the Bank of England's 2% target. This will be bitter medicine for the average Briton, whose real weekly pay is already about 4% lower than in 2007. Nominal wage growth fell to a measly 2% in the run-up to the referendum, and bosses are in no mood to offer pay rises now. Real wages will soon be falling once again.

The combination of a slowing economy, rising inflation and shaky confidence constrains fiscal and monetary policy. The Bank of England is unlikely to raise interest rates in response to the temporary spurt of inflation caused by sterling's fall. Yet gone are expectations that the bank will soon reduce the base rate of interest from 0.25% to 0.1%; a cut would prompt still more foreign capital to leave the country.

The government may have a little room for manoeuvre. In its autumn statement, it is likely to change course from aggressive fiscal consolidation to mild expansion. But it, too, must be careful. Gilt yields have crept upwards as investors reassess the British economy, and could go a lot higher if the nasty rhetoric coming from ministers continues.

The most sensible course, then, would be to heed markets' concerns. The overwhelming weight of evidence shows that leaving the customs union and single market would exact a heavy toll on Britain's economy. Remaining within them would require political courage, but has clear economic benefits. It is not too late to change course. ■

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## Politics in Venezuela

In response to your suggestion that Venezuela's political opposition is divided, I want to stress that the Democratic Unity coalition is committed to a democratic transition of power ("The angry 80%", October 1st). We are moving forward with a petition drive in late October and putting pressure on the government to safeguard our constitutional right to a referendum to recall the president in 2016.

You alluded to the possibility that the international community will help broker a dialogue between the Maduro regime and the opposition. Democratic Unity has repeatedly stated that it is open to dialogue with the ruling Socialist Party as long as it is not used as an attempt to run down the clock on holding a recall referendum in 2016, which is the present strategy. However, we welcome foreign co-operation in alleviating Venezuela's humanitarian crisis, though aid in the form of food and medicine has thus far been rebuffed by the administration. What is clear is that, despite their efforts, President Nicolás Maduro and his cronies can no longer ignore the desire of the vast majority of Venezuelans for political and economic change.

EUDORO ANTONIO GONZÁLEZ DELLÁN  
Deputy to the National Assembly  
*Caracas*

## What form of aid?

"Fat help" (October 1st) examined how direct cash to refugees is an increasing part of aid policy. That reflects our practice at the International Red Cross. But a word of caution: cash aid has its limits and is not a cure-all, especially in urgent situations. Cash transfers are useful in restoring people's ability to earn independently and to make choices according to their needs and priorities. But in emergencies and war-torn countries, the infrastructure, such as functioning markets and reliable transfer mechanisms, is not always in place for providing relief and recovery programmes this way.

Our response is tailored to the needs we find. In Syria for example, a cooked meal helps people to survive in hard-to-reach areas. In Iraq disabled people and women caring for their families much prefer to have cash grants for generating their own income.

Humanitarian organisations must be more prepared to use cash transfers in emergencies. But the bottom line is that decisions about cash versus food relief must ultimately be guided by realities in the field.

MATTHEW MORRIS  
UK and Ireland spokesperson  
International Committee of the Red Cross  
*London*

## Europe could do more

The "failure" of Barack Obama to strike the Assad regime after it crossed the "red line" by using chemical weapons in Syria does not fit with my recollection of the facts ("Grozny rules in Aleppo", October 1st). Mr Obama expected support from Europe, but did not get it. Britain's Parliament voted against military action in Syria. Why should the burden of the Middle East always fall on America?

PHIL KAUPAS  
*Somerset, New Jersey*

## Tax privacy

You are right to argue that tax evasion is out and that offshore countries should not drag their feet ("The holdout", September 10th). However, there are real concerns relating to the privacy and data-protection implications of the global automatic information-exchange system, known as the Common Reporting Standard.

A group of experts appointed to supervise implementation of the standard within the European Union has warned that in many respects it resembles a data-retention directive that has been ruled illegal by the European Court of Justice. The court has also held that "legislation permitting the public authorities to have access on a generalised basis to the content of electronic com-

munications must be regarded as compromising the essence of the fundamental right to respect for private life."

What is at stake here is not the right to privacy of tax evaders, in the same way as the Apple versus FBI smartphone case was not about the right to privacy of a dead terrorist. Instead, what is at stake is the right to privacy of compliant citizens who are concerned about the magnitude of (often irrelevant) information about them and their finances that will travel through the internet and may fall prey to hackers.

FILIPPO NOSEDA  
Partner  
Withers Solicitors  
*London*

## Humanity's extinction



You are right to argue that colonising Mars would not hedge against some sorts of extinction risk ("For life, not for an afterlife", October 1st). But it is wrong to dismiss the possibility of human extinction as "claptrap". Some novel or unknown threats, like those from engineered pathogens, might indeed endanger humanity's future. Even unlikely risks put a lot at stake.

We have a responsibility to our children and future generations to manage the risk of extinction cautiously. The "very simple seaweed" that was the most complex creature on the planet a billion years ago lacked our ability to develop unprecedented technologies over the course of years or decades. The past billion years are not a representative model for the next. Spreading humanity over two planets may be a step in the right direction, though not necessarily the most cost-effective

option, and no panacea. Diversifying one's portfolio is what any smart business person would consider.

MAX TEGMARK  
Professor of physics  
Massachusetts Institute of Technology  
*Cambridge, Massachusetts*  
SEAN O'HEIGEARTAIGH  
Executive director  
Centre for the Study of Existential Risk  
University of Cambridge  
Note: A list of full signatories can be found at the letters page on [www.economist.com](http://www.economist.com)

Space tourism is, charitably, an indulgence for the super-rich. As for colonising other planets, there's a reason they call that stuff science fiction. As millions on Earth die from preventable illness, poor sanitation and famine, technologies that serve alleged convenience and fantasy are irresponsible, not laudable.

I am encouraged to see that you have retained your admirable scepticism in most other regards. But if you must keep at it with plutocrats in orbit (and robotic cars, which won't make a material dent on the highways until the 2030s, if ever), may I suggest that for convenience you centralise the articles in a new section. Perhaps you could title it Implausibilities and improbabilities.

RICHARD WYNNE  
*Seattle*

## Sounds of the Sixties

I was pleased to read Mark Forsyth's recommendations on adjective order as "opinion, size, age, shape, colour, origin, material, purpose and then Noun" (Johnson, September 24th). I put them to the test. They failed the first, "big, bad wolf", but were spot-on for "itsy-bitsy, teeny-weeny, yellow, polka-dot bikini".

JIM BIRKETT  
*Nobleboro, Maine* ■

Letters are welcome and should be addressed to the Editor at The Economist, 25 St James's Street, London SW1A 1HG  
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## DIRECTOR

Markets, Trade, and Institutions Division



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## Executive Director, Kampala, Uganda



### BACKGROUND:

The African Field Epidemiology Network (AFENET) is a not for profit, networking alliance and service organization that brings together field epidemiology training programs (FETPs) across Africa working side by side with Ministries of Health, regional and international partners. AFENET works to strengthen epidemiologic and disease surveillance capabilities of Africa countries that are critical to meeting the requirements of the Integrated Disease Surveillance and Response (IDSR) strategy, and the International Health Regulations (IHR).

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## With these hands

WASHINGTON, DC

**T**HE most shocking part of the cyclone that hit Donald Trump's presidential campaign on October 7th was not the contents of a videotape in which the Republican presidential nominee was heard boasting of being able to get away with sexual assault. To anyone who has followed the presidential campaign, Donald Trump's misogyny and alleged habit of groping women were old news. More troubling, for what it said about the moral condition of America, was a profound uncertainty among pollsters and pundits about what effect, if any, the scandal might have on Mr Trump's poll numbers.

The tape, which was discovered in the archives of an NBC entertainment show, "Access Hollywood", and leaked to the *Washington Post*, was foul. It opened with Mr Trump, in conversation with Billy Bush, a television presenter who happens to be a nephew of George H.W. Bush, describing his attempt to sleep with a television presenter: "I did try and fuck her. She was married...I moved on her like a bitch, but I couldn't get there."

Billy Bush, who has arguably had a bigger impact on the election than his cousin Jeb, whom many Republicans expected to win it, then spots an attractive television actor awaiting Mr Trump. "I better use some Tic Tacs just in case I start kissing her," says the Republican nominee, silky smooth. "When you're a star they let you

do it. You can do anything. Grab them by the pussy. You can do anything."

It is hard for a presidential candidate to recover from such a revelation. Yet Mr Trump's supporters have strong stomachs. When their champion called Mexicans rapists they cheered. When he refused to disavow the endorsement of a former Grand Wizard of the Ku Klux Klan, they shrugged it off. His support shrank a bit, it is true, after he spent a week in August denigrating the grieving parents of a dead war hero; but the setback proved temporary. What difference could some decade-old "locker-room banter", as Mr Trump called his comments, possibly make?

Not much, among the faithful. Polls sampled after the tape was aired show his share of the vote has only slightly dipped, to around 39%, which suggests 60m Americans are still planning to vote for him. At his bear-pit rallies, men in "Trump that bitch" and "I wish Hillary had married OJ" t-shirts say they do not give a damn about any tape (and whatever is on it, they add, Bill Clinton did worse). Yet such devotees, 90% of whom are white and 60% of whom did not attend college, are not on their own numerous enough to give Mr Trump victory in an increasingly diverse and educated America. And the response of almost every other category of voter to his political freak show, of which the tape was merely the latest sordid act, is revulsion.

### Also in this section

21 The politics of sexual assault

As *The Economist* went to press Hillary Clinton had jumped to a lead of more than five points in the RealClearPolitics average of recent polls. That may well increase; a couple of polls that gathered data after the tape aired put her up by 11 points. The Democratic nominee has a lead in almost all the battleground states Mr Trump would need to win to bag the requisite 270 electoral-college votes, including Florida, Pennsylvania and Ohio. For that matter, she is also ahead in North Carolina and level-pegging in Arizona, two of the states Mr Trump's predecessor, Mitt Romney, won in 2012. An election predictor built by Nate Silver, a data journalist and revered prognosticator, gives Mrs Clinton an 87% chance of becoming America's first woman president.

That looked on the cards even before the cyclone hit. Through most of September Mr Trump's numbers were climbing; he closed to within a point or two of Mrs Clinton. But after a loutish performance in the first television debate, on September 26th, which was watched by a record-breaking audience of 84m, combined with revelations that he had bullied a beauty queen with bulimia and perhaps paid no income tax for almost two decades, his advance stalled. By the time the tape was leaked, Mrs Clinton had a three-point lead, and many Republican politicians had concluded Mr Trump could not win. ▶▶

▶ The hardening pre-tape conviction that Mr Trump was doomed helps explain why over 25 Republican federal legislators and state governors abruptly rescinded their endorsements of Mr Trump shortly after it aired. It was not only, as many claimed, that their consciences were pricking them. Many are fighting tough re-election battles which their association with Mr Trump has made much tougher. An analysis by Sarah Binder of the Brookings Institution, a think-tank, of the members of the House of Representatives who shelved Mr Trump suggests the propensity to ditch him rises rapidly with the share of the vote in their districts that Barack Obama won in 2012.

### Very weak and ineffective

In distancing himself from Mr Trump, John McCain, an Arizona senator, wrote that “He alone bears the burden of his conduct and alone should suffer the consequences.” Really? The Republican Party nominated Mr Trump with a bumper vote in the primaries. Almost all its leaders endorsed him, as Mr McCain did, ignoring overwhelming evidence that he was a charlatan. The racism, misogyny and threats of violence that peppered his speeches were not merely apparent before he won their party’s nomination, they were his means of winning it. What explains that moral failure?

The answer starts with the Republican voters. In the dowdier parts of white America, a combination of economic and cultural anxieties has caused real misery. That cannot be dismissed. Yet it has also exacerbated deep chauvinisms without which the explosive success of Mr Trump’s racist dog-whistling and the seething mood of his lily-white crowds cannot easily be explained. Cynical partisans, especially the conservative talk-radio hosts from whom millions of older whites get their views, made money fuelling those prejudices (see Schumpeter). By pushing a form of “common sense” conservatism that demonised immigrants, liberals and scroungers, and throwing in a good dose of conspiracy theory, they gave them a voice. Mr Trump’s success was built on his understanding that no Republican leader subscribed to this guff to anything like the same degree as millions of Republican voters did, and that that created an opening for an unscrupulous demagogue.

Mr Trump’s lies—that Barack Obama is a Muslim, say, or that global warming is a Chinese con—are the sorts of thing his audience has been hearing on the radio and reading on blogs for years. So are his insults; Mr Trump’s mocking impression of a disabled reporter was in essence an attack on the hated mainstream media and the culture of political correctness his supporters loathe. Republican leaders were blindsided by the gulf revealed between themselves and a large portion of their voters

and feared widening it.

There were exceptions to this spinelessness. Ben Sasse, a senator from Nebraska, took an early and trenchant stand against Mr Trump. John Kasich, the governor of Ohio, refused to attend Mr Trump’s coronation at the Republican convention even though it was in his state. The semi-retired Mr Romney and Jeb Bush were openly critical. But as the Trump train kept rolling, most of the party’s leaders shrugged and wrapped themselves in a predictable partisan excuse: Mrs Clinton is worse.

More striking than the recent denunciations of Mr Trump is the fact that the majority of elected Republicans are still on board the train. Mr Trump can take some credit for that, having steadied their nerves with a creditable showing in the second televised debate, in St Louis, Missouri on October 9th. It was a disgraceful performance. Mr Trump held a press conference, shortly before the debate, flanked by three women who claim to have been abused by Bill Clinton. Continuing the attack, he sought to shift attention from questions about the tape by telling Mrs Clinton that, if he was elected president, he would have her thrown “in jail” over her use of a private e-mail server while secretary of state.

Mr Trump’s followers are convinced that the e-mail affair amounts to a set of crimes that should see Mrs Clinton in a cell. Never mind that the issue has been investigated by the State Department’s independent watchdog and the FBI, which released a 250-page report last month to support its argument that Mrs Clinton was guilty of nothing except carelessness; Mr Trump said he would appoint a special prosecutor to investigate her—and the verdict, he made clear, would not be in doubt.

With this unprecedented threat he continued to subvert America’s democracy, and also delighted Republicans beyond his core support. It is not only those who turn up at Mr Trump’s rallies who like an aggressive conspiracy theory. Mainstream Republicans have been spinning them about the Clintons for decades—another reason

why they have found Mr Trump’s calumnies easier to swallow than they should.

There have been no further renunciations of Mr Trump. Indeed, on October 11th, the other senator from Nebraska, Deb Fischer, who had previously called on him to quit, said she would vote for him anyhow. Most Republican congressmen fear renouncing him might cost them his supporters—perhaps permanently splitting the party. They also fear it would depress Republican turnout at the general election, which would hurt them in the congressional races on the ballot.

If Mrs Clinton won by a decent margin, the Democrats would probably capture the Senate; there are 24 Republicans up for re-election, and the Democrats need a net gain of only four seats. A majority in the Senate would allow a second President Clinton to get her cabinet and judicial nominations approved. But the real prize, because it would also enable her to pass legislation, would be if the Democrats could take the House of Representatives, where all 435 seats are up for grabs, and the Republicans are defending a much bigger majority.

For that to happen, the Democrats would need to improve their current tally by 30 seats. That looks a stretch, given how few competitive seats gerrymandering has left. But if Mrs Clinton won by a landslide it might be possible. Staving off such a defeat is an imperative for Paul Ryan, the Speaker of the House. He has put as much distance between himself and his party’s nominee for the Oval Office as he can without formally unendorsing him.

Talking to congressional candidates on October 10th, Mr Ryan announced that he would no longer defend Mr Trump and in effect invited them to act accordingly. “You all need to do what’s best for you in your district,” he was reported to have said. This suggests Republican congressmen are free to explicitly bash Mr Trump.

The nominee’s response was vicious and highly wrought. In one of his characteristic tweet storms he accused Mr Ryan ▶

### A sinking ship

Do you have a favourable or unfavourable view of Donald Trump?

By sex, race and education, % of total replying\*



Sources: YouGov; The Economist

\* Registered voters surveyed September 17th to October 8th 2016

of being “very weak and ineffective”. “Disloyal R’s are far more difficult than Crooked Hillary. They come at you from all sides,” he wrote.

What could he hope to achieve by caving in the roof on his own party? Perhaps he has concluded that rallying his angry, mistrustful troops against one last enemy, the party itself, is his best means to a respectable defeat. Perhaps he is burnishing his credentials for some post-electoral enterprise; it has long been rumoured that he means to launch a conservative media company targeted at the “alt-right”, a fringe of racists and conspiracy theorists, after

the election. Perhaps he is merely raging and, as ever, out of control.

It seems he means to rage on. In recent days, while castigating Mr Ryan, he has advised a white crowd in Pennsylvania that “other communities”—by which he meant black people—were planning to steal the election; claimed the debates commission was “rigged”; and accused the Justice Department and Mrs Clinton of “collusion and corruption of the highest order”. Mr Trump’s campaign, it seems, is going to have the end it deserves, nasty, brutish and harmful to America. The next month already feels too long. ■

## The politics of sexual assault

# It’s not just the powerful

AMSTERDAM, LOS ANGELES, PARIS AND ROME

Privilege lets predatory men get away with a lot, be they rich and famous or not

“WOMEN: tweet me your first assaults. They aren’t just stats. I’ll go first: Old man on city bus grabs my ‘pussy’ and smiles at me, I’m 12.” Kelly Oxford, a screenwriter and blogger, was not sure whether her tweet in response to Donald Trump’s open-mic bragging about sexual assault would get any responses at all. In fact it got hundreds of thousands. Many, like Ms Oxford’s initial tweet, describe offences remarkably similar to those Mr Trump brags about: crotch-grabs and tongues forced into mouths. Other women tell of rapes. A striking number were first assaulted before reaching their teens.

By so clearly associating himself with such memories Mr Trump has deepened the degree to which women dislike him, and may have denied himself the presidency (see chart). There is a well-established gender gap in American politics, with men favouring the Republicans, but its current level is unprecedented. Recent polls show women favouring Hillary Clinton by 49% to 34%; men favour Mr Trump by 42% to 39%. Female Collective, a feminist brand, is rush-printing T-shirts depicting a snarling cat and the words “Pussy grabs back”; they urge women to wear it to the polling booth on November 8th.

Michele Paludi of Excelsior College in New York state, who has written widely about sexual harassment, says that “moments like this can change a culture.” She points to Anita Hill’s testimony in Senate confirmation hearings for Clarence Thomas, a Supreme Court nominee, in 1991. Ms Hill’s account of her former boss’s unwelcome sexualised talk and repeated propositions (which he strongly denied) broadened conceptions of what constituted sexual harassment. New laws and stiffer

penalties were brought in. Many private companies created anti-harassment policies in response. Could Mr Trump have created a similar moment?

Some of the response to the tape shows the need for such a change. Many reports focused on Mr Trump’s vulgarity, rather than his ugly meanings. The *Washington Post*, which broke the story, described the recording as an “extremely lewd conversation”; the *Guardian* referred to it as a “sex-boast tape”. Fox News said that Mr Trump “uses a vulgar anatomical term and discusses trying to have sex with an unidentified, married woman.” Mr Trump’s defence, such as it was, took a similar tack, apologising for “locker-room banter” outside the locker room.

But, as many women pointed out on social media, the really offensive word was not “pussy”—even though, of all the demeaning words used for women’s genitals, it is the one most commonly used to describe women collectively as sexual objects and prey. The word that stung was

“grab”. “You bragged that you have sexually assaulted women. Do you understand that?” Anderson Cooper, one of the moderators of the presidential debate held in Missouri on October 9th, asked Mr Trump. Mr Trump denied any such thing.

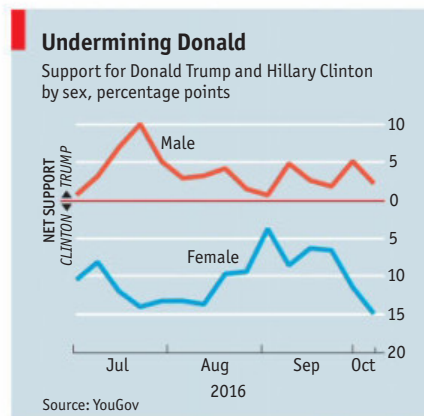
Responses from senior Republicans missed the mark in other ways. Many cited their wives, daughters and so on as their motivation for denouncing Mr Trump’s words. “Women are to be championed and revered, not objectified,” said Paul Ryan, the House Speaker, in a textbook example of what feminists call “benevolent sexism”: a belief in the wondrousness of women that perpetuates harm by casting them as weak.

Since the tape’s release, women have come forward who say they were indeed groped and unwillingly kissed by Mr Trump. In general, though, Deborah Cameron, the author of “The Myth of Mars and Venus”, a book about how men and women speak, cautions against always interpreting words like Mr Trump’s as accounts of things that actually happened. Their boasts, coarse language and demeaning of women are not necessarily used to convey facts, she notes. They are there to build fraternal bonds—in this case with the television presenter Billy Bush and their shared entourage. The woman under discussion plays the same role as the fish in a fisherman’s tale, or the enemy in an old soldier’s.

But to describe the exchange as locker-room banter does not excuse it, says Ms Cameron. Such talk can pave the way to harassment and assault. Research on fraternities and sports teams suggests that, by reducing women to objects and ostracising men who do not join in, banter can make sexual assaults more likely—and make it less likely that men on the scene will intervene, or report the culprits later.

The recording reveals how this works at a less extreme level. Mr Trump says he may force a kiss on Arienne Zucker, the actor they are about to meet, and refers to her as “it”. The tenor of the conversation shapes what follows. Mr Bush urges Ms Zucker to give “the Donald” a “little hug”. He demands one too and asks whom she would date. “Both,” she replies, with a false laugh. “She’s obviously been here before,” says Ms Cameron. “She obviously sees making nice with creeps as going with the job.”

“When you’re a star, they let you do it,” Mr Trump assures the craven Mr Bush. As Ms Oxford’s Twitter timeline attests, many perfectly ordinary men feel a similar entitlement to women’s bodies. And most sexual offenders, famous or obscure, get away with it. Their crimes are rarely reported, let alone prosecuted. Many men are oblivious to the level of harassment and worse women have to put up with, as some bewildered responses to the revelations on Ms Oxford’s timeline showed. Coping mechanisms and a sense of powerlessness ►►



▶ keep the scale of the problem hidden.

Famous and powerful men have extra protection. The fact that they have favours to bestow can lead to acquiescence. It can also lead to accusations of opportunism if victims risk public shaming by speaking up. When Mike Tyson, a boxer, was tried for rape in 1992 his legal team tried to paint his accuser, a teenage beauty-pageant winner, as money-grubbing. Asked why she waited 32 years to come forward, Janice Dickinson, a former model who is one of dozens of women to have accused Bill Cosby, an actor, of sexual assault, said on "Entertainment Tonight", a television show: "I was afraid of being labelled a whore or a slut and trying to sleep my way to the top of a career that never took place."

### If not now, when?

Sexual harassment and assault are more common in places where women are heavily outnumbered and the most powerful positions are disproportionately held by men, says Stefanie Johnson, a management professor at the University of Colorado, Boulder. In most places politics as a whole fits her description very well, with no party or ideology enjoying a monopoly on malfeasance. Ali Goldsworthy, one of four women who accused a British politician, Lord Rennard, of unwanted sexual touching in 2013, said she heard similar stories from women across the political spectrum. (Lord Rennard denied the accusations; an internal investigation by his party, the Liberal Democrats, found that "the evidence of behaviour which violated the personal space and autonomy of the complainants was broadly credible.")

Mr Trump's supporters like to point to the sexual misconduct of Mrs Clinton's husband, Bill. Mr Trump brought several women associated with Mr Clinton to the debate, including Juanita Broaddrick, who

has accused him of rape (he has never been charged or tried in the matter). It is an uncomfortable comparison for Democrats convinced that, if they were forced, like Republicans, to choose between victory and a sexually predatory presidential candidate, they would make the right choice.

In 2011 Dominique Strauss-Kahn, then the managing director of the IMF and a likely Socialist candidate for the French presidency, was arrested on charges of sexually assaulting a maid. The charges, eventually dropped, unleashed a torrent of stories about Mr Strauss-Kahn's predatory behaviour, which had been known about by journalists and politicians, but barely discussed in public. The affair appeared to break a taboo of silence and Mr Strauss-Kahn's career was ended. But little seems to have changed as a consequence.

Last year over a dozen female journalists wrote in *Libération*, a newspaper, of the way they are treated by male politicians. From suggestive comments—"it would be better if you were wearing nothing underneath"—to gross physical advances behind closed doors, they still face sexist behaviour daily. "We thought that the [Strauss-Kahn] affair had changed the situation and that macho habits...were on the way out. Alas..." they wrote.

Earlier this year Denis Baupin, the deputy speaker of the National Assembly—which is 73% male, with half the members over 60—resigned after women in his party accused him of sexual harassment and aggression (which he denies). Those accused of sexual harassment, Catherine Le Magueresse, a lawyer, told French television earlier this year, "are often convinced that they are entitled to women's bodies and that their power permits everything."

Powerful men do not always have to impose themselves on women in order to indulge their appetites inappropriately. Mr

Clinton's best-known sexual transgression was with Monica Lewinsky, an intern who actively sought the affair. Silvio Berlusconi, Italy's former prime minister, while debauched, does not appear to have had a taste for assault. That said, catching Mr Berlusconi's eye was worthwhile, in its way. In 2010, while he was still in office, it emerged that he had been hosting "Bunga Bunga" parties attended by many pretty young women, some of them prostitutes. In his book "Being Berlusconi: The Rise and Fall", Michael Day, a journalist, reports that some of the guests were offered coveted jobs presenting weather forecasts on one of the six free-to-air television channels the tycoon politician controlled.

Up to the Bunga Bunga revelations Mr Berlusconi's many female supporters appeared not to care about his attitude to women; some continued not to. But the scandal inspired a wave of protests under a slogan borrowed from the title of a novel by Primo Levi: "If not now, when?" In response the country's political parties increased the number of female parliamentary candidates; the number of women in government rose. In 2014 the current prime minister, Matteo Renzi, formed a cabinet of which half the members are women.

Getting more women into politics at the highest level should help make sexual harassment rarer. But formal policies are needed, too. Here, the private sector has done more than politicians. One former researcher at the European Parliament describes how she lost her job after complaining that her boss asked her to go for a drink but then took her to a strip bar. She now works in the corporate world and is struck by the lack of such harassment.

Many firms have banned socialising in strip clubs, which intimidates or excludes female employees. High-profile dismissals can help ensure that such anti-harassment policies have bite. Mr Bush has been suspended from his television job and looks likely to be sacked. The board of American Apparel, a clothing retailer, ousted its founder, Dov Charney, for alleged misconduct, including sexual harassment, in 2014. After numerous allegations of harassment and abuse Roger Ailes, the head of Fox News, resigned in July. He now advises Mr Trump's campaign.

The misogynist banter that facilitates so much assault and harassment is unlikely to be swept away by formal measures. But what is acceptable in private conversations can be shifted, says Ms Cameron. The sort of racist remarks that would once have been commonplace have become much rarer, as fewer listeners let them go by unchallenged. Homophobic remarks also seem to be on their way out. For misogynist ones to follow, the many men who have publicly declared themselves disgusted by Mr Trump's words need to start making that clear in private, too. ■



She shouldn't have to make nice with the creeps




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## Hillary Clinton's campaign

## Hacked off

WASHINGTON, DC

**What looks like a Russian hack of the Clinton campaign chairman's e-mail account would, in another year, be causing the candidate problems**

**I**F OPINION polls maintain current trends, the sounds of pursuit by Donald Trump will reach Hillary Clinton's ears ever-more faintly as she enters the final straight of a long, slog of a race for the White House. But even if the Republican nominee continues to run out of puff (see Briefing) one last worry haunts Democrats: that Mrs Clinton, an uninspiring candidate lugging decades of political baggage, could still somehow slow and lose all by herself. Those concerns have not been eased by a remorseless, ongoing effort by WikiLeaks, an online clearing-house for leaked and hacked information, to load fresh baggage onto the Democratic nominee.

In recent days alone WikiLeaks has published thousands of e-mails that appear to have been hacked from the Gmail account of John Podesta, the chairman of Mrs Clinton's presidential campaign and a former close aide to President Barack Obama. Though Mr Podesta has not confirmed the authenticity of individual documents, he told reporters aboard a campaign aeroplane that "it doesn't feel great" to have ten years of e-mails dumped into the public domain.

The stolen information includes politically awkward extracts from paid speeches given by Mrs Clinton to Wall Street banks and other deep-pocketed organisations, and which she steadfastly refused to make public during a drawn-out presidential primary fight against a left-wing populist challenger, Senator Bernie Sanders. Her yen for secrecy is explained by the extracts,

flagged up in an internal campaign review of lines likely to make Democratic activists cross. They include praise for free trade, including Mrs Clinton's dream of a common market throughout the Western hemisphere with "open trade and open borders". In another address Mrs Clinton ponders the unseemly business of law-making, citing Abraham Lincoln's willingness to have "both a public and a private position" on sensitive issues.

The hacked e-mails also reveal wrangling about how to minimise negative publicity around Mrs Clinton's use of a private e-mail server to send and receive secret government information; internal discussions about how to handle touchy Democratic grandees (including at the Obama White House); the uselessness of sundry reporters; and how to finesse moderate policy positions liable to displease the party's leftist activists. They include spats among members of the Clinton inner circle, as when Chelsea Clinton raises "serious concerns" about a perception that a consulting firm was cashing in on its access to her father, former president Bill Clinton, blurring the lines between business, government and the family's charitable arm, the Clinton Foundation. Yet mostly the impression is of political operatives doing what might be expected—being political. To date the revelations come closer to gossip than to the campaign-ending "October surprise" that Clinton foes had been looking forward to.

Predictably in this age of canyon-deep

political divisions, the actual content of the hacked e-mails is now being overshadowed by partisan squabbling about the motives of those who stole them and made them public, and about the honesty of the news organisations sifting through them and assessing their importance.

In July WikiLeaks released almost 20,000 e-mails from the accounts of officials at the Democratic National Committee, showing that the supposedly neutral party headquarters was rooting for Mrs Clinton to beat Mr Sanders—a not-very-startling revelation that led to the resignation of the DNC chairman, Debbie Wasserman Schultz. Hackers linked to Russian intelligence agencies were quickly accused of involvement. On October 7th the Department of Homeland Security and the Director of National Intelligence, James Clapper, issued a remarkable statement declaring their confidence that the Russian government directed "recent compromises of e-mails" of individuals and political organisations in order to "interfere with the US election process".

Mr Trump has pushed back on such findings, including in his most recent TV debate with Mrs Clinton, when he said that his opponent "doesn't know if it's the Russians doing the hacking," and speculated: "Maybe there is no hacking." Mr Podesta, in his airborne press briefing two days after that debate, said that the FBI is investigating a "criminal hack" of his account, adding: "Russian interference in this election and apparently on behalf of Trump is, I think, of the utmost concern to all Americans, whether you're a Democrat or independent or Republican." That vision of cross-party consensus is a trifle optimistic.

In a campaign rally in Florida, Mr Trump denounced Mrs Clinton's leaked daydreaming about a common market of the Americas, declaring: "American soldiers have fought and died to win and keep America's freedom, and now Hillary Clin- ▶▶

ton wants to surrender that freedom to these open borders, open trade, and a world government.” Warming to his theme, he decided that the leaked e-mails confirm that Mrs Clinton is the “vessel” of a “criminal government cartel [that] doesn’t recognise borders but believes in global governance, unlimited immigration and rule by corporations.” Later, in an angry tweet, the Republican nominee accused news outlets of burying the story, grumbling: “Very little pick-up by the dishonest media of incredible information provided by WikiLeaks. So dishonest! Rigged system!”

To simplify, Mr Trump has two main goals in these final weeks. First, to bring home unhappy voters who voted Republican in previous presidential contests but who loathe him: a group that notably includes educated white women in suburbia. Second, to depress Mrs Clinton’s support among Democrats and swing voters. Mr Trump’s rhetoric about hacked e-mails may help him with the second task, but does almost nothing to help with the first. Hence Mr Trump’s rage. ■

### The evangelical vote

## Absalom’s revenge

GAINESVILLE, GEORGIA

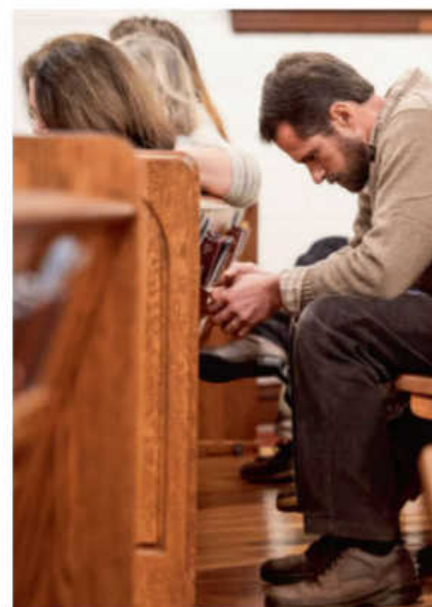
### Convolutions and heartache in Donald Trump’s godly flock

SAVE, perhaps, for the preacher’s warning that God’s works may involve mess and tears, there was no mention of Donald Trump’s groping imbroglia during Sunday service at Free Chapel, a snazzy megachurch in Gainesville, Georgia. But a pamphlet on sale by its senior pastor, Jentezen Franklin, makes the church’s stance clear. Recommending three days of fasting before November 8th, it advises that, since the country is in crisis, this is no time to be squeamish. Mr Franklin is a member of Mr Trump’s evangelical advisory board.

Of all the mental gymnastics required of Trumpsters, none are more excruciating than the rationalisations offered by his evangelical cheerleaders. In the past Jerry

Falwell junior, president of Liberty University, enlisted both his illustrious father and Jesus in his praise of Mr Trump—a profane business shark who bragged about his penis on tv, makes humiliating gaffes about Christianity and whose wife posed for Sapphic porn. After the emergence of his old boasts about committing sexual assault, Mr Falwell limply insisted that “We’re all sinners”, hinting that the furor was got up by anti-Trump Republicans. “Nothing can tear me away from your love, Lord,” sang Free Chapel’s rock ensemble: something similar seems to go for the candidate’s evangelical toadies.

Two tropes recur in the arguments these erstwhile moralisers continue to make for the casino-owner. One is that no candidate is perfect: “until Jesus runs for office,” Mr Franklin laments, “it will always be a choice between the lesser of two evils.” The other is that the position at stake is commander-in-chief, not Sunday school teacher. The president’s power to nominate Supreme Court justices, and thus sway the law on marriage, abortion and religious liberty, outweighs everything else. This realist case was epitomised by Tony Perkins of the Family Research Council, who explained that his support for Mr Trump “was never based upon shared values.” After all, runs the biblical back-up, God often deploys flawed strongmen as his rod. Lustful King David is the most com- ▶▶



Let down

### The campaigns

## Heard on the trail



#### Bad boys

“This was locker-room banter, a private conversation that took place many years ago. Bill Clinton has said far worse to me on the golf course—not even close.”  
*Trump attempts an apology.*

#### Quitting time

“I’m out.”  
*Congressman Jason Chaffetz was the first of several Republicans to jump ship. Fox 13 News*

#### Et tu, Brute

“So many self-righteous hypocrites. Watch their poll numbers—and elections—go down!”  
*Donald Trump was furious about the defections.*

#### Alpha Romeo

“Sometimes that’s what happens when alpha personalities are in the same presence [sic].”  
*Eric Trump explains his father’s behaviour. Colorado Gazette*

#### Legal advice

“I don’t characterise that as sexual assault. I think that’s a stretch.”  
*Senator Jeff Sessions, former lawyer and Trump surrogate, disagrees with the Justice Department. Weekly Standard*

#### Grit those teeth

“It’s the greatest honour of my life, to have been nominated by my party.”  
*Mike Pence stays on the ticket despite rumours that he was planning to drop out. CNN*

#### Candyman

“Tic Tac respects all women. We find the recent statements and behaviour completely inappropriate and unacceptable.”  
*Tic Tac rejects any association with the nominee’s seduction technique.*

#### The hedgehog and the fox

“I wouldn’t want to be in a foxhole with a lot of these people that I can tell you, including Ryan...especially Ryan.”  
*Mr Trump is upset with the Speaker of the House. Fox News*

#### Let Donald be Donald

“It is so nice that the shackles have been taken off me and I can now fight for America the way I want to.”  
*Mr Trump suggests he will abandon his hitherto disciplined messaging strategy.*

#### Democracy is so overrated

“We need a Donald Trump to show some authoritarian power.”  
*Paul LePage, governor of Maine, chooses the Republican over the republic.*





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▶ monly cited precedent.

Some, however, have heard enough. On October 9th Wayne Grudem, an influential theologian who had endorsed the adulterous nominee, said he hoped Mr Trump would quit. And, especially in the younger ranks, some never signed on. Russell Moore, of the Ethics and Religious Liberty Commission, an arm of the Southern Baptist Convention—"A nasty guy with no heart!", according to Mr Trump—says that, among his acquaintances, every pastor under 40 is revolted by the campaign. The generational divide, he says, partly concerns race. Many younger evangelicals want both to atone for old racial wrongs and expand their faith's appeal; countenancing Mr Trump's "racist invective," thinks Mr Moore, is "morally problematic but also self-defeating", since "angry old white people" are not the church's future.

Still, in one analysis, all this is the culmination of a prior trend. Since the presidency of Ronald Reagan, a divorced movie star, white evangelical Protestants have become ever-more affiliated with the Republican Party. But, says Wayne Flynt, author of an illuminating new book on southern religion, while puritanical in the private sphere, in politics evangelical bigwigs "increasingly defined morality in terms of policy instead of character". Ultimately, he thinks, the alliance that "they thought was their salvation will be their damnation," since their moral authority now stands diminished. After this bout of relativism, agrees Mr Moore—who opposes Hillary Clinton as well—old-school evangelists who invoke moral character will seem like "political hacks." To their critics, such hypocrites have forsaken God for Caesar, becoming less churchmen than spokesmen for a grumpy demographic group.

Happily for the Republican Party, the white evangelical vote—typically more than a third of its total—seems unlikely to desert en masse. Partisanship is too fierce and the Democrats too unpalatable. Still, in this election there are ominous signs. Many evangelicals, pollsters recount, were always motivated more by aversion to Mrs Clinton, whom they regard as a liberal-feminist anathema, than by enthusiasm for Mr Trump. A survey by Lifeway Research found that, among Protestant pastors, Mr Trump's lead was much smaller than previous Republican candidates'; a plurality were undecided. His overall support among evangelicals, while still strong, is lower than his predecessor's. More may chose to stay at home on polling day, hurting down-ballot Republicans too.

That could yet make a difference in swing states such as Florida and North Carolina. Perhaps, as Mr Flynt notes, evangelical leaders should pay more attention to their own parables. King David's lusts return to haunt him: a love-child perishes and his son Absalom revolts. ■



Washington state's carbon tax

## Of wood and trees

SEATTLE

**Environmentalists against the environment in the Evergreen state**

ASK an economist how best to reduce pollution, and the chances are that they will recommend taxing carbon emissions. And with good reason: doing so should encourage markets to find the least costly way to reduce pollution, something governments will struggle to discover themselves. In November Washington state's voters will decide whether their state should mimic neighbouring British Columbia's carbon tax, after a grass-roots campaign put the proposal on the ballot. It would be the first such policy in America. You might think environmentalists would unite behind such a pathbreaking effort. Instead, many oppose it.

Initiative 732, as it is known, would tax carbon emissions at a rate reaching \$25-a-ton in 2018 and then rising by 3.5% plus inflation every year, to a maximum of \$100 in 2016 dollars. Today's levy in British Columbia is C\$30 (\$23) a ton. As in the Canadian province, the proceeds would be recycled into tax cuts elsewhere. The sales tax would fall from 6.5% to 5.5%. Low-income workers would get a tax rebate. And, to help placate affected businesses, manufacturing taxes would fall.

Yoram Bauman, who heads the Yes campaign (and who somehow makes his living by performing economics-themed stand-up comedy) proudly notes that three Republican state legislators support the

initiative, and that it has not attracted the well-funded opposition from the oil lobby that a revenue-raising proposal might. Unfortunately, the price of that has been to alienate left-wing environmentalists, who are loth to give up the opportunity to use a carbon tax to fund new spending.

Their favoured projects include ideas to reduce emissions further, such as improving public transport. This is necessary, they say, because of the source of Washington's pollution. Clean hydroelectric power accounts for almost three-quarters of the Evergreen state's electricity production. As a result, transport is the biggest source of pollution. The estimated 25 cents that the initiative would add to the price of a gallon of petrol in 2018 seems unlikely to change driving habits. However, a recent study by Werner Antweiler and Sumeet Gulati at the University of British Columbia contradicts this argument, finding that the carbon tax there has encouraged people to buy more fuel-efficient cars, helping to reduce gas-guzzling by 7% per person.

Left-wing groups also insist that climate policy should include new spending on those worst affected by climate change. Near coastal Seattle, this means poor non-white neighbourhoods which are more vulnerable to flooding and, because they are nearer roads, have dirtier air, explains Ellicott Dandy of OneAmerica, a lobby group. As a reason to oppose the initiative, however, this too is unconvincing: any group that is disproportionately harmed by climate change should also benefit the most from the emission reductions.

More compelling is an urge to compensate or retrain workers in energy intensive industries who might lose their jobs as a result of the tax. But those who suffer because of market forces or technological change get little government help; it is oddly particular of environmentalists to hold up green policies on this basis, rather than arguing separately for, say, wage insurance.

The debate is ill-tempered. Mr Bauman did not get things off to a good start in 2015 when he complained about the left's "unyielding desire to tie everything to bigger government" and "willingness to use race and class as political weapons in order to pursue that desire". Members of one environmental group, the Sierra Club, performed parliamentary manoeuvres worthy of Ted Cruz: an attempt to change the group's position from "do not support" to a more neutral stance was thwarted with help from Robert's Rules of Order.

There are some problems with the initiative. It might encourage some businesses exposed to trade, such as aluminium manufacturers, simply to relocate to a different state. But environmentalists would be mad to pass up the opportunity the high turnout of a presidential election year presents to pass green initiatives—especially one as desirable as a carbon tax. ■

## Bilingual education

## Learning to assimilate

LOS ANGELES

In November Californians will also be voting on teaching in English

MARY KEENAN chuckles as she recalls the time that her son, Austin, had to talk his father out of a customs fee in Chile. While his dad frantically tried to explain why he had neglected to declare a snack, Austin, then 10-years old, translated his father's pleas from English into Spanish. Since kindergarten, he had been enrolled at a dual immersion programme in English and Spanish at Thomas Edison school in Glendale, a suburb of Los Angeles. Speaking Spanish had helped Ms Keenan's career at a trading company, so when it came time to educate her sons she wanted to be sure they also learned the language. She suspected that a few hours of foreign language instruction a week—as is the norm in most American public schools—would not be enough. Proposition 58, which will appear on California's November 8th ballot, aims to spread such multilingual programmes across the Golden State.

This is much more contentious than it sounds. California has by far the largest foreign-born population of any state. Ten million—or nearly a quarter of all immigrants in the country—call the sprawling state home; they speak over 200 languages. In 2014, Latinos overtook whites as the most populous ethnic group and will account for nearly half of California's population by 2060. The scale of these demographic changes means questions around cultural assimilation versus cultural preservation tend to arise first in California.

The new measure, proposed by Ricardo Lara, a state senator who was born in Cali-

fornia to Mexican parents, seeks to repeal parts of Proposition 227, a ballot initiative that put restrictions on bilingual education in 1998. Before the implementation of Proposition 227, which was colloquially called "English for the Children", around 30% of the state's English learners were enrolled in bilingual programs, most of which catered to Latinos. The hope was that instructing English-learners partially in their first languages would keep their spirits high and their academic progress on track.

But Ron Unz, a software entrepreneur, and Gloria Matta Tuchman, a teacher in Santa Ana, a predominantly Latino area of Los Angeles, felt bilingual education was failing non-native English speakers. Pointing to the large gap in test scores between those who were proficient in English and those who were not, they teamed up to write Proposition 227, which made English the default language of instruction in all state public schools. Multilingual education was not banned, but parents wishing to enroll their children in multilingual programmes had to sign waivers to do so. Teachers who wilfully used languages other than English during English-immersion classes could face legal action.

That measure received the support of 61% of California's voters. Looking back, Kelly King, the assistant superintendent of the Glendale school district—which offers programmes in seven languages—attributes the resounding victory to anti-immigrant prejudice. The vote followed shortly after the success of another ballot measure,

which made illegal immigrants ineligible for public assistance (including schooling) and is now widely thought responsible for sinking the state's Republican Party. Mr Unz rejects that assessment; he says the "English for the Children" initiative was hugely popular among immigrant parents.

In the years following Proposition 227's implementation, enrolment in bilingual programmes quickly fell. Test scores for English learners subsequently rose, but so did those proficient in English, suggesting the decline of bilingual education was not the sole cause. Today, the California Department of Education counts only 312 of 10,393 schools that offer multilingual programming. Mr Lara and his supporters believe this number is far too low.

Mr Lara, who was at high school shortly before Proposition 227 passed, excelled in English-only education. "There is nothing more important for an immigrant child than learning English," he says. By the age of 12 he was helping his parents with their tax returns. But he says that each child learns differently. His brother and sister struggled with English immersion. It was only when they were transferred to a bilingual classroom that their academic performance improved and their morale with it.

Recent research conducted by professors at the University of Oregon and Stanford University suggests English learners enrolled in bilingual and dual immersion programmes take longer than their peers in English-only ones to become fully proficient in English. But by high school, English learners in multilingual courses catch up to and surpass the academic performance of their peers in English immersion classes. Mr Unz is sceptical. "For as long as bilingual education has been around, each side seems to be able to find evidence to support their side," he says.

Although a poll published in June suggested 69% of California's voters support Proposition 58, it is one of a whopping 17 propositions that will appear on the November 8th ballot. Bombarded with so much information, voters might not take the time to parse each initiative, says Mark Baldassare, the president of the Public Policy Institute of California, a think-tank. Advertising has been sparse. Parents picking up their children from Brooklyn Avenue Elementary School in East LA, where 97% of the population is Latino, looked puzzled when asked about the proposition. Laurie Sanchez, who was born in Los Angeles to Mexican parents and has a 5-year-old and a 7-year-old, says she would like her kids to be taught in Spanish and in English. She also has two children in their 20s and laments that when they were young they could not speak enough Spanish to communicate with their grandpa. Yoanna Contreras, on the other hand, thinks the current system works fine. "Spanish at home, English at school—that's the way it is." ■



We're going to need some new cards

# INVESTING IN HOPE FOR AMERICA'S CHILDREN



**William C. Bell, Ph.D.**

President and CEO of Casey Family Programs

**E**very day in America, as a result of child abuse and neglect, an estimated 18,000 children will be involved in reports of suspected maltreatment, 711 children will enter foster care and four children will die. Children who experience abuse and neglect are more likely to face lifelong health and well-being challenges, struggling to enter the workforce and achieve their full potential.

The direct costs to these children, their families and communities is staggering. The opportunity costs for our economy and our society are incalculable. The 400,000 children in the U.S. who are in foster care each year represent a vast potential that our nation cannot afford to ignore. They are our future leaders, innovators, dreamers and doers.

Fifty years ago, Jim Casey, a visionary business leader who built a small bicycle messenger service into the global powerhouse United Parcel Service, understood that if his company was to succeed, and if our nation is to fulfill its promise of prosperity, then every child deserves to grow up in a safe, stable family and supportive community.

“The destiny of all of us is, to a large extent, in the keeping of each of us,” he said.

Thanks to Jim Casey’s investment in hope, Casey Family Programs has grown into the nation’s largest operating foundation focused on safely reducing the need for foster care in America and building communities of hope for children and families. The foundation works with partners in all 50 states, the District of Columbia, Puerto Rico and more than a dozen tribal nations to support improvements to child welfare systems so that children and their families have safer, brighter futures.

Perhaps more than at any time in history, we have an opportunity today to fundamentally transform how we serve children and families so that we can prevent maltreatment before a child is harmed. Thanks to advances in brain science, we better understand the lifelong impacts of trauma on young people and how we can help them heal and thrive. And we understand that all families, no matter how rich or how poor, need help to overcome challenges such as addiction and mental health that can directly affect the safety of children.

We also know this: No single system or agency can possibly address all the issues that negatively impact children and families. We must tap a much broader and deeper well of talent and commitment to build a shared vision of success among the public, private, nonprofit, philanthropic and community sectors. Only by working together will we truly have the necessary impact.

Business leaders have an opportunity to change lives and make a meaningful difference in many ways, including by mentoring youth in foster care, creating internships that provide valuable professional experience and supporting community organizations.

Jim Casey and his siblings showed how one family can make a difference in the lives of millions of children and families across America. Just imagine what we could do together to invest in the hope and future of America’s children, families and communities.

As Jim Casey said, “Determined people working together can do anything.”

# Where will I be in 10 years?



## YOU DECIDE:

- Nurtured
- Neglected

The business community has tremendous power and opportunity to shape the lives of our most vulnerable youth and help them succeed.

Legendary businessman Jim Casey, founder of United Parcel Service, used that opportunity 50 years ago to create Casey Family Programs, the nation's largest operating foundation focused on safely reducing the need for foster care and building Communities of Hope across America.

Casey Family Programs believes the business sector can help unlock the possibilities and potential of young people who need a little extra support to realize their dreams. We believe that all of us — business, public, nonprofit, philanthropic and community sectors — must work together to create supportive communities that keep children safe and help families thrive.

There are many ways for you and your company to make a difference:

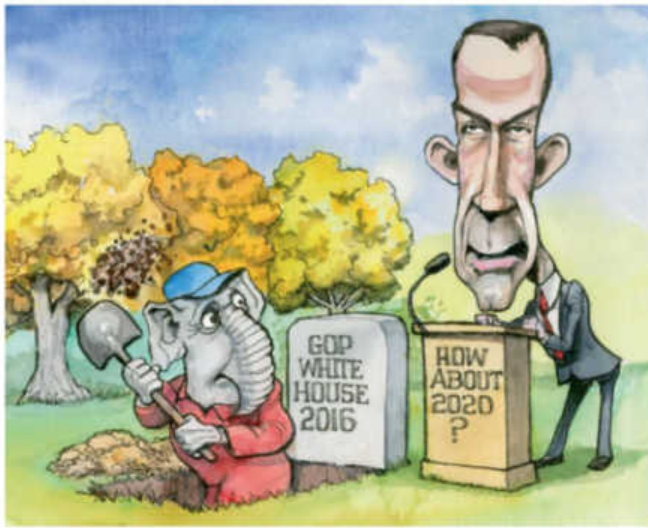
- Mentor a youth who is in foster care.
- Provide internships for vulnerable youth.
- Develop company policies that support families, including foster and adoptive parents.
- Help your employees volunteer and give back to the community.
- Share your expertise.

To learn more, visit [casey.org/hope](http://casey.org/hope).



# Lexington | Growing Cotton in Iowa

An ambitious young senator offers a revealing glimpse of a post-Trump Republican Party



AS THE election of 2016 lurches to an unmarked end, it feels cruel to report that the presidential race of 2020 is already under way. This haste makes sense, at least on the Republican side. If voters on November 8th consign Donald Trump to a life of brooding defeat, filled with cable TV interviews, restless travel and insomniac tweeting, he will leave a party primed for civil strife. For a tough dilemma confronts Republicans. Full-blown Trumpism—a retro creed that blends America First nationalism, paranoia worthy of Joseph McCarthy, George Wallace-style nativism and Hugh Hefner-ish lechery—is a recipe for losing a national election. Yet without those voters who hear and see a champion in Mr Trump, Republicans will struggle to win most other elections, whether to Congress or at state level.

Mr Trump has revealed that, for many, conservatism is as much an identity as a set of principles. Mr Trump could not care less about shrink-the-government orthodoxy. He blithely opposes moves to reform federal aid for the old, despite its spiralling costs. He promises such expensive schemes as a federal deportation force targeting “criminal aliens”. Mr Trump doubts that American leadership is needed to keep the world safe, questions alliances like NATO, denounces George W. Bush for invading Iraq and praises Russia’s autocratic president, Vladimir Putin. His threat to slap tariffs on Chinese or Mexican imports mocks Republican leaders who back free trade.

On October 8th Senator Tom Cotton of Arkansas, a 39-year-old star of the doctrinaire right, arrived in Iowa for a four-day visit. In theory, Mr Cotton was in Iowa to campaign for Republicans who, unlike him, are up for re-election this year. But politicians do not visit Iowa by accident. Its caucuses are the first winnowing contest of the presidential primary season. Those with White House ambitions must spend months wooing the state’s farmers at county fairs, and its evangelical Christians at church pancake breakfasts. While in Iowa Mr Cotton addressed two party fundraising dinners whose previous speakers include most major Republican presidential candidates of the past decade.

On paper, Mr Cotton is an unlikely figure to reconcile Mr Trump’s burn-it-all-down followers with conventional conservatives. The son of a cattle farmer, he is a beakily intense six-foot-five-inch Harvard law graduate and former McKinsey consultant,

who enlisted in the army in 2004 and served as an infantry officer in Iraq and Afghanistan. He was elected to the Senate in 2014, after a brief stint in the House of Representatives, with the help of two distinct bands of admirers. First, anti-government groups such as the Club for Growth, who hail his willingness to vote against disaster-relief funds or food stamps (Mr Cotton talked of recipients with new cars and “steak in their baskets”). Second, foreign-policy hawks, who cheered when, two months after entering the Senate, he wrote to Iran’s leaders, warning them that any nuclear agreement they struck with President Barack Obama might be overturned by Congress—a letter that made Senate veterans wince, though 46 other senators eventually signed it.

Mr Cotton is a hardliner on law and order, too. This year he helped block a bipartisan criminal-justice bill that would give judges more flexibility when sentencing, among other reforms meant to address decades of soaring jail populations (America, with less than 5% of the world’s population, accounts for almost 25% of the world’s prisoners). Mr Cotton argued in May that because most crimes go unpunished, “if anything, we have an under-incarceration problem”.

Interviewed before addressing the Reagan dinner of the Iowa Republican Party in Des Moines, the senator played down differences between his interventionist views, Mr Trump’s scorn for nation-building and public opinion. Detached from its roots in 1940s pacifism, the slogan America First “makes a lot of sense” to voters, Mr Cotton says. He thinks Mr Trump is wrong to question the wisdom of overthrowing Saddam Hussein, arguing that the Iraq war made Americans safer, and so put America first. Chiding the Bush administration for years of drift before the Iraq troop surge of 2007, and accusing Mr Obama of allowing the rise of Islamic State, Mr Cotton says the American people are not fundamentally anti-war, just “fundamentally opposed to losing wars.”

## If Harvard did populism

Elections turn on many issues, he goes on, but the one issue on which Mr Trump differed from almost every Republican he beat in the 2016 primary was immigration. Mr Cotton supports Mr Trump and is sure that a key to navigating an era of “populist insurgencies”, from Britain to continental Europe and America, lies in acknowledging the “reasonable, legitimate concerns” of working families about low-skilled migration and its effects on society and on wages—even if a “transnational cosmopolitan elite” is left unscathed by them.

Addressing the party faithful, moments later, Mr Cotton presented himself as a member of the generation moved by the patriotic spirit that America showed after the September 2001 terror attacks, leaving civilian careers to join the army and learn a “warrior ethos”. He combines that pitch with Trumpian vows to secure the border and reject a “new normal” that, he says, sees riots on the streets and “cops assassinated on the beat”, while sneering liberal elites “live behind high walls with armed guards”.

After the speech Jeff Kauffman, chairman of the Iowa Republican Party, reported praise from the party faithful for Mr Cotton’s “freshness”. The challenge for his party, whatever the result in November, is to keep the new voters brought in by Mr Trump and to capture his populism, “but package it so it is more mainstream”, Mr Kauffman says. Between now and 2020, expect to hear more about Tom Cotton—and about other, rival Republicans with schemes to make American populism mainstream again. Even in defeat, Mr Trump will shape the party’s future. ■



### US-Mexico trade

## In the shadow of the wall

SAN DIEGO AND TIJUANA

The border region would be devastated by Donald Trump's economic policies

ASKED what he thought of Donald Trump's plan to build a wall on the border, a Mexican official smiled and reached for his smartphone. He called up a map of Mexico in 1824, when it included California, Texas and most of what is now the southwestern United States. We'll gladly pay for a wall on that border, he joked.

For most Mexicans, the prospect of a Trump triumph—however unlikely—is less amusing. The Republican nominee says he would slap a 35% tariff on Mexican goods and maybe scrap the North American Free-Trade Agreement (NAFTA). Just the tariff would hit Mexico like a hurricane, says the central bank's governor. Other economists think it would quickly knock 5% off Mexican GDP. The Peterson Institute, a think-tank in Washington, DC, predicts that Mr Trump's protectionist policies would spark a trade war, push America into recession and destroy 4.8m American jobs by 2019.

A visit to the sunny sister cities of Tijuana (in Mexico) and San Diego (in California) gives a sense of what is at stake. The border that bisects them is the busiest in the Western hemisphere. Mexicans cross it to work, shop and visit friends. Americans head south for beaches and cheap dentistry. Kevin Faulconer, San Diego's Republican mayor, is keen to encourage cross-border business. "My job is to take away roadblocks," he says.

Such trade has risen more than sixfold since NAFTA passed (see chart on next page). Mexico is America's second largest

export market; America is Mexico's largest. The two countries "no longer simply sell finished products to one another. Instead, they build things together," note Christopher Wilson and Duncan Wood of the Wilson Centre, a think-tank; they pool their comparative advantages to create an "ultra-competitive" regional economy.

In a gigantic factory in Tijuana, for example, hundreds of blue-uniformed workers assemble headphones and headsets. Many stare at screens that magnify the tiny components, so they can see what they are fiddling with. Plantronics, the American firm that owns the factory, is consistently voted one of the best employers in Mexico.

It illustrates a trend that makes Mexico especially useful for American manufacturers: mass customisation. Consumers increasingly want to personalise purchases—from made-to-measure golf clubs to cars with cool gadgets—and have them delivered straight away. This is easier when they are made nearby. Plantronics lets customers choose colours and designs ("power blue" and sweat resistant, for example), and ships them to America and Canada within 48 hours. "Today's production goes across the border tomorrow," says Jorge Ruvalcaba, a vice-president of the firm. "We couldn't do that from China."

Manufacturing in Mexico has become more attractive since wages for factory workers in China started to soar around 2010. (Mr Ruvalcaba adds that intellectual property is safer in Mexico, too.) The most

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sophisticated work tends to be done in the United States. But companies do not simply marry American brains with cheap Mexican brawn. Mexico produces more engineering graduates, relative to its population, than the United States, and has strong vocational training. Thermo Fisher Scientific, an American medical-technology firm, uses geeks in Tijuana to write software that helps doctors make sense of data generated by medical devices.

Mexico cannot match China's scale when it comes to mass-producing cheap goods. But it is well placed to offer services that are often more profitable. For example, 3DR, a firm based in Berkeley, California, sells aerial drones that are used to survey construction sites. The machines are assembled in China but the firm has a tech-savvy, English-speaking workforce in Tijuana to test them, repair them and offer technical support to customers. The real value is not the drone itself but the software and services that come with it, says Chris Anderson, the boss of 3DR (and a former journalist for *The Economist*).

### The employment machine

Cross-border trade boosts jobs. Theodore Moran and Lindsay Oldenski of the Peterson Institute find that between 1990 and 2009, a 10% increase in employment at US firms' Mexican operations was associated with a 1.3% increase in their US workforce. Granted, the new jobs tend to be for skilled workers, and some unskilled ones lose out. But everyone benefits from lower prices. If an American family saves \$100 buying a washing machine made in Mexico and uses that money to go to the cinema, it supports the jobs of the ticket-seller, the cinema manager "and maybe even Brad Pitt", argue Mr Wilson and Mr Wood.

Border businessfolk offer varying views of Mr Trump's plan to disrupt this delicate ecosystem. Some are sure he will ►►

lose. Some are scared to speak up—surprisingly, given Mr Trump’s habit of chastising named firms for making things in Mexico. Others are openly aghast. “We’d have to shut down,” says one manager. The effect on the region would be “horrif-

ic”, says Mark Cafferty, head of the San Diego Regional Economic Development Corporation, a trade body. Cristina Hermosillo, his counterpart from Tijuana, agrees. This month the *San Diego Union-Tribune*, a conservative daily, endorsed Hillary Clinton—the first time in 148 years that it has backed a Democrat for president.

Mr Trump has already hurt Mexico. “Integration has been put on hold for a year,” says Sarah Martínez Pelligrini of the College of the Northern Border in Tijuana. “Just the possibility of a Trump victory makes Mexico less attractive for foreign investors.” And Mrs Clinton, fighting off Mr Trump and Bernie Sanders, her Democratic primary rival, has grown more protectionist (at least, in public). So a trans-Pacific trade deal, which would boost both Mexico and the us, is on hold. On the plus side, by depressing the peso, Mr Trump has made remittances from Mexicans in the us more valuable. *Gracias, Señor Trump.* ■

Haiti after the hurricane

## Matthew’s fury

PORT-AU-PRINCE

The agony of natural disasters is deepened by human failure

THE scene is appallingly familiar: entire towns in ruins; thousands of people without food, water or shelter; clothes and belongings strewn across the landscape; the dead buried in mass graves. Nearly seven years after an earthquake wrecked Haiti, killing perhaps 200,000 people, disaster has struck again. This time it was wind and waves that brought devastation.

Hurricane Matthew made landfall close to Haiti’s westernmost point, ripping across the Grand’Anse region before heading back into the Caribbean. The town of Jérémie, home to about 30,000 people, has been largely destroyed; perhaps 1,000 people have died.

Like Jérémie, Baracoa in Cuba was devastated by Matthew’s winds of about 225kph (140mph). But unlike Jérémie, no deaths have been reported in Baracoa. Cuba’s communist government has a well-rehearsed drill. State-controlled media warn residents for days of approaching hurricanes; schools are closed and turned into shelters. State-owned buses are dispatched to evacuate residents. Local party snoops, known as the Committee for the Defence of the Revolution, with representatives on every block, make sure the elderly or infirm are not left behind.

In contrast with Cuba’s authoritarian state, Haiti’s government barely functions. The infrastructure is poor, with few solid buildings. Haiti’s media are chaotic. High ▶▶



Livelihoods blown away

### Niftier after NAFTA

US trade with Mexico



Source: Thomson Reuters

US-Canada trade

## The other neighbour

VANCOUVER

Ways to bring two cities closer together

UNLIKE San Diego and Tijuana, Seattle and Vancouver are both rich and speak the same language. But connections between Washington state’s commercial capital and Canada’s biggest western city are sparse. Professionals in Seattle have more contacts in Atlanta, across the continent, than in Vancouver, just 190km (118 miles) away, according to an analysis of LinkedIn data by the Boston Consulting Group (BCG). Vancouverites talk more to people in San Francisco than in Seattle.

Seeking to profit by doing more together, last month Washington state’s governor, Jay Inslee, and the premier of British Columbia, Christy Clark, agreed to create the “Cascadia Innovation Corridor”, named for the Cascade mountains that range up the Pacific coast of North America.

It is not a partnership of equals. The Seattle area hosts such behemoths as Microsoft, Amazon and Boeing; Vancouver’s biggest tech company is Telus, which provides telecoms services mainly in Canada. High-tech industry accounts for 22% of Washington’s GDP; its contribution to British Columbia’s smaller economy is just 7%. Venture-capital firms invest five times more in Seattle than they do in Vancouver.

But the Canadians are ambitious upstarts. Salaries for software engineers in Vancouver are about half what they are in Seattle (although property prices are higher). Business taxes are lower, too. Canada is

more open to foreign talent than the United States. Seattle’s tech giants have set up satellite offices in Vancouver. In June this year Microsoft opened its “Canada Excellence Centre”, a training and software-development office, doubling its workforce in Vancouver to 700. Microsoft’s co-founder, Bill Gates, has praised Canada’s “enlightened” immigration policies and “good, strong universities”.

Vancouver wants to be more than just a bargain bazaar for technology talent. Ms Clark talked of creating joint degree programmes and common curriculums between the universities of British Columbia and Washington. John Wenstrup of BCG thinks venture-capital firms in Seattle should finance more start-ups in Vancouver. “Both cities could benefit from a reduction in barriers for skilled workers to work and travel on both sides of the border,” he thinks. To that end, Mr Inslee is trying to persuade the us Congress and Canada’s Parliament to end the border-control stop on the Vancouver-Seattle train.

Visionaries have whizzier ideas for speeding up the journey, which can take three or four hours by car. One \$30 billion idea is for a bullet train, which could cut the journey of four hours to one. A cheaper proposal is for a special highway for driverless cars. Either would improve connections between neighbours that do not know each other as well as they should. ■



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▶ crime rates mean residents refuse to leave their homes unattended.

“We knew it was coming, but we didn’t know what to do,” says Alexis Bernard, a 22-year-old man, sitting in the ruins of his now roofless house in the hamlet of Torbeck. Haunted by the earthquake of 2010, he feared being buried under falling masonry. He and 12 other members of his family, including a baby girl, spent the worst hours of the storm in the open. They survived with only minor injuries.

Haiti’s interim president, Jocelerme Privert (elections to choose his successor were again postponed after the hurricane)

says his government did its best: “We undertook an extensive campaign to make people aware, to mobilise them, to alert them to move away from the zones at risk. Had we not undertaken this I fear we would be looking at a higher death toll.”

The aftermath of Matthew may prove even worse. Mr Privert has warned of the risk of “widespread famine”. The UN says 1.4m people need immediate assistance. One big worry is the spread of cholera, which the UN inadvertently brought to Haiti when Nepalese peacekeepers, infected with the disease, were deployed following the earthquake. About 10,000 Haitians

have died of cholera since then. Much of the water supply in the hurricane-struck region risks being contaminated.

Lewis Lucke, a former head of USAID in Haiti, notes another problem: unlike the earthquake, which destroyed buildings, the storm damaged fishing boats and agriculture. That leaves a large part of the country unable to fend for itself. Take Grand’Anse: it had recently been the source of some optimism, following the building of a new road and the arrival of mobile-phone coverage. Banana and cocoa plantations were beginning to flourish. Much of that has gone. ■

## Bello | Whether ’tis Nobeler in the mind

### Will the peace prize help to clinch a deal in Colombia?

THEY may be overrated and politicised, but Nobel peace prizes are still nice to have. Ask Juan Manuel Santos: on the evening of October 2nd, after Colombians had voted narrowly to reject the peace agreement his government had negotiated with the FARC guerrillas, he was contemplating the ruins not just of six years of work but also of his presidency. Five days later the Norwegian committee announced that Mr Santos had won this year’s peace award. It was a tonic; even Álvaro Uribe, his chief political foe and the inspirer of the No vote, offered guarded congratulations.

The prize underlines the gap in perception between outsiders and many Colombians. For the former, the agreement concluded in August, after two years of preliminary negotiations followed by four years of talks in Havana, represents a necessary compromise to end a costly internal conflict; it sets a new international benchmark for reconciling peace and justice. But for the latter, it treats the FARC too leniently. Guerrilla commanders guilty of war crimes who make a full confession to a special peace tribunal will avoid incarceration. Many Colombians want to see FARC leaders in jail, not in congress (as some could be). Mr Santos’s opponents accuse him of failing to hold out for tougher terms because of a desire to clinch peace (and, yes, the Nobel prize) before his term ends in 2018. Its award vindicates their cynicism.

The gap in perceptions reflects confusion over the nature of the peace talks. Many Colombians thought they would be about the terms of the FARC’s surrender. After all, Mr Uribe, president for eight years, and then Mr Santos (who had been his defence minister), had reduced the FARC from a peak of 20,000 troops to 5,800. Three of the guerrillas’ top com-



manders were killed in targeted attacks; the others could no longer feel safe.

By entering talks the FARC implicitly recognised that they could no longer win the war. But they view themselves as an undefeated army motivated by communist ideology, rather than as the drug-trafficking terrorists other Colombians perceived them to be. They were determined not to be the first guerrilla leaders to disarm in order to serve long prison sentences. And they wanted things they could claim as political conquests, such as a government commitment to land reform. But the FARC’s arrogant insistence on presenting the talks as being between two equally legitimate sides was a political mistake that made the agreement look more generous to them than it actually was—and made winning the plebiscite harder.

Salvaging Colombia’s peace will not be easy. The No campaign and the FARC will have to find common ground. Mr Uribe has adopted a conciliatory tone since the vote, even meeting Mr Santos for the first time in six years. On October 9th he set out the changes he wants to the peace agreement. Some echo what is already the gov-

ernment’s position—that the pace of rural development and land reform will take into account fiscal constraints, for example. Others are points on which, in light of the plebiscite, the government should press the FARC: Mr Uribe wants the “effective restrictions on liberty” that would apply to those who confess to war crimes to involve confinement, though not prison, and for these to be incompatible with a seat in congress. Harder to accommodate is Mr Uribe’s insistence that FARC leaders should be tried by Colombia’s supreme court, rather than by the special tribunal, the centrepiece of the agreement’s chapter on justice.

At least all sides are talking. On October 7th the government and the FARC agreed quickly to consider proposals for “adjustments and clarifications” to the agreement. While that happens, they will maintain the ceasefire (and the UN its mission to monitor both this and the guerrillas’ disarmament).

But time is short. Mr Uribe prefaced his proposals by calling for both “urgency” and “patience”. That suggests he may want to spin out the consultations so that they merge with the campaign for Colombia’s presidential election in 2018. It is hard to see the ceasefire holding until then. The start this month of peace talks with the ELN, a smaller guerrilla group, may also complicate matters.

Whether or not the government holds another plebiscite on a revised agreement, it is clear that peace requires a broader political accord. That is where the Nobel prize might just help. It is encouraging that 400 business leaders this week called for a “swift search for a definitive, inclusive and sustainable peace”. The world is watching Colombia, and thus Mr Uribe’s and the FARC’s next moves. But its attention span is short.



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## Nuclear energy in Japan

# Stop-start

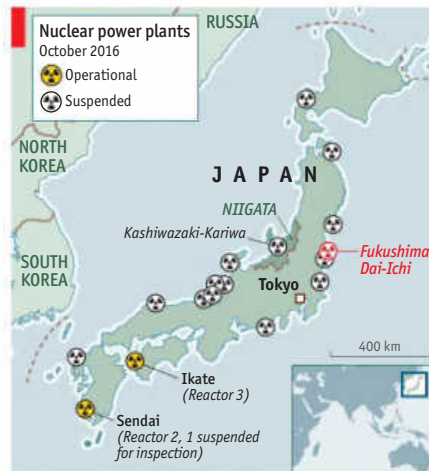
KASHIWAZAKI-KARIWA

**One plant illustrates the bleak outlook for the country's idle reactors**

THE Kashiwazaki-Kariwa nuclear plant, the world's largest, is a hub of activity. Its 6,619 employees dutifully clock on and off every day. Tokyo Electric Power Company (TEPCO), its owner, spent ¥606 billion (\$5.8 billion) last year maintaining it and its other nuclear plants. Yet Kashiwazaki-Kariwa has not generated a single watt of electricity since 2011, when it was shut down along with the rest of Japan's nuclear reactors after the Fukushima Dai-ichi nuclear accident.

TEPCO has applied to Japan's Nuclear Regulatory Authority (NRA) to restart two of the plant's seven reactors. But even if the regulators approve the request, politics may stymie it. On October 16th voters in Niigata, the prefecture in which Kashiwazaki-Kariwa is located, will elect a new governor. The two leading candidates have not been as vocally opposed to the restart as Hirohiko Izumida, the outgoing governor, but public opinion is strongly against.

Before the disaster, Japan had 54 working reactors. The six at Fukushima Dai-ichi (pictured) are to be decommissioned. Of the remaining 48, the NRA has received applications to restart 26. It has approved only eight of them so far, and just two reactors are currently operating (see map). A third is closed for maintenance. Local officials—who have some say over restarts—adverse court rulings and other glitches have held up the others. Meanwhile, an anti-nuclear governor is suing to get one of



the two working reactors shut down again.

Before the disaster, Japan got 25% of its electricity from nuclear plants. The government of the day was hoping to raise that to 50% by 2020. The present government hopes nuclear power will supply 20-22% of its electricity by 2030. But the slow progress on restarting mothballed plants is calling its plans into question. Nuclear plants currently supply less than 1% of Japan's electricity; few see that rising beyond 10% by 2030. "Nuclear's comeback will be modest and brief," predicts Robert Feldman of Morgan Stanley, a bank.

Concerns about public safety are understandably acute in one of the world's

most earthquake-prone countries. No deaths have been linked to the Fukushima Dai-ichi accident (though many fear that cancer rates will increase in future), but at least 150,000 were displaced from the vicinity of the plant, almost all of whom still live in temporary housing. (More than 15,000 people were killed by the earthquake and tsunami that led to the disaster.)

Regulators' authority has been hugely enhanced since the creation of the NRA in 2012. It has introduced a host of new safety requirements. TEPCO has spent ¥470 billion (\$4.6 billion) upgrading Kashiwazaki-Kariwa alone. Employees point to its many fail-safes: a 15-metre-high sea wall to protect it from tsunamis (the main cause of the Fukushima Dai-ichi meltdown), multiple backup power sources, scores of fire engines and a huge reservoir of cooling water. In one room, instructors watch as trainees respond to simulated emergencies. Today's involves turbine trouble.

Yet problems remain. Posters at Kashiwazaki-Kariwa encourage workers to adopt a "questioning attitude"—part of an attempt to change a culture of deference to authority. This is "a work in progress", says Dale Klein, a former head of America's nuclear regulator who now chairs TEPCO's safety commission. Mr Izumida argues that evacuation plans for people living close to the plant are inadequate. "It is unclear how we will get the 10,000 buses needed to transport the 440,000 people living in the vicinity of Kashiwazaki-Kariwa," he says. It doesn't help that responsibilities in an emergency are not clearly apportioned among the utilities, the central government and municipalities.

Anti-nuclear groups maintain that concerns over the financial health of Japan's utilities are playing too big a part in the government's decisions about nuclear power. They maintain that Japan can do without ►►

► nuclear by boosting the role of renewables. Energy demand is rising only modestly, since the population is shrinking and the country has become far more energy-efficient since the disaster. The American Council for an Energy-Efficient Economy, an NGO, ranks it as the second most frugal country in the world, after Germany.

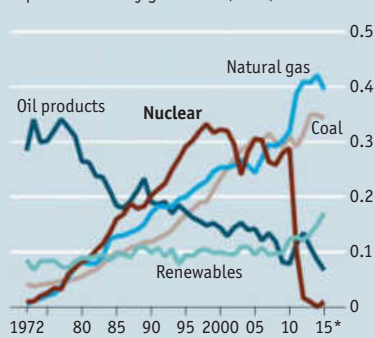
But the lack of nuclear power leaves Japan heavily dependent on imported energy, points out Jun Arima of the University of Tokyo. Before the disaster, imported fossil fuels accounted for 64% of the electricity it generated; now that share has risen to 82%, one of the highest among rich countries (see chart). Steady imports require good relations with the Middle East, a combustible region. The expense of importing more natural gas, the main substitute for the lost nuclear capacity, has prompted power prices to soar. That is unpopular with the public, and has contributed to a deteriorating trade balance.

The loss of nuclear generation has environmental consequences, too. Power plants that run on natural gas (and, worse, the old coal-fired plants that have been started up again to make up for the lack of nuclear power) emit far more greenhouse gases. Coal alone accounts for 31% of the country's total energy mix, compared with 25% in 2010; add in oil and natural gas, and the total contribution of fossil fuels has risen from 61% in 2010 to 85% today. All this makes it highly unlikely that Japan will meet its pledge to cut its carbon-dioxide emissions by 26% by 2030.

Moreover, even if Japan manages to restart a few more of its reactors, many of them are old. If restarting the current fleet is unpopular, building new ones would be toxic to many voters. And then there is the question of what to do with Monju, a fast-breeder reactor (one that generates more fuel than it consumes) which cost \$10 billion to build but has generated power for only one hour since its inauguration in 1995 owing to a series of accidents. Even if the government decommissions it, there will be no nuclear-power plants to consume the fuel it has already produced. ■

### Nuclear unpowered

Japan's electricity generation, TWh, '000



Source: International Energy Agency

\*Estimate

### Politics in Thailand

## Holding their breath

BANGKOK

The king's ill-health leaves a country on tenterhooks

**B**HUMIBOL ADULYADEJ, the 88-year-old king of Thailand, has been in poor health for so long that each fresh bout of illness seems scarcely newsworthy. But this week the palace announced that his health was “not stable”, instead of its usual practice of waiting for him to recover from whatever ailment had been troubling him before releasing any information about it. On October 12th the Bangkok stock exchange dropped by 7%, on rumours that his 70-year reign is coming to an end, whether by abdication, death or incapacity (which would allow the crown prince to be declared regent).

The jitters come just as the junta that has run the country since 2014 was beginning to get comfortable. Two months ago it engineered the approval of an authoritarian constitution through a flawed referendum. In theory, that started a countdown to fresh elections, presently scheduled for late 2017. But the death of the king, if it comes soon, would provide the generals with the perfect excuse to delay a new election. Indeed, the army's desire to secure an orderly royal handover seems to have been one of the reasons it took power in the first place.

In the meantime, the junta's toadies have continued to tinker with the text of the constitution, even after the voters signed off on it. One change concerns a proposal—lazily added as an additional question to the referendum ballot—to give senators selected by the junta a say in who becomes prime minister. The new text, finalised on October 11th, makes it much more likely that Thailand's next prime minister will be unelected.

Prayuth Chan-ocha, the junta leader, says he will probably not be the new prime minister. But that is getting harder to believe. Some loyalists serving in Mr Prayuth's present government plan to start a political party which will lobby to keep him in office (the new constitution's election rules will give such upstart outfits oomph). The junta anyway says it will retain authority throughout any period of post-election coalition-making, which in theory means it could install any prime minister it desires.

The junta is also tidying up loose ends, and putting opponents in their place. Last month a junta-appointed committee concluded that Yingluck Shinawatra, the prime minister whom the generals ousted in 2014, should be fined around \$1 billion



Hoping against hope

for enacting a costly rice-subsidy scheme while in office. (That dismayed some of her enemies, who say the fine is far too low.) The ruling was issued even though Ms Yingluck is still undergoing trial for alleged negligence in connection to the rice scheme, at a risk of ten years in jail.

Many others are also being put in their place. In early October immigration authorities denied entry to Joshua Wong, the teenage leader of Hong Kong's pro-democracy “Umbrella Movement”, who had been invited to address students in Bangkok. In recent weeks the government has threatened to arrest authors of an Amnesty International report which details allegations of torture by the military, and launched a sedition case against a well-known human-rights lawyer.

Meanwhile the government has been deflecting claims of corruption within its own ranks. It has had to defend the deputy prime minister's decision to charter a jumbo jet to whizz 40 or so people to an international summit in Hawaii (the total bill came to \$588,000, including \$17,000 for catering). When journalists noted that a construction company associated with Mr Prayuth's nephew had won several sizeable army contracts, officials warned that they would scour social media to identify people who accused the prime minister of wrongdoing.

The junta is not thought to be held in great esteem by voters; such incidents further dent its standing. Crown Prince Maha Vajiralongkorn is even more unpopular. The army's machinations should ensure that the succession, whenever it comes, passes without great drama, at least in the short term. But inept generals ruling in the name of a little-loved king is hardly a formula for stability. ■

## Booming Bangladesh

## Tiger in the night

DHAKA

**Bangladesh's economy is on a roll, even as its democracy weakens**

THE last time a Chinese president visited Bangladesh, back in 1986, things were rather different. For one thing, he did not carry \$40 billion in his pocket. This is the sum that government sources say Xi Jinping, China's current leader, is bringing for a day-long stopover on October 14th, on his way to a summit of big developing countries in the Indian resort of Goa. Admittedly, the windfall will come in the form of loans for some 21 infrastructure projects including elevated expressways, railroads, bridges and power plants. But it is welcome all the same.

Bangladesh, too, has changed a lot in 30 years. Even if its 160m people remain mostly poor, the country can no longer be dismissed as "the armpit of India". Its GDP is growing by 7% a year, as fast as China's, and by some social indicators it has overtaken its giant neighbour India. With a booming garment industry that now ranks second only to China's in exports, plus some 10m diligent overseas workers sending money home, Bangladesh has enjoyed current-account surpluses for all but one of the past ten years.

It helps that Bangladesh has other suitors just now. Japan recently gazumped China's offer to build a new seaport, with a \$6.7 billion project that includes a liquefied-natural-gas terminal and four coal-fired power plants. In July Russia promised \$11.4 billion in loans towards a pair of nuclear reactors. Earlier this year India, which is already supplying Bangladesh with power from its grid, agreed to finance another big coal-fired power plant to the tune of \$1.5 billion. Multilateral institutions such as the Asian Development Bank and World Bank have also upped their aid.

This is not to say that Sheikh Hasina, the prime minister, will be deaf to China's overtures. Despite its recent rude health, Bangladesh's economy still needs all the help it can get. As even the briefest exposure to Dhaka's cacophonous parade of tinkling cycle rickshaws, tooting three-wheelers and honking SUVs reveals, this is a country of bottlenecks.

Traffic relief for the capital city's 17m people—who, the UN predicts, will number 27m by 2030—will not come soon. There are no plans at present for any mass-transit system, and the first of three phases of a cross-city expressway is not due to open until 2018.

By the same token, some 13m Bangladeshi households currently go without



electricity. Even with all the added power from aid-funded plants, the country may still face future energy shortages. A recent report from the ADB suggests it will need to triple generating capacity by 2030 to meet expected demand, and warns that it must not only build new plants but replace ageing ones.

Yet perhaps the biggest bottlenecks are

## Myanmar's Muslims

## Sparks near tinder

YANGON

**Fears of communal violence spread in Rakhine State**

NINE police officers were killed early on October 9th in a series of apparently co-ordinated attacks on border-guard posts in the troubled state of Rakhine in Myanmar's west. The attackers were armed with knives, slingshots and only a few guns—and reportedly made off with dozens more guns and thousands of bullets. The Buddhist majority in Rakhine has long oppressed the state's Muslim Rohingyas. Now the victims may be starting to fight back.

Nobody has yet claimed responsibility, but police say the attackers—at least two of whom were captured and eight killed—were Rohingyas. One local official blamed the Rohingya Solidarity Organisation, a militant group that has been dormant for decades. The two who were detained reportedly told authorities that they planned the raids with fellow locals.

The central government's response has been reasonably level-headed. On the same day it held a press conference to appeal for caution and restraint. Two days later it dispatched high-ranking officials to talk to local leaders in the Muslim-majority townships where the attacks took place. Aung San Suu Kyi, the country's de facto leader, did not cast blame, but reiterated her commitment to "peace and stability". "Rakhine State's problem is Myanmar's problem," said the information minister.

not physical but political. Sheikh Hasina's Awami League party has been in power since 2009, and faces a weakened opposition in the run-up to general elections scheduled for 2019. This does not mean it is popular, however. Most of the opposition boycotted the last national polls in 2014, which took place amid widespread violence and resulted in what is virtually a one-party parliament. While international attention has focused on a string of gory killings by Islamist radicals, culminating in the attack on a posh restaurant in Dhaka in July that left 20 mostly foreign patrons dead, what worries Bangladeshis more is what many perceive as a broader collapse of the rule of law.

Despite considerable turbulence since breaking from Pakistan following a bloody war in 1971, Bangladesh has a tradition of respect for dissent. This has eroded in recent years as the Awami League, which itself had been a victim of previous purges, has turned on its rivals with a vengeance. "The media are controlled, the judiciary is controlled, and the police are even more

Since the attacks in northern Rakhine, however, clashes have broken out there leaving at least a dozen people dead—including unarmed civilians, according to locals. The government has beefed up an already heavy military presence. Some worry that the stolen guns will be used in future attacks on security forces, or that in trying to retrieve the weapons, the police will target innocents.

By far the biggest concern is that unrest could spread, as it did in 2012, when communal violence between Buddhists and Muslims killed scores and displaced tens of thousands. Many outside Myanmar have criticised Miss Suu Kyi for failing to speak up for the Rohingyas. Anti-Muslim sentiment runs deep among the Burman Buddhist majority. Wirathu, a virulently nationalist monk and master of social media, posted a video on his Facebook page this week that he claims shows the attackers calling for Rohingyas to join the *jihad*.

In August Miss Suu Kyi invited Kofi Annan, a former UN secretary-general, to head a commission investigating human-rights abuses in Rakhine. Buddhist nationalists protested, and the Rakhine parliament passed a resolution condemning the commission. But as this week's events have shown, efforts to bring about a just and durable peace in Rakhine are more urgent than ever.

enthusiastic than their masters,” says Fakhurul Islam Alamgir, the secretary-general of the Bangladesh National Party, the largest opposition group. Aside from extrajudicial killings and disappearances targeting Islamists and other dissidents, the ruling party has instigated a crippling barrage of lawsuits—some 37,000 against the BNP alone. “I spend four days a week attending court hearings, and two hours stuck in traffic for every one,” grumbles Mr Alamgir.

Perhaps, like previous generations of Asian tigers, Bangladesh will endure a spell of autocracy before its politics become more democratic. But in the meantime, as the head of one Dhaka NGO says with a shake of the head, the country is walking a tightrope: “It is a dangerous thing when people have no vehicle to express their unhappiness.” ■

### Graft-busting in South Korea

## Trick or treat

SEOUL

**A new law clamps down on officials who accept gifts**

A JOURNALIST, a public servant and a beggar walk into a bar, runs a South Korean joke. Who ends up paying for the drinks? The beggar. The quip illustrates the expectations surrounding *jeopdae*, a widespread form of business entertainment in South Korea in which firms lavish generous hospitality not only on clients but also on reporters and public officials.

Weekend rounds of golf, posh dinners and nights on the town—from karaoke bars to hostess clubs called “room salons” that offer sex for money—have long been a staple of conducting business. Good relations with the bureaucracy are seen as essential to success in business, a legacy of South Korea’s state-centred economic development in the 1960s and 1970s. Local etiquette also creates a sense of obligation among relatives (however distant), former schoolmates or even people from the same home town, another source of bonhomie. Last year 591,000 companies spent 10 trillion won (\$9 billion) on entertainment, according to the National Tax Service.

But the distinction between courtesy and bribery can be fuzzy. Now the government wants to put a stop to *jeopdae*: last month it introduced strict new limits on the favours and benefits that can be asked for or given to 4m public officials, teachers and journalists (on the basis that their work too is in the public interest). The new anti-corruption law does away with the need to prove an explicit link between a gift and a favour, which had often stumped prosecutors. It considers some requests to

officials, such as asking for help securing a licence or getting a fine waived, to be automatically criminal, even without any obvious inducement. Receiving any benefits, whether money, meals or memberships, is banned above set limits: up to 30,000 won for dining and 50,000 won for presents (up to 100,000 won at weddings and funerals). Both the giver and the receiver can be prosecuted. Gifts to a spouse are considered no different from those received directly. Fines and jail time await wrongdoers.

Seven in ten South Koreans support the new rules, popularly known as the “Kim Young-ran act” after the former head of the state’s anti-corruption body, who drafted the new law in 2012. It had languished in parliament until the fatal overloading of a ferry in 2014 prompted outrage over cosy ties between businessmen and bureaucrats, which were thought to have contributed to the disaster.

According to a government poll conducted in 2014, 70% of respondents said they had no trust in either the civil service or the courts. Though South Korea is Asia’s fourth-largest economy and a healthy democracy, it ranks 27th out of 34 rich countries in an index of perceived levels of corruption compiled by Transparency International, a pressure group. In January a former prime minister, who stepped down last year, was charged with accepting illegal campaign funds from a businessman; in August a chief editor at *Chosun Ilbo*, the country’s biggest daily newspaper, was fired over allegations that DSME, a local shipbuilder, had provided him with a luxury trip in return for positive coverage.

The law amounts to a revolution in local business culture. Officials and journalists are being encouraged to “go Dutch” on bills, hitherto a cultural no-no; restaurants have devised special menus that squeak under the new spending limit. Lawyers are advising companies to exercise extreme caution until prosecutors set a few prece-

dents, says an executive in charge of government and press relations at a large conglomerate. No one wants to be a test case. He has cancelled all dinners and golf outings with journalists or officials (green fees are typically 250,000 won a head) until the end of the year.

At Hyundai Card, part of the Hyundai Group, screensavers quiz employees on the law, with pop-ups that do not go away until answered correctly. Staff must sign written pledges to abide by the act. CJ, a food and entertainment firm, has swapped all of its corporate credit cards for “clean” ones. These, introduced to the public sector in 2005, block payments at lavish or shady venues, such as nightclubs, massage parlours, casinos and room salons.

But once the initial caution subsides, the law’s success will depend on public reporting, says Lee Sung-bo, formerly head of the anti-corruption agency. Already private institutes are offering courses to a fleet of amateur detectives, known as “ranparazzi”, to instruct them on hunting for discarded receipts and filming deviant officials with hidden cameras, for rewards of up to 200m won.

The worry is that high-level bribes will continue, hidden by money-launderers. Chung Jae-won of Kookmin University in Seoul says that the law’s woolliness means it might apply differently to those in power. He notes that local media have reported on low-level graft involving lunches and gifts, but not the darker room-salon culture controlled by cartels “at the core of high-level bribery”. Outing the most toxic deals at big secretive firms will depend on insiders, not scrappy “ranparazzi”.

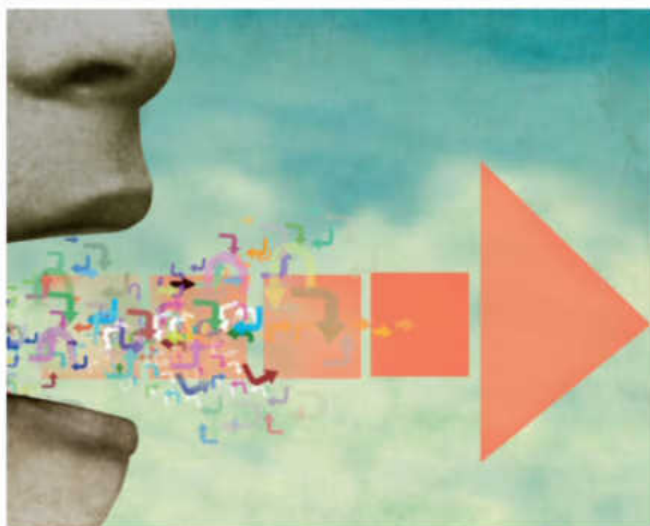
Much will depend, too, on how police and prosecutors apply the law. They themselves are not immune to influence: in July a prosecutor was arrested on charges of receiving millions of dollars in shares and cash from the founder of Nexon, South Korea’s biggest online-gaming firm. ■



Split the bill or go to jail

# Banyan | Let not a billion tongues bloom

It is becoming widely spoken around the world, but Mandarin is contentious at home



LAST year a parody video appeared in China making fun of an lawful shampoo commercial featuring Jackie Chan. In both versions, the martial-arts star uses the word *duang* to describe bouncy hair; in the spoof he keeps repeating the syllable, before suggesting the product is fake.

Thanks to the video, Mr Chan's neologism (best translated as "boing") set off a storm of online metalinguistic analysis, as David Moser describes in his monograph on the Chinese language, "A Billion Voices". Which of the four tones in Mandarin should the new word be assigned? Was it even Mandarin, given that *duang*, though pronounceable in that language, is not part of its standard phonology? After all, Mr Chan is from Hong Kong, where Cantonese is the native tongue. And then how should it be written? Netizens took the two characters of Mr Chan's stage name, Cheng ("become" or "accomplish") and Long ("dragon"), and stacked them one above the other to create a new character. Brilliant. Yet it bred another problem. Two written forms exist in the Chinese-speaking world. In the 1950s the mainland adopted a "simplified" system (all things are relative). But in Hong Kong and Taiwan, the traditional, "complex" characters are still used. Before you could say *duang*, Mr Moser relates, a complex version of the character sprang up online, too.

The episode reflected a struggle with language that has plagued Chinese reformers for over a century. When a republic was declared in 1912, there was no common spoken language in China. Yes, imperial officials had communicated in a tongue used by the elites in Beijing. But the rest of the vast country was linguistically fractured. Experts today identify half a dozen mutually unintelligible language groups spoken by Han Chinese, along with hundreds of dialects. (And that is before considering the languages of Tibetans, Uighurs, Mongols and many other non-Han peoples.) The lack of a common tongue has always seemed to threaten the daunting project of nation-building. Even to refer to different Chinese "languages" remains taboo—they must be "dialects", or risk undermining the hallowed notion of "one China".

The first committee to create a standard Chinese was convened in 1913. Many meetings later the choice fell on the Beijing vernacular as the basis. After they seized power in 1949, Mao and his fellow guerrillas (despite hailing from far-flung regions) re-

tained this form, calling it *putonghua*, or "common language". His enemies in Taiwan did so too, even though the island's own dialects are very different from Beijing's. Faraway Singapore adopted it as one of its "mother tongues".

Mandarin is now challenging English as the most used language in the world. Yet for all that, it is artificial, with a built-by-committee feel—the vocabulary, grammar and even accent of the Beijing dialect have all been sanitised. Its spread across China is backed by coercion, its use enshrined in the constitution. In 2000 a law signed by the then-president, Jiang Zemin (a heavily accented speaker), linked *putonghua* to state sovereignty and socialist progress. Since the mid-1990s teachers as well as broadcasters have had to sit proficiency tests—presenters are fined for using the wrong tone. Even though Mao from Hunan and Deng Xiaoping from Sichuan had famously thick accents, edicts used to assert that actors should portray the Communist greats speaking *putonghua* (imagine Lyndon Johnson with the accent of an NPR presenter). The rules are now only a bit more relaxed.

Yet when loopholes allow local dialects on air, such as in traditional opera, they are exploited. In the lucrative children's market, "Tom and Jerry" was dubbed into the Shaanxi, Henan, Hubei and Shanghai dialects until banned—a cat-and-mouse game between local outlets and the regulator, as Mr Moser puts it.

And while many local Chinese dialects and languages—Hakka, for instance—are losing ground in the face of a pro-*putonghua* policy, others have the scale and prestige to hold their own. In 2010 in Guangdong, which has 60m Cantonese speakers, thousands took to the streets over a proposal to cut Cantonese from broadcasts. In Shanghai popular comedians help stem the decline in the use of Shanghaiese. And exploding social-media use gives flabby dialects needed exercise. Hip-hop is recorded in the Chongqing and Changsha tongues. Fans even got together to record "Let It Go", a song from "Frozen", a Disney blockbuster, in 25 dialects other than Mandarin.

Some bureaucrats, recognising the tragedy of losing local variants, now urge their protection, along with endangered languages of minority ethnic groups. Last month an education-ministry official opined that learning Mandarin didn't have to be at the expense of dialects, and that studying multiple languages could even be good for children's development.

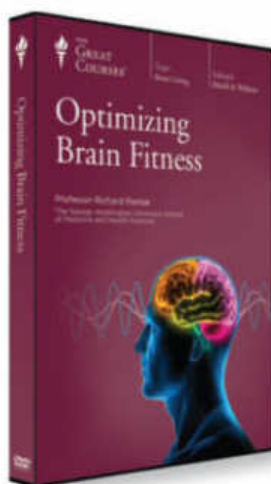
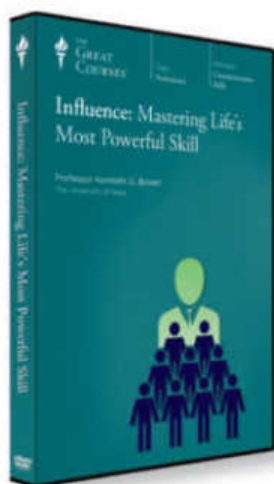
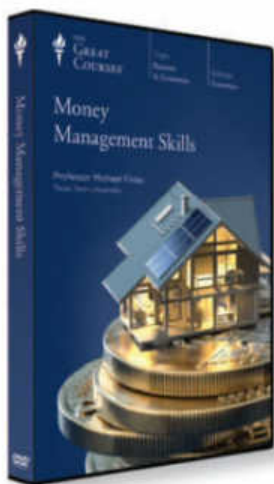
## A new rival?

As for Mandarin itself, the once-artificial construct is now showing signs of becoming a living, protean thing—witness the fun around *duang*. That speaks to its success. But its shortfalls are also striking. The education ministry says that 30% of the population in 2014, or roughly 400m, still could not speak standardised Mandarin, while only a tenth of those who could spoke it properly.

Meanwhile, Mandarin's supremacy is still being challenged, above all in Hong Kong. There, resentment at the spreading use of *putonghua* is growing. Indeed, since protests two years ago—partly in defence of a local Hong Kong identity in the face of mainland rule—Jette Hansen Edwards of the Chinese University of Hong Kong reports a sharp increase in the number of Hong Kong people who believe the local form of English, jokingly called "Kongish", is a unique variety. In other words Hong Kong English appears to be turning into another dialect spoken by Chinese—a means of asserting a separate identity from the mainland. As Mr Moser says, a shared language does not imply a shared vision. China's quest for national unity has a lot further to go. ■



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**Hong Kong politics**

## No swearing

HONG KONG

**China is snubbed at the swearing-in of Hong Kong's legislators**

**W**ATCHED from Beijing, where the national parliament never shows a glimmer of disloyalty to the Communist Party and its members usually rubber-stamp any bill, the swearing-in of Hong Kong's recently chosen legislators on October 12th must have been unnerving. Even by the standards of Hong Kong's far more querulous politics, the scene was striking. One legislator (pictured) draped himself in a banner saying "Hong Kong is not China" and crossed his fingers as he delivered the oath, which includes words that make clear the territory is part of it. Two others pronounced China in a derogatory way used by Japanese in imperial days. During the chaotic ceremony, the three were declared unqualified to take up their posts. Hong Kong's legislature has entered a rocky new relationship with the central government that will fuel political tension in the territory.

The authorities in Beijing knew that such displays were likely. In elections for the Legislative Council (usually called Legco) that were held on September 4th, six people gained seats in the 70-member body who belong to a new political force known as "localists". They say Hong Kong people should be allowed to decide what sort of relationship the territory has with China (they had no say in the matter when Britain handed Hong Kong over to China in 1997). As the banner sported during the

swearing-in suggested, some localists are sympathetic with the idea of independence. A handful of the newly elected legislators said they would reflect this during the ceremony, either by adjusting the words of the oath or through other actions.

On the eve of the swearing-in, Hong Kong's government (which sticks closely to the Communist Party's line on such matters) issued an unprecedented warning that failure to take the oath in "a manner or form" consistent with the law would result in disqualification. It asked legislators to behave in an "orderly" way at the ceremony to allow Legco business to "commence without delay".

**As they mean to go on**

With 40 seats in the new legislature, government supporters have a majority (helped by a voting system that skews the outcome in favour of pro-establishment politicians; see story on next page). But members of the pro-democracy minority, including the radical localists, clearly paid little heed to the last-minute attempt to keep them in line. One of them, Raymond Chan, tore up a copy of the warning before reading his oath in the harbour-front Legco building. The government, he said, had no right to interfere in Legco's affairs.

Despite his gesture, Mr Chan's oath was accepted by the clerk. Others, too, managed to get away with making anti-govern-

ment statements before or after their oaths. One called for universal suffrage. Another recalled the Umbrella Movement of 2014, when thousands of Hong Kong residents blocked streets in busy commercial areas for 11 weeks to press their demands for full democracy in the territory (China's parliament had ruled that the public could choose Hong Kong's leader, but only from among candidates vetted by a committee packed with the party's supporters). "We will put up resistance. We are back," he said, jabbing his fist in the air. Two of those who failed to pass muster were localists. One was Sixtus Leung, the legislator who crossed his fingers. Another was Yau Wai-ching, who, like Mr Leung, began her oath by swearing allegiance to the "Hong Kong nation". Also disqualified was Edward Yiu, who swore in his oath to "fight for genuine universal suffrage".

It is not yet clear whether the three politicians will be barred permanently from taking up their seats. They were, however, excluded from the first item of business: electing Legco's president. The winner was a pro-government candidate, Andrew Leung, but only after a stormy session in which legislators raised questions about his nationality and right to residency abroad (he has held British citizenship, but says he has given it up). Pro-democracy members tore up their ballots and left the chamber in protest.

The government in Beijing made its views clear in editorials that were published the day before the ceremony in newspapers in Hong Kong that it controls: *Wen Wei Po* and *Ta Kung Pao*. Both warned that if court battles ensue between disbarred legislators and the government, and the courts cannot decide whether their oaths meet the requirements of Hong Kong's constitution, then China's parlia- ▶▶

ment, the National People's Congress, will adjudicate. Such an intervention would create a furore in Hong Kong, which prides itself on the independence of its judiciary.

It may also play into the hands of the localists, who took 19% of the vote in September's elections—largely thanks to support from young people worried by what they see as the mainland's growing control over the territory. Localism barely existed as a political force until the Umbrella Movement ended, having failed to extract any promises of full democracy.

Hong Kong's courts will soon be grappling with other politically sensitive cases involving several people who were barred from standing in the recent elections because of their pro-independence views. At least one such challenge has already been filed. But the editorial in *Ta Kung Pao* said that no one should “underestimate the resolve and confidence of the central [authorities] in eliminating separatism”. The stage is set for growing antagonism between the party and the territory's increasingly feisty politicians. ■

## A policeman's lot

# Not happy

BEIJING

## In a police state, cops are disgruntled

IN THE southern province of Fujian last year, a 43-year-old police officer shot himself in the dormitory of the station where he worked. His suicide note said that he could no longer cope with the pressure of his job. Wang Kun, a 24-year-old rookie in the same province, understands what he went through. “What really gets me,” he says, “are the long hours and lack of sleep. People don't understand what we do and often think we're out to get them. The pressure is huge.”

Such stresses are common across China, according to a new study by Suzanne Scoggins and Kevin O'Brien at the University of California, Berkeley. They argue that

a policeman's lot is “filled with uncertainty, hardship and feelings of powerlessness”. The authors conclude that one must “rethink the image” of the much-disliked police in China's authoritarian state.

Heavy caseloads, administrative drudgery and low pay are constant grievances. “At the *paichusuo* [local police station] I sometimes go 36 hours without rest,” says a junior officer in Shaanxi province in the west. “My girlfriend wishes I had never become a policeman.” Police are supposed to respond to every request (in party-speak they are the “people's police”). One who worked in a rural part of Hunan province in the south says he has looked for stray cows in the middle of the night and helped people who had forgotten their online passwords.

As cops move up the pecking order, their gripes change. A supervisor in Hunan grumbles about interference by political appointees. “We know what needs to be changed but [the leaders] don't listen. They have no experience.” An officer in Shaanxi complains that colleagues over 50 find it hard to get training. “We old guys get left behind.” Another officer in Hebei, a province surrounding Beijing, recounts police lore about the old days when citizens were more in awe of the law. “In the 1980s,” he says, “one officer could catch ten bad guys by walking into a restaurant and yelling ‘Stop!’ These days it takes ten of us to catch a single criminal.”

Low morale has consequences. Like disgruntled workers everywhere, China's police goof off. Patrol cars filled with somnolent officers are a common sight. Many police are also corrupt. Few respondents in the survey were willing to talk about this. But one detective described some of the gifts he took, only for his wife to protest: “His colleagues accepted far more! We wouldn't have been so poor... if he had been truly corrupt.”

China's public-security services are not among the world's more transparent organisations. The researchers nevertheless managed to study them through long interviews with 31 serving or newly retired police. This is a tiny sample but the method enabled the researchers to drill down into the officers' daily lives. Their conclusions are consistent with research by Chinese academics. A study last year in the *Journal of Shandong Police College* found that 16% of officers in the province showed signs of depression or other mental-health problems.

China's domestic security services are vast. There are 2m policemen and women and their *esprit de corps* matters. They are still capable of suppressing political dissent when the party orders them to. But the party also needs day-to-day maintenance of law and order. An aggrieved, overburdened police force does not seem the best way of ensuring this. Unhappy police make for an unhappy police state. ■

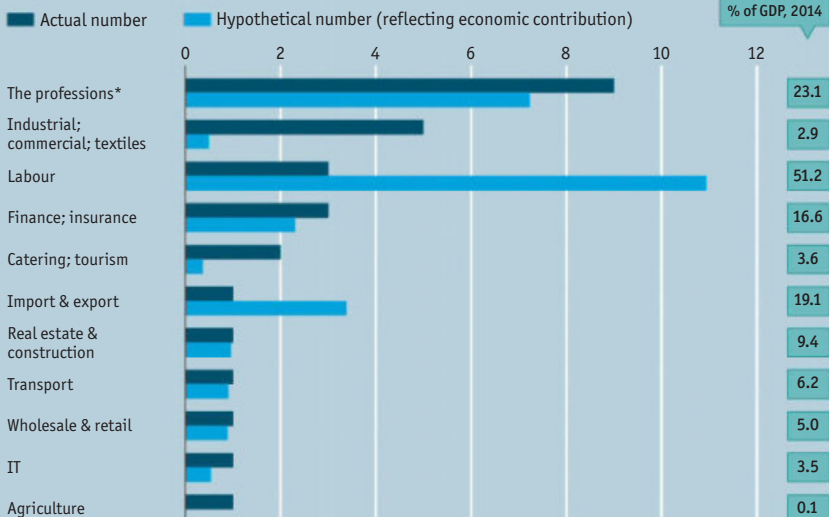
## Dysfunctional constituencies

Of the 70 members of Hong Kong's Legislative Council, half represent “functional constituencies”, composed mostly of local industries, professions, trade unions and other interest groups. These constituencies date back to 1985, when Hong Kong's British rulers, in a fit of amateur sociology, decided to give political voice to “major sectors of the community [with] common social, economic and occupational interests”.

They are not representative in any democratic sense. Nor can they even claim to reflect Hong Kong's evolving economy. Agriculture and fisheries, for example, now accounts for less than 0.1% of Hong Kong's GDP, but still has a seat. Labour provides over half of Hong Kong's output if the professions are included, or over a third if not. (The best proxy for labour's contribution is the share of national income paid in wages.) But it has only three seats.

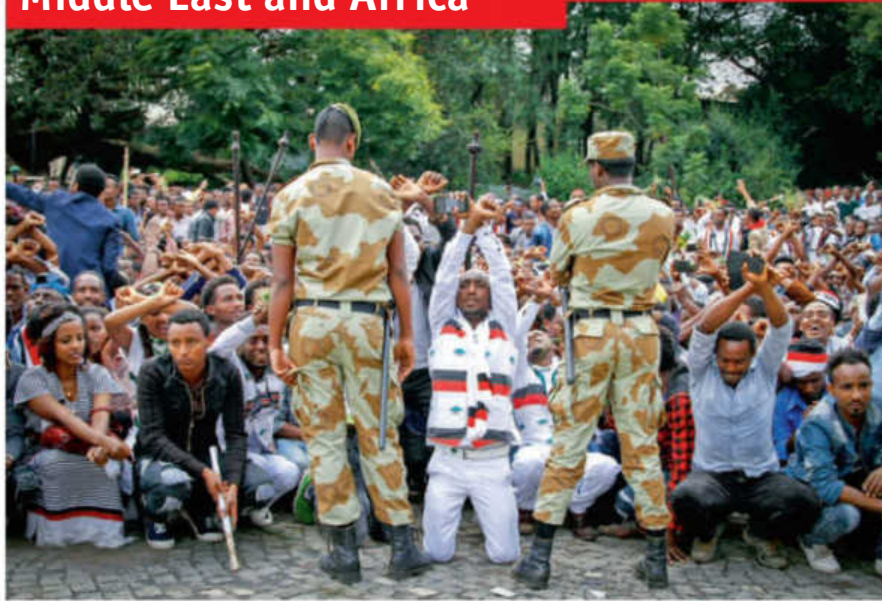
A more rational allocation of seats would reflect each constituency's economic contribution, as measured by profits, wages or both. That is not easy to calculate, given Hong Kong's coarse statistics, and such a distribution of political power would be no more democratic. But it would be a little less idiosyncratic.

### Functional-constituency seats in Hong Kong's Legislative Council



Sources: Hong Kong Census and Statistics Department; *The Economist*

\*Accountancy; architectural; education; engineering; health; legal; medical; social welfare; sports & arts



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## Ethiopia

# The downside of authoritarian development

Once a darling of investors and development economists, repressive Ethiopia is sliding toward chaos

IT WAS meant to have been a time for celebration. When on October 5th the Ethiopian government unveiled the country's new \$3.4 billion railway line connecting the capital, Addis Ababa, to Djibouti, on the Red Sea, it was intended to be a shiny advertisement for the government's ambitious strategy for development and infrastructure: state-led, Chinese-backed, with a large dollop of public cash. But instead foreign dignitaries found themselves in a country on edge.

Just three days earlier, a stampede at a religious festival in Bishoftu, a town south of the capital, had resulted in at least 52 deaths. Mass protests followed. Opposition leaders blamed the fatalities on federal security forces that arrived to police anti-government demonstrations accompanying the event. Some called the incident a "massacre", claiming far higher numbers of dead than officials admitted. Unrest billowed across the country.

On October 8th, a week after the tragedy at Bishoftu, the ruling Ethiopian People's Revolutionary Democratic Front (EPRDF) announced a six-month state of emergency, the first of its kind since the former rebel movement seized power in 1991. The trigger was not clear: violent clashes between police and armed gangs, and attacks on foreign-owned companies, had been flaring across the country for several days (and have occurred sporadically for months) but seemed to have plateaued by the weekend. On October 4th an Ameri-



can woman was killed while travelling outside the capital. Protesters have blocked several roads leading in and out.

One factor in the government's decision was a spate of attacks on holiday lodges at Lake Langano, and on Turkish textile factories in Sebeta, both in the restive Oromia region south of the capital, on October 5th. The attackers were well-organised and armed, some of them reportedly mounted on motorbikes. These acts, officials suggest, were the final straw.

The government is rattled by the prospect of capital flight. An American-owned flower farm recently pulled out, and it fears others may follow. After almost a week of silence, the state-of-emergency law was a belated attempt to reassure foreign investors, who have hitherto been impressed by the economy's rapid growth, that the gov-

ernment has security under control.

A calm of sorts now prevails. On October 10th parliament, which since last year's elections has been entirely populated by members of the EPRDF and its allies, predictably rubber-stamped the decree, which provides for sweeping powers of arrest and a draconian ban on free assembly and expression. The prime minister, Hailemariam Desalegn, was confident enough to attend to diplomatic pleasantries. Germany's chancellor, Angela Merkel, arrived in the capital the following day to talk about refugee flows from the region. Mobile internet access, which the government blocked in order to disrupt the protests, flickers occasionally and feebly back to life. The hustle and bustle of Addis Ababa continue as before, though an uneasy silence has settled across towns like Bahir Dar in the Amhara region where strikes have emptied the streets for weeks. In Addis Ababa, at least, a mood of resignation has taken hold. Better dictatorship than civil war, residents shrug.

Still, the future is troubling. Over 500 people have been killed since last November, and tens of thousands have been detained. What began nearly a year ago as an isolated incidence of popular mobilisation among the Oromo people, who make up at least a third of the population and opposed a since-shelved plan to expand Addis Ababa into their farmland, has spread. It is now a nationwide revolt against the authoritarianism of the EPRDF and the perceived favouritism shown to a capital whose breakneck development appears to be leaving the rest of the country behind.

The young are frustrated. They feel that growth has yet to bring the broader prosperity promised by the government in return for their political obedience. Thanks in large part to foreign aid, expansive public spending supported by Chinese loans and an uptick (from a very low base) in for- ▶▶

Foreign investment, Ethiopia was Africa's fastest growing economy in 2015—a remarkable feat for a still largely agrarian country. But the expectations of an increasingly educated population have grown even faster. Despite big strides, a third of Ethiopians, who now number nearly 100m, still live on less than \$1.90 a day.

The Oromos are not the only ones with grievances. Many others have been driven off their land to make way for commercial farms and factories. And the Amharans, who have historically been Ethiopia's dominant ethnic group, resent the leadership of the much smaller Tigrayan group (who make up around 6% of the population) at the heart of the ruling EPRDF. The comparative quiescence of Addis Ababa's citizens has further fuelled resentment. Angry farmers in parts of the country have been choking the movement of goods towards the city. The opposition calls for political prisoners (who are reckoned to number in the thousands) to be freed, but the government is in no mood to oblige. However, on October 10th the president promised to introduce some form of proportional representation in elections, which would allow all groups a share of power.

Tinkering is unlikely to be enough. The EPRDF has weathered storms before. Civil strife after disputed elections in 2005 resulted in at least 193 deaths and many thousands of arrests. This time Ethiopians are calling just as fiercely for regime change, and not just reform. Ethiopia, until recently a darling of Western donors and security hawks alike, is edging closer to the brink. ■

### Agriculture and climate

## Fertile discussion

MARRAKESH

**More productive African farms could help both people and planet**

SINCE the 1960s farm production has risen fourfold in Africa. But the continent still lags far behind the gains seen in South America and Asia. The extra food has appeared largely because more land has been planted or grazed, rather than because crop yields have improved. Instead, poor farming methods progressively deplete nutrients from soils; almost all arable land in Africa lacks irrigation, for example. This is a particular problem in a continent whose population is set to double by 2050 and which faces regular droughts, floods and heatwaves.

The world is already 1°C warmer than it was in pre-industrial times. As it heats further, weather cycles are set to speed up, leaving wet parts of the world wetter, and dry parts drier. At either end of the scale,



Organic, locally sourced and woefully inefficient

extreme weather events will probably intensify. By 2050, even if temperature rise is successfully limited to 2°C, crop yields could slump by a fifth. The costs of climate change already come each year to 1.5% of the continent's GDP, according to the European Commission, and adapting to it will cost another 3% each year until 2030. This is in spite of the fact that, overall, Africa is responsible for just 4% of global emissions annually.

Morocco is a prime place to discuss such issues. Not only is it hosting the next round of UN climate negotiations in November, it is also one of the world's largest producers of phosphorus (a raw material used to make fertiliser). This is particularly important given that according to the UN's Food and Agriculture Organisation, 124kg of artificial fertiliser is used worldwide per hectare of farmland on average each year, while in Africa the amount used is just 15kg. Getting hold of the stuff is a challenge throughout the continent, especially when crooked officials pocket subsidies for it. But high transport costs along potholed roads also help make fertiliser up to 50% more expensive in Tanzania and 80% more expensive in Mali than in Thailand, according to Amit Roy, formerly of the International Fertiliser Development Centre, an American charity which supports better farming practices.

Fertiliser is fantastically important. Boosting the productivity of Africa's lands is not only necessary for feeding larger populations, but also a possible means of reducing emissions. Currently vast areas are cleared for new fields because too little grows in existing ones. But reducing deforestation in Africa by just a tenth would be equivalent to cutting a year's worth of Brazil's emissions, says Mostafa Terrab, head of the OCP Group, a huge Moroccan phosphate firm. (Cynics may well say that he

has an interest in encouraging more people to buy fertiliser.) His company is dedicating a 1m-tonne fertiliser unit specifically to African customers.

Well-nourished soils are better at absorbing carbon dioxide rather than allowing it to enter the atmosphere. But the continent's over-grazed, over-used soil currently means Africa only stores 175 gigatonnes of carbon each year of the 1,500 gigatonnes stored in the world's soils. Smarter farming could change all that. But as is so often the case in Africa, the road to modernisation is full of potholes. ■

### Yemen

## Deaths at a funeral

CAIRO

**The carnage in Yemen is finally attracting the world's attention**

OVER 9,000 people have died in Yemen since Shia rebels, the Houthis, forced the government into exile, prompting a Saudi-led military intervention in March 2015. Some 3m people have been displaced. Cholera has struck Sana'a, the capital, and the threat of famine looms. Yet the suffering in the Arab world's poorest country has been overshadowed by the far bloodier conflict in Syria.

That changed on October 8th, when two missiles, probably from Saudi aircraft, tore through a crowded funeral hall in Sana'a, killing more than 140 mourners and wounding over 500. Even for Yemen, a country accustomed to violence, the carnage was shocking. The attack has finally drawn attention to the "forgotten war", which has intensified since peace talks ►►

► broke down in August. It may also alter the course of the deadlocked conflict.

Among the dead were members of several powerful tribes from northern Yemen, including supporters of peace talks such as Abdulqader Hilal, the mayor of Sana'a. Survivors now speak of revenge. Analysts fear they will line up with the Houthis, who have already stepped up their attacks on Saudi Arabia—and, perhaps, America. On two occasions this week missiles were fired from Houthi-held territory at an American destroyer in the Bab al-Mandab strait, though none hit the ship. The Houthis deny launching the attack, but on October 12th America struck back at Houthi radar sites.

Officials in Washington have long worried that America may be implicated in Saudi atrocities. It has backed the bombing campaign, providing targeting advice and refuelling sorties that have allowed Saudi jets to linger over the war zone. But America is now reviewing that support, which was offered, in large part, to allay the kingdom's concerns over a nuclear deal with Iran, the main backer of the Houthis.

The commitment has proved larger than expected for America. A bombing campaign that was meant to be short and defensive in nature is now in its 20th month. Saudi-led air strikes were responsible for 60% of civilian deaths in the year starting in July 2015, according to the UN. In total over 4,000 civilians have died in the fighting. This is the result of ineptitude, not malice, say American officials. But they have already pulled back some support.

The Saudis have struck schools, hospitals and critical infrastructure, despite using precision-guided bombs made in America. They blame the Houthis for fighting near civilians. The UN has also accused the group of using human shields. But a Dutch proposal to set up an independent UN inquiry was reportedly blocked by Britain, an ally of Saudi Arabia, in September.

Some in America and Britain propose cutting off arms sales to Saudi Arabia. Others want them to use their leverage to push harder for peace. John Kerry, America's secretary of state, has called for an immediate ceasefire. But he has struggled to restart

peace talks. Abd-Rabbo Mansour Hadi, the unpopular president in exile, seems reluctant to give up his claim to power. The Houthis have balked at demands that they cede their weapons and territory before a unity government is formed.

Earlier this month, the Houthis announced the creation of a government of "national salvation" that is meant to rival the administration of Mr Hadi, which has international recognition. In his own assertion of authority, Mr Hadi has moved the country's central bank from Sana'a to the southern city of Aden, where his government has a foothold. Some analysts fear, however, that the move will disrupt the bank's activities and exacerbate the country's economic crisis.

"Surely enough is enough," said Stephen O'Brien, the UN's emergency relief co-ordinator, in response to the attack on the funeral. But new reports of civilian deaths are coming in from the central city of Taiz, under siege by the Houthis and forces loyal to their ally, Ali Abdullah Saleh, a former dictator. Neither side has exhausted its capacity to create misery. ■

## Morocco's election

# More of the same?

RABAT

## The challenge to provide more modernity and authenticity

THIS final rally before Moroccans went to the polls on October 7th, Abdelilah Benkirane, the incumbent prime minister, took a moment from lauding the economy to attack his rivals. The Authenticity and Modernity Party (PAM) were bandits, he said, and drug dealers. He questioned whether they loved their children and taunted the monarchy-controlled press who'd backed them from the start.

He had good reasons to be upset. Mr Benkirane's ruling Justice and Development Party (PJD) claims to have encountered big obstacles in the run up to the election. The press was plainly skewed in favour of the opposition while the king himself seemed to many to be pulling ►►

## South Africa

# Rolling the rand

JOHANNESBURG

## A politically motivated attack on a respected minister

SOUTH AFRICA'S currency, the rand, is a volatile one. It is prone to sharp drops when its finance ministry, responsible for the National Treasury, comes under attack from President Jacob Zuma or his cronies. This week it plummeted again: Pravin Gordhan, the respected finance minister and guardian of the public purse, is being hit with dubious charges of criminal misconduct. This latest twist in a protracted struggle over control of the Treasury is playing out against a fractious backdrop. South Africa's economy is limping, violent protests have closed many universities and the ruling African National Congress (ANC) appears paralysed by factional disputes.

The case against Mr Gordhan appears thin. He is facing fraud charges related to the approval of an early retirement package for an ex-colleague. The investigation was handled by the Hawks, an elite police unit tasked with handling "priority crime", which is seen as close to Mr Zuma. The charges were announced by the country's chief prosecutor at a press conference attended by clapping supporters. Mr Gordhan faces another investigation by the Hawks, too: into his role, when he was head of the South African Revenue Service, in setting up a surveillance unit which asked too many awkward questions.

Mr Gordhan questions the timing of the charges, ahead of a mid-term budget due October 26th, and just after a trip to America to woo investors. Analysts now expect a cabinet reshuffle that will see him ousted, a move that would cause further turbulence. "If President Zuma does succeed in removing another respected finance minister, we expect that the rand will continue to fall sharply," says John Ashbourne of Capital Economics, a consultancy.

Mr Zuma too is on his heels. The country's anti-corruption watchdog is due to deliver a preliminary report on October 14th into whether the Gupta family, wealthy friends of Mr Zuma, have had undue influence on government appointments and contracts. The president is also facing renewed charges related to a 1999 arms deal. He is currently appealing a court decision that found the dropping of 783 counts of fraud, racketeering and corruption shortly before 2009 elections was "irrational".

Some top ANC officials have leapt to Mr Gordhan's defence. The party's chief whip called him "an honest man". Opposition parties have expressed universal support, with the leftist Economic Freedom Fighters instructing its members to "occupy the streets" when Mr Gordhan appears in court in November.



strings in an election he is supposed, as a constitutional monarch, to stay out of. The Ministry of the Interior, run by a close friend of the king's, was also forced to deny it had organised an anti-PJD rally.

Despite the whiff of royal electioneering, the PJD found its way to victory, increasing its seats in parliament from 107 to 125. Driss Ksikes, a local journalist, says the prime minister has so far failed to take full advantage of powers ceded to parliament in the wake of 2011's pro-democracy protests. Now "he could be more confident to use the authority already given," he says.

As last time, neither side has a majority. The crucial question now is who the PJD will deal with. In 2011 they drew on the support of eight other parties, shutting out the PAM. This time, the PAM has eaten away at those coalition partners and moved from fourth- to second-largest party. But the party's secretary-general, Ilyas El Omari, ruled out entering government with the PJD. Mr Benkirane, for his part, had already dismissed the idea.

The PJD may find it difficult to form a new coalition. One of its former partners,

the conservative Istiqlal party, took 46 seats in the election. But it fell out with the PJD in 2013 over the government's economic reforms. Another former partner, the centre-right National Rally of Independence, won 37 seats, but it has said it would not link up with the Islamists again. Other parties that won seats are small and politically divided.

The turnout—reported at 43%—was worst in cities, with the young and educated especially difficult to motivate. Outside the central train station in Rabat, Bilal, an urbane 32-year-old, said he hadn't voted, "because I don't believe it would change anything". As with many young people, he supported the 2011 protests; but the momentum towards democracy which followed the Arab Spring has been replaced by disenfranchisement and a reluctance on the part of the government to challenge the monarchy. Now that it is (probably) back in power, that could just change. "This is a fight for democracy," a PJD minister told *The Economist* on the night before the election. Now the voting is over, it remains to be seen if it stays that way. ■

Prize, though they did not win.

The work is lethal. Roughly one in six volunteers has been killed or badly wounded, many by "double-tap" Russian and Syrian strikes on the same site as they search for bodies. Like most of the 3,000-strong team, many of the casualties were carpenters, electricians and plumbers before the war broke out, ordinary men pulled onto the front lines of a savage conflict by a desire to save lives. "The feeling of helping people cannot be described with words. When you see a kid or an old man still alive under the wreckage and looking into your eyes with a look of hope, asking you to help him, it's an amazing feeling," said Abdo al-Abtar, a civil-defence worker in Aleppo contacted by phone.

The need for an urban search-and-rescue team became apparent in 2012 when Syrian aircraft began to drop bombs on civilian buildings in opposition-held parts of the country. Following an air strike, entire neighbourhoods would swarm over the rubble to look for survivors, often digging with their bare hands. Others hacked at the concrete with pick axes, sometimes killing those still alive.

As the bombing intensified, small teams of volunteers began to emerge, first in Aleppo and then in other parts of the country. But the turning point came in 2013, when they began to receive their first support from outside the country as part of Britain and America's package of non-lethal aid to the opposition.

Groups of volunteers were sent to Turkey, where an international contracting firm, ARK, had set up a training centre modelled on parts of downtown Aleppo. Based on manuals written in 1947 that describe how to save Londoners from air raids, the training focused on basic search-and-rescue techniques. The teams received simple equipment at first—battery-powered hand tools and hand-cranked air-raid sirens. Seismic listening devices, ambulances, fire engines and hydraulic tools followed as funding increased.

The success of the White Helmets has drawn the fury of the regime. Just days after the collapse of a short-lived ceasefire last month, Syrian and Russian air strikes destroyed three of the group's four centres in eastern Aleppo in a single day. Many see in the White Helmets a long-term solution to the country's destruction; a highly motivated and well-trained civilian force that can be expanded to rebuild the country once the war ends. Such thoughts are far from the minds of exhausted rescue workers pulling out the bodies the bombing leaves behind. "Before the war I hated funerals, I hated the sight of blood," said Mr Selmo. "Now I feel numb. I have become iron. The killing and the massacres have become normal. We have all become ill. We need an asylum for all of us. When this is over I will go home and sleep forever." ■

## The rise of Syria's White Helmets

# Local heroes

GAZIANTEP

**Amid the chaos and destruction of Syria's increasingly bloody conflict, a team of volunteer rescuers go where few dare to tread**

**A**MMAR AL-SELMO no longer bothers to identify the dead bodies he pulls from the rubble of Aleppo. There are simply too many. The dead are given numbers rather than names, and buried in trenches in the city's parks; often ten to a grave.

Sometimes, as he searches for survivors amid the twisted metal and concrete slabs of buildings destroyed by air strikes, Mr Selmo finds the severed hand of a child. At night, he wonders who the hands belonged to; which family lost a son or daughter that day.

"The worst part of my job is watching people die in the ambulances," the 32-year-old says, interviewed in Gaziantep in Turkey. "They just hold me. They clutch onto me. It is their last breath and they grab me by the hair or by the shirt as if doing this will save them from death."

A teacher before the war, Mr Selmo is now the head of Syria's civil-defence unit in the rebel-held half of Aleppo. His team of volunteers is the first to respond when bombs flatten buildings, rushing into the thick clouds of fine white dust to dig through the rubble for survivors.

Operating across rebel-held parts of the country, Syria's civil-defence team has grown from small, ragtag bands of un-

trained volunteers into a formidable search-and-rescue force. The group has rescued more than 60,000 people since 2014, when it began to keep count. Known as the White Helmets for the colour of the hard hats they wear, the rescue workers were nominated for this year's Nobel Peace



Noble work




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**Poland's populist government**

## Ladies in black

AUGUSTOW AND WARSAW
**The government loses a battle, but remains popular and illiberal**

**T**HE Law and Justice (pis) party, which has governed Poland for the past year, does not scare easily. But the tens of thousands of black-clad women who filled city centres across the country on October 3rd seem to have shaken it. They were protesting against a bill to tighten Poland's restrictions on abortion, which is already illegal in most cases. The bill would have banned it even in cases of rape and incest (but not when needed to save the mother's life).

Lots of pis MPs initially backed it. However, in the face of this so-called "black protest", pis retreated. On October 6th Jaroslaw Kaczynski, the party's leader, who is the country's most powerful figure despite having no government post, spoke of an "enormous misunderstanding". Many of the pis deputies who had earlier supported the ban abruptly changed their minds, voting it down.

Ever since coming to power in November, Poland's government has been drawing fire at home and abroad. Warsaw has seen marches by tens of thousands of protesters against the government's efforts to limit the powers of the constitutional tribunal and pack it with pis supporters. Brussels is angry about the tribunal, too: in July the European Commission, in an unprecedented move, said the government's actions threatened the rule of law and gave Poland until the end of October to reverse them or risk losing its vote in the EU's Council of Ministers.

The abortion bill marked the first time the government had backed down. But there is less to this defeat than meets the eye. Making abortion nearly impossible was never a priority for pis. (The bill was proposed by Catholic groups, not party leaders.) So the retreat was not a sign of weakness. Far from it: outside the big cities, pis's nationalism and anti-elitism are popular. The party is likely to remain in power despite all the controversies—or perhaps because of them.

**From teacher's pet to class clown**

Poland is one of the EU's biggest success stories. Since it joined the club in 2004 its GDP per person has almost doubled. But not everyone has benefited equally. Warsaw is full of hipster cafes and gleaming office blocks, but elsewhere wages are sluggish and good jobs scarce.

"Poland is a bit like Italy," says Mateusz Morawiecki, the deputy prime minister, with "islands of prosperity" between depressed areas. Augustow, a faded town in the north-east, is full of "pensioners and [people on] benefits", says 43-year-old Agnieszka Witkowska, who lives in Germany but occasionally returns to her hometown. She cannot imagine moving back; compared with western Europe, she feels, wages in Augustow have barely budged.

pis has capitalised on this divide. Like Britain's UK Independence Party, it appeals to those who have been "left behind", says

Benjamin Stanley of Warsaw's University of Social Sciences and Humanities. In last year's elections pis came first among all age groups: although it won only 38% of the vote, it has a majority in parliament. Its supporters are disillusioned with mainstream politics and tend to be rural, less educated and over 50 years old.

Since coming to power, pis has tried to please its base. Its main initiative is the "500-plus" scheme, a tax-free handout of 500 zlotys (\$128) per month for each family's second and subsequent child. For many, this is a hefty sum. Andrzej, a 61-year-old shopkeeper in the town of Sokolka, loves it. "The previous government did not give anything," he complains.

Mr Kaczynski has accused that government, led by the centre-right Civic Platform party, of being too friendly to Germany and Russia, Poland's historic enemies. More recently he has threatened to oppose the re-election of Donald Tusk, the former Civic Platform prime minister, for a second term as president of the European Council. (His reasons are tied up with the crackpot theory that Civic Platform helped Russia conceal the truth about an aeroplane crash near Smolensk in 2010 that killed Mr Kaczynski's twin brother Lech, who was Poland's president at the time.)

Worse, Mr Kaczynski clings to the idea that Poland's ex-Communists secretly ran the country until last year. In February the government-affiliated institution in charge of Poland's Soviet-era archives eagerly released evidence that Lech Walesa, a former president who led the Solidarity movement which brought down Communism, had worked as an informer for the secret police. The aim is to discredit the heroes of the post-communist liberal transition. The government promotes a "nationalistic, populist counter-revolution", says Euge-niusz Smolar, a foreign-policy analyst. ▶▶

Most worrying are the changes to the constitutional tribunal. In December, *pis* sacked five judges whom Civic Platform had rushed to appoint before leaving power, replacing them with its own partisans. It also changed the law to require a two-thirds majority for all verdicts, making it hard to overturn *pis* legislation. The tribunal itself ruled the changes unconstitutional, but the government has subverted the court's verdict by not publishing it. According to Rafal Trzaskowski, a Civic Platform politician, the government is attacking the institutions that "made the difference between Poland and Kazakhstan".

*Pis*'s social-spending hikes have sparked fears that Poland may breach the EU's 3% deficit limit next year. The 500-plus policy will cost 22 billion zlotys next year, or about 1.2% of GDP. A tax on supermarkets (mostly foreign-owned ones) to help pay for the programme was ruled illegal by the European Commission in September.

The government also seems ill-prepared for the coming demographic crunch. Poland expects to lose 40% of its working-age population by 2060, the largest drop in the rich world (see chart). This problem will be aggravated if the 500-plus policy encourages women not to work. (Their labour-force participation rate is 13.5 percentage points lower than men's.) A government proposal to lower the retirement age would make matters worse. Among the ratings agencies, Standard and Poor's has downgraded Poland's credit rating, while Moody's has it on negative watch.

Despite their unpopularity with foreign analysts and Warsaw liberals, *pis* look likely to hold on to power for some time. The opposition is scattered. Over eight years in power, Civic Platform developed a reputation for sleaze. *Pis* supporters appear not to care about the controversy the government creates: the party is ahead of its rivals in the polls with 30% support, compared with 24% for the liberal *Nowoc-*

*zesna* party and just 16% for Civic Platform.

The government's mix of nationalism and free money is wildly popular. Only *Nowoczesna* has dared oppose the 500-plus policy; Civic Platform wants to make it more generous. The debate over the benefit brings out a conflict between "two different Polands", says Adam Bielan, a *pis* politician. Educated urbanites who stage protests over constitutional issues are too few to sustain a party. Everyone must compete for the votes of average workers in places like Augustow. Currently, only one party can. ■

#### Refugees and sex

## Belgian girls aren't easy

BROECHEM

### Teaching European sexual mores to Middle Eastern immigrants

FEW men can roll a condom onto a plastic penis with a straight face, and Ali and Ahmadzai are no exceptions. The two Afghan asylum-seekers and ten other men are taking a sex-education class at the refugee centre where they live in the Flemish town of Broechem, and the giggles are flying. "In Logar, where I'm from, you don't talk with girls," explains Ahmadzai. If you do, the Taliban "kill you with stones". Belgium has been a bit of a culture shock, though he still doesn't dare talk to girls: "It is good just looking at them."

Ever since the mass sexual assaults in Cologne last New Year's Eve, in which groups of mainly North African men groped, robbed or raped hundreds of women, European governments have worried that the chauvinist values of some of the immigrants they are absorbing could lead to trouble. Hence the classes at Broechem, which cover sexual health and respect for women. For now they are voluntary, but Belgium plans to make sex education mandatory for all asylum-seekers by next year, as it already is in Norway. In Germany, too, the government decided in July to shift the focus of its integration courses from language learning to cultural values, including equality of the sexes.

One priority is preventing rape. Thomas Demyttenaere of *Sensoa*, a Belgian organisation that is designing a course on sexually transgressive behaviour, says he has never met a refugee who said it was acceptable to force someone to have sex. But understandings of consent can differ: "In a strong patriarchal society," be it Muslim, Christian or Hindu, men "often feel they are entitled to have aggressive behaviour towards women." The swarming sexual attacks seen in Cologne, reminiscent of similar behaviour in north African countries,

have Europeans especially worried. Linda Hagen of Hero Norway, an organisation that manages 40% of that country's refugee centres, says one goal of sex education courses there is simply to teach refugees that if they try anything like that in Scandinavia, "they will get caught."

At the same time, the courses may be just as necessary for the refugees' own integration in European societies as they are to protect the women with whom they interact. Staff at the Broechem centre regularly receive complaints from local parents that asylum applicants are harassing their daughters. New female staff are also frequently hit upon. Carla Pannemans, who has been teaching sex education to refugees there for ten years, says many simply do not understand local codes of behaviour; when they try to talk to girls, "people will see it as aggressive."

Teaching sexual norms is tricky, though, particularly when European societies do not agree on what those norms should be. In Norway, Ms Hagen's course uses photos of pop stars to explain that styles of dress, however scanty, are expressions of individual freedom rather than signals of availability, and must be respected. At the same time, bizarrely, it coaches male refugees to protect their reputations by not seeking girls who are "easy". Meanwhile in Wallonia, the French-speaking region of Belgium, an information sheet used in integration classes cites "gallantry" as an ideal: men should open the door for women, carry their heavy bags and offer to help them put on their coats. Plenty of feminists, in Belgium or elsewhere in Europe, would find this patronising.

Most of the refugees who receive the classes seem to welcome them. Many have never had any formal sex education: of the 12 men in the class at Broechem, most of whom hail from African or Middle Eastern countries, only one, an Albanian refugee, ►►



### Who will pay the bills in Poland?

Working-age population\*, 2015-60 forecast  
% change



Source: OECD

\*15-64



▶ said he received any form of sex education at school. Abdullah Sameer, a 21-year-old refugee from Baghdad who lives in the Brochem centre, calls the courses “perfect”. “Everybody should respect women,” he says—though he considers himself among the few enlightened men in his country. Most people, he says, “need some classes”.

It is not clear to what extent European fears of sexual assault by migrants are founded in reality. There have been no more attacks of the magnitude of those in Cologne. A report in February by Germany’s federal criminal police, the Bundeskriminalamt, showed that refugees were responsible for only 3.6% of the sex-

ual offences in Germany in 2015. Many of the refugees are victims of rape rather than perpetrators: female refugees face sexual abuse at the hands of smugglers and even reception-centre staff, according to a report by Amnesty International.

Indeed, while Europeans may feel anxious that migrants are importing Middle Eastern values, the migrants are having at least as hard a time adjusting to European ones. Mr Demyttenaere says many of the migrants he knows find Belgian sexual morals “shocking”. “On the one hand, there are adverts with half-naked women,” he says. “On the other, it is very hard to ask women out. They find this confusing.” Welcome to the West. ■

isation called “Agenda 2010”, was conceived in co-operation with businesses.

Under Mrs Merkel, however, “our influence has been shrinking,” says Lutz Goebel, president of the lobby representing the family-owned firms which many people think are the backbone of Germany’s economy. Business lobbies have lost many skirmishes in recent years. To their horror, the government has enacted a minimum wage, early retirement at 63 for certain workers, quotas for women on corporate boards and more. Business folk did win exemptions for about 2,000 energy-intensive manufacturers from paying the big surcharges that fund Germany’s subsidies for renewable energy. But it could not prevent the country’s reckless decision in 2011 to end the use of nuclear power.

Moreover, German business associations accept what they call “the primacy of politics”: that national priorities set by government can trump their own. A recent example was Mrs Merkel’s drive to convince the EU to impose sanctions on Russia after its invasion of Ukraine. A pro-Russian lobby called the Ost-Ausschuss (Committee on Eastern Europe) opposed the sanctions. But the Federation of German Industry, an affiliated but much larger lobby, declared that it accepted them as necessary in the long-term interest of maintaining the international order. That ended the controversy.

Brexit raises similar questions of principle, notes Volker Treier, the head of foreign trade for the Association of German Chambers of Commerce and Industry, of which almost all German firms are members. “Two hearts are beating in our breast,” he says. One worries about the economic consequences of Britain leaving the single market. The other worries about the integrity of that single market, should Britain or any other state cherry-pick conditions for membership.

That emphasis on principle extends even to the carmakers. “Yes, we certainly have influence,” says Matthias Wissmann, president of the German Association of the Automotive Industry. “But we are at least as interested in keeping the European Union together—in fact, that is our priority.” Britons are deluded, he adds, if they think German carmakers care only “about selling five more cars” rather than taking a long-term view.

Contrary to the illusions of some in Britain, Mrs Merkel thus has her own business lobbies firmly behind her. “We have to present our interests coherently,” she told a conference of the Federation of German Industry this month. Lobbies, she added, should avoid putting pressure on the negotiators for “comfortable” deals that jeopardise the single market’s four freedoms—of moving goods, services, capital and people. Asked whether he agreed with Mrs Merkel, Ulrich Grillo, the federation’s boss, had a simple answer: “Yes.” ■



## German business and Brexit

# BMW won't save Britain

BERLIN

**Will German carmakers make the EU go easy on the Brexiteers? No chance**

**M**ANY Britons worried about a “hard Brexit” are clinging to a reassuring thought. Germany, the most important country in Europe, trades so much with Britain that it would suffer from a messy divorce between Britain and the European Union. So even if countries such as France want to teach Britain a lesson, the theory goes, Germany’s carmakers will use their vast influence to sway Angela Merkel, the German chancellor, to go easy on Britain in its coming negotiations with the EU.

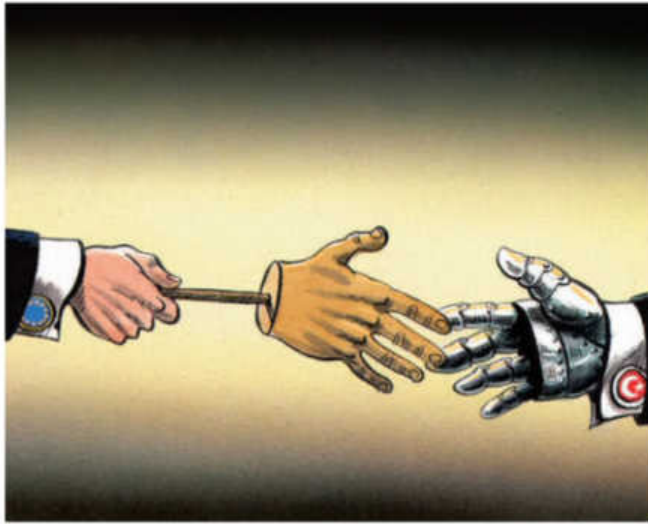
The first part of this thesis is true. Britain is Germany’s fifth-largest trading partner and its third-largest export market (after America and France). Some 750,000 German jobs depend on those exports, and

Germany’s trade surplus with Britain is second only to the one it runs with America. Every fifth car made in Germany is sold in Britain, as are many German chemicals, machines and electronics. Britain is the biggest foreign investor in Germany, and some 2,500 German firms have subsidiaries in Britain, employing about 400,000 people there.

But the rest of the theory gets progressively weaker. Start with the notion that industrialists call the shots in Germany. They were certainly influential between 1998 and 2005, when the chancellor was Gerhard Schröder, nicknamed *Genosse der Bosse* (“fat cats’ comrade”). His signature economic reform, a labour-market liberal-

# Charlemagne | Two cheers for hypocrisy

Turkey's bid to join the EU is a bad joke. But don't kill it



THE two young women glance at each other before confiding their secret. Turkey has become such a fearful place, they say, that they have formed a pact never to have children. Amid official reprisals and purges after a failed coup in July, the lights of democracy are dimming. Each week brings a fresh wave of detentions or sackings, and no one is immune. The women have a friend who was stripped of a degree because of her university's links to Fethullah Gulen, a Pennsylvania-based preacher whom the government accuses of plotting the coup. Official paranoia scales heights of absurdity: last week a textbook was banned for using the letters "f" and "g", Mr Gulen's initials, in a geometry puzzle. "Everybody's scared shitless," says one prominent academic.

Might the women turn to the European Union, which shares their concerns, for support? Hardly. Europe is hypocritical, they say; it expects solidarity after terror attacks but offered little after the coup. Their sentiments are widely shared, and not only in Fatih, a pro-government area of Istanbul roamed this week by Charlemagne. As the women divulged their laments, across town Recep Tayyip Erdogan, Turkey's hot-headed president, was slamming "countries that...are still preaching to us about human rights", in front of leaders from such beacons of democracy as Azerbaijan, Venezuela and Russia. Mr Erdogan and Vladimir Putin vowed to push on with Turkish Stream, a mooted gas pipeline. "Russia treats us better than Germany," says Nazif Özbek, a shop-owner in Fatih. "Europe always stabs us in the back."

It is hard to remember the last time EU-Turkey relations were this sour. The Turks, with good reason, are furious with the EU's sluggish show of support after a coup attempt that left about 270 people dead, an elected president nearly toppled and parts of the parliament in Ankara bombed to dust. It took weeks for EU officials to visit. Many Turks, including those who are no fans of Mr Erdogan, suspect the Europeans wanted the plotters to succeed.

As for the Europeans, they are struggling to maintain diplomatic decorum as Mr Erdogan tightens the screws. It was bad enough, they say, that last year's migrant crisis forced them to bribe Turkey to keep refugees away. Worse, Turkey is negotiating to join the EU. The accession process is supposed to bind candidates closer to European norms. But under its would-be sultan, Turkey is sinking into the marsh of dictatorship.

Turkey has never been close to membership. But for a time that didn't matter. Before talks began in 2005 Mr Erdogan used the popular prospect of accession to anchor domestic reforms, such as scrapping the death penalty and allowing Kurdish-language broadcasts, and to shove the meddlesome army back in the barracks. Exporters rubbed their hands at the prospect of deeper links with European firms and investors. If some Europeans were sceptical—Angela Merkel, Germany's chancellor, once said Turkey should settle for a "privileged partnership" short of membership—others, cheered by the EU's expansion into the former Soviet bloc, believed in the power of enlargement to transform their giant neighbour (and NATO ally) from the inside.

No one makes that claim any more. For years Mr Erdogan's government has been locking up journalists, compromising the judiciary and allowing corruption to flourish. The accession talks have long been a polite fiction, and the post-coup reprisals have exposed the hypocrisy to a harsh glare. The Austrian government, never a fan of Turkey's membership bid, now wants to kill it. Nicolas Sarkozy, running for a second shot as France's president, says the EU should tell Turkey it belongs in Asia. Mr Erdogan, meanwhile, recently told parliament that Turkey and the EU had come to the "end of the game", days after he hinted at territorial ambitions over Greek islands. He accuses the EU (unfairly) of breaking its promise to grant visa-free access to Turks.

Each side's interests now lie elsewhere. Turkey's energies are focused on stopping Syria's Kurds from carving out a statelet along the border, and on weakening the Gulenists' extensive international ties. It is quietly drifting from the EU, quitting joint cultural and educational institutions. Europeans, for their part, fear the poisonous effects of the universal unpopularity of Turkish accession among voters. Surveying all this with a weary eye, some pro-EU Turks wonder if the relationship needs a different footing.

## Don't go cold Turkey

Time, then, to pull the plug? Tempting, but no. After the coup, amid credit-rating downgrades and signs of an investment freeze, Turkey can ill afford to turn its back on its largest trading partner. For all his ranting, Mr Erdogan is unlikely to cut his links to Europe as instability roils his southern neighbourhood. The Europeans hate having to play nice to Mr Erdogan, but fear where his instincts could take him if the relationship were entirely severed. In their darker moments, sceptics should think of that far-off day when Mr Erdogan is no longer in charge. If happier times come, the comatose patient can always be awoken.

But the two sides cannot sleep through their immediate concerns. From counter-terrorism to trade to migration, the EU and Turkey urgently need fresh ways to work together. Biannual summits would be a start. The refugee agreement, which is just about holding, may provide a model for future co-operation. A deal on Cypriot reunification, which is within reach, would be another. If Turkey meets the EU's conditions for visa liberalisation, which one Eurocrat says is "eminently" achievable, countries like France and Austria should not block it out of spite.

Accession was supposed to be a noble process that would expand European ideals of freedom and democracy to regions that had known little of either. In Turkey's case, it is a seductive narcotic that has become dangerous for the addicted patients to give up. For the foreseeable future, Turkey will remain a troublesome neighbour for the EU, irascible but utterly indispensable. Europeans will have to swallow a degree of hypocrisy. ■



### Airport expansion

## Final call

**The long debate over where to put London's first full-sized runway for 70 years is drawing to a close. It may not be long before the city needs another one**

**I**n 1944 Heathrow was a rural hamlet best known for its fruit trees and ploughing contests. But in May that year its residents were evicted from their cottages to make way for an international airport. After opening with two runways in 1946, Heathrow immediately planned a third to cope with rising passenger traffic. But although over a dozen commissions and policy papers have subsequently been produced on where to site new runways near London, seven decades of political dithering have meant that none has been built in south-east England since the second world war.

Within days Theresa May, Britain's new prime minister, is expected to end the procrastination by approving the construction of a third runway at Heathrow, over a rival proposal to build a second one at Gatwick airport, south of London. The long-delayed decision will give an overdue boost to the economy and shape British aviation for decades.

More runway capacity cannot arrive too soon. It has been needed since the 1990s, when Heathrow became full, says Tim Coombs of Aviation Economics, a consultancy. This year 75m passengers are forecast to use Heathrow's two runways, which are operating at 99% of capacity. Gatwick's single landing strip is now full most of the day too. Together they handle 45% of Britain's air passengers.

Congestion increases delays, raises air

fares and encourages travellers making connecting flights to use rival "hub" airports like Amsterdam or Dubai. Pricey tickets also deter businessfolk and tourists. Lack of airport capacity means Britain will miss out on trade worth £14 billion (\$17 billion) over the next ten years, according to Frontier Economics, another consultancy.

In 2012 David Cameron handed the dilemma to a commission of experts led by Sir Howard Davies, to report after the 2015 general election. Sir Howard shortlisted three options: a new airstrip to the north-west of Heathrow, a runway extension there, or a new runway at Gatwick.

More capacity at Heathrow would restore its position as one of the world's busiest airports (it currently lies sixth). This is more than a matter of national pride: by pooling passengers from around the world at Heathrow, airlines can offer flights to more places than they otherwise could.

But Gatwick's promoters say they can get the same increase in runway capacity for around £9.3 billion, far less than Heathrow's estimated price tag of £18.6 billion. It would need no public subsidy either, unlike Heathrow, which will run up a big bill in moving the M25 motorway and upgrading local transport links. Gatwick, surrounded by fields instead of London suburbs, would affect fewer people with noise and pollution, leaving it less open to legal challenge. But swayed by the wider choice

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of destinations offered by a bigger Heathrow, last year Sir Howard recommended it should get its third runway.

Mr Cameron delayed the decision three times, in part to avoid clashes with London's mayoral election this May and the EU referendum in June. Environmental problems have also stymied progress. Previous attempts to expand Heathrow have been contested in court for breaking climate-change laws. This time the problem is that levels of nitrogen oxides, caused by vehicles servicing the airport, are breaching EU limits. But new research commissioned by the government has helpfully found that as car engines get cleaner, and measures such as congestion charging take effect, pollution around the airport will fall as Heathrow expands.

So now Mrs May is intent on getting the project off the ground. By pressing on with Heathrow, which most businesses favour over Gatwick, she will boost her pro-enterprise credentials, which have been damaged by her hardline approach to Brexit. With no general election due until 2020, and Labour hobbled by an unpopular leader, she can afford to annoy voters in marginal constituencies under Heathrow's flight path.

Parliament, which is expected to be given a free vote on the matter later this month, also now favours Heathrow's expansion. Several Tory MPs with constituencies near Heathrow oppose a new runway, including Boris Johnson, the foreign secretary, who has promised to lie down in front of the bulldozers if it goes ahead. Yet the government should win the vote. It recently got the support of the Scottish National Party, which came out for Heathrow in the hope that it would most increase the number of flights to Scotland.

Brexit has strengthened the case, claims ►►

▶ Heathrow's boss, John Holland-Kaye. A third runway would help the airport offer more routes to cities in fast-growing economies such as China and India, which Britain will need to trade with more after leaving the EU. And it is better placed than Gatwick to boost trade. By value, 29% of Britain's exports to outside the EU leave Heathrow, compared with 0.2% from Gatwick, which deals mainly with tourists.

Yet even after the bulldozers get going on Heathrow's new landing strip, the government should leave the door open for other airports, including Gatwick and Stansted, to the north-east of London, to build new runways. Demand for air-passenger travel is growing far faster than Sir Howard forecast, says Nick Dunn, Gatwick's chief financial officer. This year Gatwick will handle as many passengers as the Airports Commission predicted it would in 2034. A new runway is already

needed if it is to increase its capacity at peak times. The airport's owners want to press ahead with one even if Heathrow gets the nod. It would be no bad thing for Heathrow to face the added competition.

The government may offer a sweetener for Gatwick and Stansted to deter them from asking for a lengthy judicial review over the decision to expand Heathrow. Such legal problems are not new. Heathrow's first two runways were built using emergency wartime powers; they would never have received permission otherwise, says Philip Sherwood, a historian of the airport who has lived in the area since it was still mainly fruit farms. Siting a new runway will never be easy, but with Labour in the doldrums and the public distracted by Brexit, the government has an opportunity to push it through. Mrs May should do so—and then start thinking about where to build the next one. ■

### International students

## Hasta la visa

### The government is foolishly making life harder for foreign students

“THEY are not, and never have been, immigrants.” So declared Enoch Powell of international students in an infamous speech against migration in 1968. Ending up to the right of Powell, who was as fierce a critic of immigration as they come, is an uncomfortable position. But that is where Theresa May's government finds itself with respect to overseas students. As part of a plan to reduce the number of migrants, on October 4th Amber Rudd, the home secretary, announced new restrictions on foreign students, including tougher entry requirements for those going to lower-quality institutions. The proposal is merely the most recent attempt to deter foreigners from paying tens of thousands of pounds to study in Britain.

Since the turn of the century the number of foreign students in Britain has more than doubled (see chart). In contrast to Britain's overall immigration trend, growth has come not from Europe but from the rest of the world. Chinese students are by far the biggest group, numbering 89,540 last year, up from 47,740 in 2004. The steep fees paid by non-EU citizens have made higher education an important British export. By one estimate foreign students contribute £7 billion (\$8.6 billion) a year to the economy in fees and living expenses.

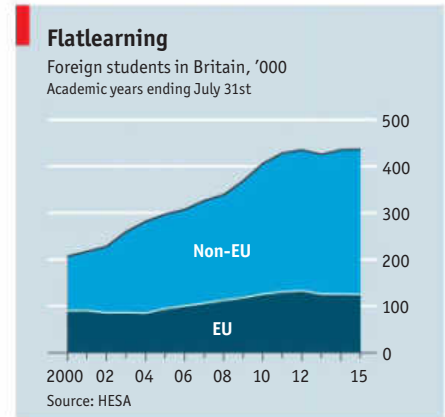
Yet in the past few years the growth has stalled. To find out why, visit any student common room. An American PhD student at Cambridge University complains that



Gown and out

acquiring a visa for her doctorate was more onerous than when she studied in Britain a decade ago. This time she had to list every trip she had taken outside America since the age of 18. Applicants have to prove they have more money than they used to: £9,135 in the bank plus their tuition fees, up from £7,380 last year. And the government has introduced an annual “immigration health surcharge” of £150. The doctoral student says she gets e-mails almost weekly from the university citing new requirements it faces with regards to its foreign students.

The government has also removed provisions that allowed students to stay on



after graduation to seek work. In 2012 it abolished a visa which allowed those who had completed degrees in Britain to remain in the country for two years without the firm offer of a job. The withdrawal of this perk put off many South Asian students, thinks Ruth Owen Lewis, director of the international office at Aberystwyth University. The number of Indian students, which soared from 14,625 in 2004 to 39,090 in 2011, has fallen to 18,320 since then.

The recent rhetoric may exacerbate this trend. Following Ms Rudd's announcements, one Indian newspaper advised those considering studying in Britain to revisit their plans. Others see it differently: William Vanbergen, head of BE Education, a consultancy in China that advises those wishing to study abroad, says that some Chinese parents imagine that Brexit will mean fewer refugees and terrorists sneaking into Britain, making the country less dangerous for their offspring.

Other countries spy an opportunity. Australia and Canada, popular alternatives for Asian students seeking an English-language education, offer (limited) chances to stay and work, making them attractive destinations. Australia has simplified its student visa system to boost its appeal. Germany is offering more courses in English. And since 2014 public universities there have largely abolished tuition fees, including those for foreigners. This month the Irish government revealed plans to encourage more foreign students. “Everybody is doing the exact opposite to us,” laments Ms Owen Lewis. While the number of foreign students in Britain has stalled, in other countries it is zipping up. In Australia it increased by 11% last year.

Nor does the crackdown look politically necessary. A YouGov poll last year found that students were the most popular group of migrants among voters, three-quarters of whom thought their numbers were about right or should be higher. Even supporters of the right-populist UK Independence Party were keen on them. Reducing immigration in general will hurt Britain's economy; barring fee-paying students is a particularly damaging way to do it. ■

# Bagehot | The isle is full of noises

For a smooth Brexit, Britain must drop the boorish language and try to understand its neighbours



THE crowd chattered impatiently, the Dutch, British and European flags twitched in the autumn breeze and staffers hurried by with trays of pastries. Mark Rutte paced the red carpet nervously. “Do you know who this is?” the Dutch prime minister asked the tourists as Theresa May’s convoy swept up the cobbles: “It’s my new British colleague.” As she emerged he repeated the formulation, now in English: “My new British colleague. So happy to see you.” They laughed a little too emphatically then marched inside, briskly followed by Mrs May’s chief of staff, her top Europe adviser and the British ambassador. The jittery air in The Hague was hardly surprising: Brexit brings a newly adversarial dimension to British-European relations.

Consider what was happening elsewhere. Up the road at the Clingendael Institute of International Relations, a Dutch-French-Austrian panel was discussing Brexit and agreeing that a tough line was needed (“If the British grow faster outside the EU than in it, we have a problem”) and that the EU should move on quickly (“We need to reassert what it is to be European without the Brits”). Meanwhile in the House of Commons, David Davis, Mrs May’s Brexit secretary, had his own ideas. “The balance of negotiating advantage is incredibly heavily stacked our way,” he insisted. “It will cost them much more than it will cost us,” agreed a Tory MP. As the clock ticks down to the start of formal talks in the spring, the tone is hardening on both sides of the Channel.

That was always likely. Mrs May and the likes of Mr Rutte will soon be on opposite sides of the negotiating table. But the peevish mood, particularly in Britain, does not bode well. Mr Davis jokingly terms Guy Verhofstadt, the European Parliament’s point man on Brexit, “Satan”; Michael Fallon, the defence secretary, vows to stymie European military integration; Liam Fox, the trade secretary, calls EU nationals in Britain “one of our main cards” to bargain with; the *Sun* rails against Michel Barnier, the European Commission’s “anti-Brit” negotiator. Mrs May has echoed the ugly tenor, mocking “citizens of the world” and only reluctantly dropping a plan to shame firms that hire foreigners.

Such messages are bids to meet the growing belligerence in Britain at least half way. “Damn the unpatriotic Bremonoaners and their plot to subvert the will of the British people,” bellowed one typically *contra mundum* headline on October 12th (another arti-

cle called for anti-Brexit MPs to be locked in the Tower of London). Yet they also lob a chair through the café window of continental sensibilities. “We forget that other people watch us,” despairs Charles Grant of the Centre for European Reform in London.

Sure enough, the foreign coverage of Mrs May’s recent comments has been grim. A column in the *Süddeutsche Zeitung* in Germany compares her “nasty sneer that will lead [Britain] into the abyss” to the politics of Marine Le Pen and Donald Trump. *El País* in Spain says she wants “the most extreme sort of Brexit”. A cartoon in *La Repubblica* in Italy quips that Britain will be introducing racial laws next. Mrs May’s counterparts have been more circumspect, but are clearly losing patience: in recent days François Hollande, Jean-Claude Juncker and Angela Merkel have all expressed concern at the noises wafting across the sea. “There must be a price,” the French president told a European gathering in Paris on October 6th.

The root of all this is not fundamental hostility, but mutual bafflement. To follow debates on Brexit in different parts of Europe means navigating not just different languages but different epistemological planes. Continentals tend to overestimate the odds of Britons regretting their decision. Britons overstate their neighbours’ desperation to cosset British trade, wrongly assuming that every container ship docking at Felixstowe is another bargaining chip for London. Culture, too, divides. Political styles on the mainland, though varied, tend to be less aggressive and theatrical than in Britain. The latest all-or-nothing spasm in London (“It’s free trade or a trade war,” froths one MP) does not easily translate in those more consensus-oriented polities.

## More jaw-jaw, less war-war

Take the Netherlands. It is a natural British ally, stresses Han ten Broeke, a Dutch MP and Anglophile: another seafaring sort of country; an economy so integrated with Britain’s that several big firms (like Unilever and Shell) straddle the North Sea. The harder the Brexit, the higher the costs. But certain political truths, he explains, override even this sympathetic interdependence: the EU must survive, Brexit must not spur others to quit, The Hague’s first loyalty is to Berlin. London’s language makes it harder to sandpaper these sharp edges, reckons Michiel van Hulten, a Dutch academic and former politician. “Everything being said seems destined for domestic consumption. But it has the effect of alienating allies on the continent...they are fed up with UK exceptionalism.”

It is in the interests of both sides to make Brexit work, but the onus is on the British. If they fly off a cliff edge on leaving the club in 2019, with no decent interim arrangement because, say, the European Parliament vetoed it, they will pay the highest price.

Time, then, for a charm offensive. Not just nice words and royal visits (Kate Middleton materialised in The Hague a day after Mrs May), but real attempts to level with Britain’s partners. “Be polite, know your priorities, understand other political contexts,” advises Mr Grant. Denis MacShane, a former Europe minister and a rare British politician with a European network, recently urged Mr Barnier to take Mr Davis hiking in the Alps, at 2,000 metres (Non, replied the Frenchman: “3,000 metres”). And Mrs May should set an example by adopting a more conciliatory tone, especially ahead of her first European Council summit on October 20th. At home, that will not be easy. But the prime minister is new, popular and unrivalled. She knows her premiership depends on making Brexit work. A downward spiral of chest-puffing and mutual incomprehension would hurt her most of all. ■



The United Nations' secretary-general

## Can the next man do better?

**António Guterres is the right man for an almost impossible job**

SIX months ago the cognoscenti of Turtle Bay, the UN's location on the east side of Manhattan, were pretty sure that the next head of the nearest thing to a world government would—for the first time on two counts—be an east European and a woman, quite likely the one who runs UNESCO, the UN's education and culture agency. Instead, it will be a 67-year-old man, who was a social-democratic prime minister of Portugal from 1995 to 2002 and then head of the UN's refugee body for a decade from 2005. A second Bulgarian candidate, also a woman, but with a rosier reputation as a punchy ex-dissident than her ex-communist compatriot, caused a momentary frisson of gamblers' excitement by throwing her fur cap into the ring at the last minute. But she was too late and too controversial. António Guterres, who will succeed Ban Ki-moon at the year's end, has been welcomed across the global board.

The final decision, as ever, depended on the White House and the Kremlin agreeing not to block each other's favourite (or most unobjectionable) candidate. The surprise was that Mr Guterres so swiftly won the acquiescence of both superpowers, even though relations between the two are probably at their grumpiest since the end of the cold war. It has been surmised that Mr Guterres, as part of a back-room bargain, will appoint a Slav, indeed maybe a Bulgarian, as his deputy.

His victory was partly thanks to the novel, relative openness of the competition. In the past the choice had been made entirely behind closed doors, with no candidates openly declaring themselves. This time, starting in April, a series of public hearings before the UN General Assembly was followed by a string of straw polls among the 15 countries represented in the UN Security Council, each one anonymously suggesting which of the candidates should be "encouraged" or "discouraged", or neither. But in the sixth and final straw poll, the five permanent members of the council (America, Britain, China, France and Russia), each having the power to block any candidate, were to cast coloured ballots, signifying their veto-wielding status. Mr Guterres had easily topped each of the first five polls. In the final poll he again far outshone his opponents, with no country casting a negative ballot, which meant that the superpowers had all agreed to embrace him.

Various candidates had been thought to have a chance, backed by a superpower sponsor. But none seemed to match Mr Guterres's qualities. He won respect as prime minister of a notable if currently beleaguered country and as an adroit international operator; as head of one of the UN's most essential bodies, he understands the inner workings of the vast and cumbersome UN bureaucracy. He is multilingual

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and articulate. Moreover, he is universally considered decent and able, pragmatic and principled, affable but steely. He knows how to communicate to the world and knock powerful heads together.

Mr Guterres "will take charge of an organisation close to political bankruptcy," says Richard Gowan, a UN expert at New York's Columbia University. The Syrian catastrophe, he says, marks "the worst institutional crisis the Security Council has seen since the Iraq war". Yet the secretary-general is a cajoler and fixer, not a global boss. He is "not a politician with an election victory under [his] belt but a civil servant with 193 stroppy masters", says Lord (Mark) Malloch-Brown, a Briton who was once the UN's deputy head. The secretary-general is also an accountant, overseeing a budget for an array of UN bodies that often compete more than they co-operate.

Mr Guterres must fortify the UN's three main pillars: economic development (especially for the poor); human rights; and making and keeping the peace. This last is the biggest and trickiest: witness Syria. However feeble the UN can seem, it is still the global body with by far the widest reach and heaviest weight. With 100,000-plus blue-helmeted soldiers and police on a score of missions across the world, it has easily the biggest capacity as a neutral arbiter for stopping death and destruction. Preventing wars before they happen will inevitably be Mr Guterres's intention. More often he will have to pick up the pieces after disaster has struck.

His first task will be to recapture the UN's primacy in world security—devilishly hard when America and Russia are at loggerheads. The crises in Yemen, Libya and South Sudan, as well as in Syria, need his urgent attention. He will have no time to catch his breath. ■

## The shadow economy

## Unregulated, untaxed, unloved

CATANIA AND MUMBAI

## New technology may persuade informal businesses and workers to become formal

IT IS not what Kavita Ahuja, a tutor in Mumbai, does at her job that marks her out from around nine in ten of her fellow Indian workers, but what she does afterwards. As one of her private economics lessons ends, she does not ask her pupil for cash. Rather, her fee of 400 rupees (\$6) is settled with a few taps of a smartphone. A side-effect of receiving pay digitally is that she has joined the 48m Indians—in a country of 1.3 billion—who work in the formal, regulated economy. Eduwizards, the app that matches Ms Ahuja to her pupils, deducts what she owes in income tax before paying her, as well as incurring a slew of taxes on its cut.

Moving from the informal to the formal economy can be that simple. But in many countries the transition remains rare. Half to three-quarters of all non-agricultural workers in poorer countries (perhaps 2 billion people) fall outside the purview of officialdom and so can be categorised as “informal” (or “shadow” or “grey”). In rich countries the share is much smaller, though still significant. One-tenth of Britain’s economy is thought to be informal.

Informal businesses typically sell legal goods and services. They include everyone from Italian restaurateurs who do not issue receipts, Ukraine’s ubiquitous street vendors selling fruit and vegetables and Indian households who pay their servants cash-in-hand. World Bank data suggest

that informality is expanding. Over the past decade the world’s working-age population has been growing faster than the number of people officially employed, implying that there are more and more people in jobs outside the mainstream.

Is that so bad? Informal workers might otherwise have no job and even harder lives. When famine struck North Korea in the 1990s, millions broke the law by selling smuggled food. Plucky entrepreneurs who operate beyond the grasp of venal bureaucrats should surely be celebrated. Robert Neuwirth, an author, refers to Lagos’s largest rubbish dump as a “business incubator”, such is the enterprise that flourishes there. Much informal activity is also tolerated in practice. Nobody expects teenagers with the odd baby-sitting gig to set up limited companies with audited accounts.

But large-scale informality has malign effects. A paper from Friedrich Schneider of Johannes Kepler University in Linz, Austria, suggests that the tax loss from informality in the European Union was about €450 billion in 2011, or 4% of GDP—money the region’s indebted governments would find handy. And if every country in the world reduced its informal economy by 10% of GDP, back-of-the-envelope calculations suggest that they would garner \$1 trillion or so extra in tax each year. For comparison, economists reckon that roughly \$200 billion of tax is lost each year because

of crafty use of tax havens.

Informal workers also get a bad deal. They earn no pension and may be paid on average half as much as formal employees. Wages are low in part because informal firms are less productive than formal ones. They are also smaller—expanding can mean catching the eye of officialdom and is hard to do without bank loans, which require proper book-keeping. In poor countries the average formal firm employs 126 people, compared with just four for informal ones, according to Rafael La Porta of Tuck School of Business at Dartmouth and Andrei Shleifer of Harvard University.

## Beware of the dark

For years the received wisdom was that the remedy for informality was development. As countries become richer, so the theory went, formal sectors grow and those where informality reigns, such as street-vending, shrink. But that is a slow process, and it is made slower by informality itself. Whatever cash an informal firm generates sits outside the financial system, making it harder to invest in other businesses.

Governments have come to realise that they need to do something about informality. One approach is to cut bureaucracy. Many countries aim to make registering a firm a breeze—not least to improve their rankings in the World Bank’s closely watched annual ease-of-doing-business index. Someone in Burkina Faso now needs to complete just three steps to start a business, fewer than in Norway and down from 12 a decade ago. Making it easy to pay tax matters, too. Nevertheless small businesses often fear that coming out of the shadows will mean more shakedowns by corrupt officials, or being entangled in reams of red tape. Research suggests that in practice, streamlining registration has little ▶▶





▶ effect on informal firms that already exist.

The next generation of businesses, however, might find informality much harder. Firms that deal in cash have an incentive to underreport their income or employ staff informally. About 84% of all consumer transactions worldwide are still cash-based, according to MasterCard, a credit-card provider. But that share will fall as more workers ply their trades on digital platforms, whether tutors on Eduwizards or drivers on Uber, a ride-hailing app. About half the world's adults now own a smartphone; by 2020 80% will.

Digital platforms allow electronic payments, which are easy for tax authorities to track. When taxi drivers in Brussels complained that Uber used elaborate tax-avoidance methods, Belgium's deputy premier retorted that the average Brussels cabbie declared an implausibly low €25 (\$28) of cash income a day. Who exactly was doing the tax dodging? Most e-commerce is formal: as it grows, it displaces at least some economic activity that is not.

And it is possible to accelerate the transition away from cash, making outliers of those who use it. South Korea drove down the share of coins-and-notes transactions from 40% to 25% between 2002 and 2006 by applying a lower sales-tax rate to card payments. An effective payments infrastructure (for example, free and fast transfers between bank accounts) also helps. A number of countries have banned cash for transactions above a certain threshold. Italians are lovers of cash. Many were furious when a cap on cash payments over €1,000 was introduced in 2011. Partly in response to the outcry, Matteo Renzi, Italy's prime minister, last year raised it to €3,000. In Sweden and other parts of northern Europe, by contrast, paper money is becoming a rarity. Many shops and even bars refuse to accept the folding stuff, and cash

machines are hard to find.

In countries where cash is king, forcing people to record transactions makes it harder to evade tax. Receipts are the norm in business-to-business transactions, especially if value-added taxes (VAT) are applied. An entrepreneur can deduct input costs from profits that are liable to be taxed—an artist can claim for the cost of papers and pencils, for instance. But he must prove he paid for those supplies. This prompts the artist's suppliers to be formal, and their suppliers too. A desire to increase formalisation is one reason why India is implementing a nationwide VAT.

Consumers have much less incentive to ask for receipts, particularly for small-value transactions. Italian restaurateurs know that few customers will protest if they give them a receipt scrawled on the back of a napkin (a wheeze that allows them to avoid declaring the transaction). Even the spread of credit cards does not guarantee improvement: restaurant owners and shopkeepers often turn up the palms of their hands as they tell you that “*purtroppo*” the card machine is broken. Sicilians are so bad at paying their taxes that around Catania the *guardia di finanza* (finance police), a branch of the armed forces, are a noticeable presence.

### The problem of the panopticon

Forcing informal firms out of the shadows carries one big risk. A recently formalised firm may struggle to survive if regulations are burdensome. If a boss must pay high payroll taxes or pension contributions for his workers, he may have to employ fewer people. South Africa has cracked down on its informal economy, but it is a Pyrrhic victory. Formal jobs have not filled the gap; half of its young people are unemployed.

Governments therefore need to reduce the burden of taxation and regulation on

business. The Baltic states have low business taxes, especially on small firms, alongside crafty formalisation schemes. They have seen large drops in informality compared with other OECD countries in the past decade. Compare that with Italy, where a growing tax burden means that its informal economy, relative to GDP, is now 50% larger than it was in the 1970s.

Grand reforms are important. But there are also wheezes that will nudge citizens to behave better. For example some countries have tried to encourage consumers to ask for receipts. Several have enacted “receipt lotteries”, where proofs of payment become de facto lottery tickets. Taiwan's dates back to the 1950s. European countries such as Portugal, Poland and Slovakia (where prizes include the chance to appear on the local version of “The Price is Right”) introduced them in the aftermath of the financial crisis.

The lotteries' proponents say that their aim is to entice shoppers and vendors to register activity. Technology can help there too. Since 2007 shoppers in São Paulo have received lottery tickets and rebates on the VAT applicable to their purchases if they can match them against receipts. Better yet, the database of receipts they submit digitally can be cross-checked against the income that businesses have declared. Joana Naritomi at the London School of Economics estimates that revenues declared by *paulistano* shopkeepers jumped by over 20% in four years as a result.

Cross-checking of different sources of information is a smart way to compel people to pay tax, says Ms Naritomi. That too is becoming easier. Matching a firm's pay slips with its employees' tax returns used to take an age; a computer can now do it quickly. In Italy, comparing aerial images with land-registry maps identified 2m “ghost buildings” that authorities were unaware of—and thus not levying property taxes on. Inhabitants of southern Italy were the most egregious violators.

Technology can also make formality attractive by enabling registered firms to get more out of it than a tax bill. For many, that means access to credit. Lots of startups are using digital records, from phone bills to app payments, to gauge a potential borrower's ability to repay. Such data are generated, by and large, only by those willing to play by the rules. “If people get access to credit they are willing to pay taxes,” notes Nandan Nilekani, a former boss of Infosys, an IT services firm, who went on to advise the Indian government.

Combining structural reform, clever wheezes and technology to curb informality would be good for government finances, growth and poverty reduction. No economy will get rid of informality entirely, but bringing some unregulated activity out of the darkness would improve millions of lives. ■





Samsung's smartphone woes

## Charred chaebol

SEOUL

**Burning batteries are not the only problem facing the world's second-biggest technology firm**

WHEN Samsung Electronics announced on October 11th that it would discontinue its flagship smartphone, the Galaxy Note 7, one crucial event in the history of the world's second-biggest technology company by revenues (after Apple) sprang to mind. In 1995 Lee Kun-hee, then its boss, ordered 150,000 mobile phones burned and bulldozed in front of 2,000 weeping employees. Business partners who had received the devices as gifts from him had reported back that they did not work properly.

The South Korean *auto-da-fé* is said to have helped create a culture of permanent crisis at the firm, which drives employees to work incredibly hard. Now the question is how the ignominious end of the Galaxy Note 7 handset, which some hardware aficionados had called the best "phablet" (or large smartphone) ever made, will change Samsung, which is going through a leadership transition. In the midst of the crisis, the firm announced that Lee Jae-yong, the son of Mr Lee, would join the board of Samsung Electronics later this year, taking another step towards succeeding his father, who two years ago suffered a debilitating heart attack.

Samsung had thought that it was over the worst of the Note 7 crisis by early September. It had swiftly recalled 2.5m of the phones after the batteries in some had caught fire (the result of one such conflagration is pictured above). But earlier this

month it emerged that the replacement units, which came with different batteries, were also prone to combustion. Shortly after two of America's leading mobile operators decided to stop selling the phones, Samsung scrapped the whole lot to avoid further damage to its brand.

It is still not known what exactly made the Note 7s catch fire. Lithium-ion batteries, which power most mobile phones, have caused trouble before. But in its rush to get replacements out, Samsung overlooked the root cause, while appearing to blame suppliers. Experts suspect that the device was too tightly packed, leaving no room for the batteries to expand as they need to when charged quickly or used heavily. The resulting pressure can damage

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batteries' innards, causing them to short-circuit and release densely stored energy in the form of excessive heat.

Commercial forces encourage Samsung to push the envelope. Since the Galaxy phones run on Android, Google's operating system, which is used by most mobile-device makers, the firm needs to differentiate its high-end devices with ever better design and hardware. The Note 7, which sold for more than \$800, is replete with all kinds of features, including a super-high-resolution camera, an iris scanner (to unlock the phone)—and an especially powerful battery. "There is now so much that can go wrong in such devices," says Carolina Milanese of Creative Strategies, a consultancy.

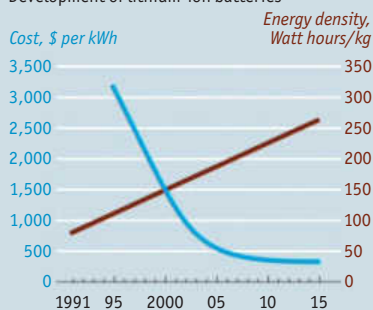
The financial cost of removing the device from the market will be substantial. On October 12th the company said that profits in the past quarter will be a third lower than expected because of the recall. Many Note 7 owners will now opt to buy Apple's iPhone 7 Plus or a Pixel phone from Google. But Samsung will move on fairly swiftly even if it kills the Note brand altogether, which some analysts are calling for. Within its extensive smartphone and tablet portfolio the Note is a niche product (it would be a different story if its bestselling Galaxy S7 devices were affected). And if the firm's new models, to be unveiled early next year, have no major flaws, it should be able quickly to restore its reputation as a maker of excellent hardware.

But the crisis has posed a number of questions for the company, and underlined longer-term problems. It now needs carefully to consider the increasing complexity of the products and of its supply chain in the light of the Note 7 debacle, argues Chang Sea-jin of the National University of Singapore.

Another contributing factor, albeit an ▶▶

### Turning up the heat

Development of lithium-ion batteries



indirect one, is Samsung's convoluted corporate structure, which features cross- and even circular shareholdings. This has allowed the Lee family to exert control over the group with an overall stake of a few percent. But the set-up has serious drawbacks. Corporate governance is below the standard of global firms. Most of the non-executive directors, for example, have limited experience in the technology industry.

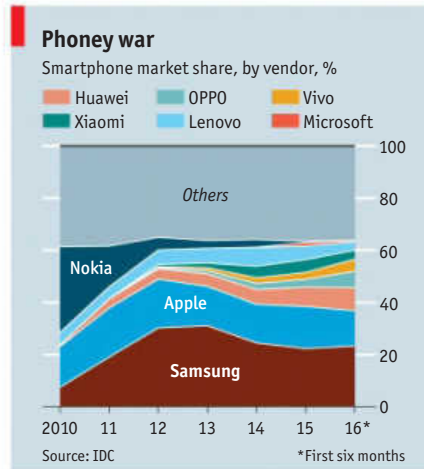
The Note 7 crisis should put wind in the sails of Elliott Associates, a hedge fund whose affiliates own 0.62% of Samsung Electronics. On October 5th it sent a letter to the Samsung directors with a detailed proposal for untangling the firm's hairball of shareholdings without the Lee family having to give up control (even at the point when they have to pay inheritance tax after the death of the older Mr Lee, which could amount to \$6 billion). The core of the plan is to simplify the structure by splitting Samsung Electronics into an operating and a holding company.

Although the younger Mr Lee is said to favour such a restructuring, he is unlikely to approve of Elliott's plan. It also provides for Samsung to make regular dividend payments, and to pursue a listing in America, obliging it to comply with international standards on corporate governance. But Elliott now stands a better chance of influencing matters than it did last year, when it failed to block the merger of c&t and Cheil, two Samsung firms, which helped consolidate the Lee family's control.

The battery crisis should also make Samsung move more vigorously to address another structural problem. Despite the firm's efforts to keep its devices at the cutting edge, smartphones and other connected devices are becoming ever more of a commodity. How useful and competitive they are will increasingly depend on the software and services they offer. But Samsung's culture is still based around a fast-follower mentality centred on hardware, notes Park Kang-hee of IBK Economic Research Institute, a think-tank in Seoul. Internally, he says, there will now be louder calls to alter that.

Samsung has so far responded mainly by buying startups, such as LoopPay and SmartThings, which have respectively developed a mobile-payment system and a platform for connected devices. But the value in digital technology is shifting from software and services to data and artificial intelligence. One example is the emergence of so-called smart speakers, such as Amazon's Echo and Google Home. These are delivery vessels for the two firms' digital assistants, Alexa and Assistant, and allow owners to use voice commands for playing music and ordering goods online.

To catch up, on October 6th Samsung acquired Viv, another digital assistant, created by the same people who had developed Siri, Apple's offering in this category.



ry. Although Samsung can build Viv into many of the devices it makes, ranging from smartphones to household appliances, the service may not be able to compete because Samsung lacks the data and skills to make use of them.

This weakness means that Samsung is

unlikely to remain as dominant in smartphones as it is today (see chart). That is a far more intractable problem than burning batteries. Still, it would be wrong to predict a decline on the scale of Nokia, which only a decade ago was the world's number one handset maker but has since exited to focus on making gear for networks (another difficult business, as a profit warning on October 12th from Ericsson, a Swedish firm, confirms). Samsung also has several other thriving businesses to rely on, such as semiconductors and electronic displays.

Perhaps one day Samsung will be as well known for its smart drugs as for its smartphones. In November the firm plans to take public its subsidiary BioLogics, a drugmaker, hoping to raise more than \$2 billion. Some of the money is earmarked to help it become a big contract manufacturer for biotech drugs. It has worked out that growing proteins in animal cells, at massive scale in ultra-clean factories, is quite similar to "growing" circuits on silicon wafers. Happily, in that business the risk of spontaneous combustion is very low. ■

## Working style in Japan

# Overdoing it

TOKYO

A new report shows how badly Japan needs labour reform

LATE of an evening, Japan's black-suited salarymen let their hair down in the streets of Shimbashi, a district of Tokyo. Shirts untucked, ties off, liquor flowing, they stagger around before heading home, or directly back to the office via a konbini (convenience store) to buy a clean shirt.

This is the harmless outlet for their stress: *karoshi*, or death by overwork, is the darker, and until recently, more overlooked one. This month the first ever government report into the scale of *karoshi* found that employees put in over 80 hours of overtime a month at almost a quarter of companies surveyed. At 12% of those firms the figure rose to a whopping 100 hours. These numbers may underestimate the problem; under a fifth of 10,000 companies contacted responded, which is a normal response rate, but firms with still worse overtime figures may have kept out of the study.

Little wonder that 93 people committed or attempted to commit suicide in the year to the end of March 2015 because of overwork. These are the cases where the government has officially recognised that families are owed compensation; activists against *karoshi* reckon the number is too low. Other workers perish from heart attacks or strokes due to long hours. The latest high-profile case is a 24-year-old female employee for Dentsu, a Japanese

advertising giant, who committed suicide in December.

Things have got somewhat better in recent years; more overtime is paid, for example. But further steps are needed. Shinzo Abe, the prime minister, says that changing the working style in Japan is one of the main aims of labour reforms that he plans to introduce next year. Yuriko Koike, the new governor of Tokyo, wants to improve the city's work-life balance and has banned workers in her office from staying past 8pm.

But it remains hard to overhaul business practices when the culture values face time and dedication to the job far ahead of performance. "The company is like a big team. If I leave work early, someone else has to shoulder my work and that makes me feel terribly guilty," says a 42-year-old IT worker who preferred to remain anonymous. It does not help that the shrinking and ageing of Japan's population means labour shortages. And all this overwork does little for the economy, because (thanks to the inefficient working culture as well as low use of technology) Japan is one of the least productive economies in the OECD, a club of rich nations, generating only \$39 dollars of GDP per hour worked compared with America's \$62. So the fact that workers are burning out and sometimes dying is pointless as well as tragic.

## Apple in Italy

## Made men

NAPLES

**An unlikely choice for Apple's new app academy could boost Italy's south**

AT A bar called "University" in San Giovanni a Teduccio, a rundown suburb of Naples, two blown-up photos adorn the walls: Albert Einstein and Steve Jobs, founder of Apple. Nelson Ciarravolo, the owner, put them up when the bar opened two years ago, long before the news came that Apple would open its first European iOS (its mobile operating system) developer academy in the district. Locals joke that Mr Jobs's photo may have gone up more recently. Either way, it signals that Naples has embraced the American tech giant. On October 6th Apple held the opening event for the new academy, which it will run in collaboration with Federico II University, after which the bar is named.

"We go to places nobody thought were possible", explained Lisa Jackson, vice president of environment, policy and social initiatives at Apple, at the inaugural event. Naples lags far behind northern Italy for transport and digital infrastructure, and criminality is rife. The Camorra, a mafia gang, runs one of the biggest drug-trafficking enterprises in the world from the city. The neighbourhood in which Apple has opened the academy (it is located inside a new campus of Federico II University) used to be more dangerous. "We used to see our friends die on the ground," recalls Davide Varlese, a cousin of Mr Ciarravolo. But things have improved over the past decade as authorities have clamped down. At least the Camorra doesn't come asking for money in bars any more, locals say.

Apple says the point of the app academy is to go where it can have the most impact. Tim Cook, its chief executive, said the aim was partly to be a good corporate citizen. The firm will train around 200 mostly southern Italian students how to code and write apps. A similar program exists in Rio de Janeiro. The company was also attracted by the prospect of working with a network of good universities in the area. The Campania region boasts seven, and Federico II is especially strong in engineering, accounting for a tenth of Italy's engineering graduates every year.

In addition, Matteo Renzi, Italy's prime minister, coaxed Mr Cook to invest in Naples. He wants to show that he is focusing on the country's south. Some also speculate that an agreement on Apple's tax bills may have accompanied the academy's genesis. The initial announcement in January came weeks after Apple agreed to pay €318m (\$350m) in taxes to Italy's treasury

## Advertising

## Gold posts

NEW YORK

**Social-media endorsements are the latest thing in advertising**

HAVING just received the latest PlayStation console from Sony, Dele Alli, an English footballer, posts a photo of it to his Instagram account. He dutifully thanks his benefactor and concludes the message: "#ad".

It is the latest frontier of a rapidly growing industry. Since January, more than 200,000 posts per month on Instagram, a picture-sharing app owned by Facebook, have been tagged with "#ad," "#sp" or "#sponsored", according to Captiv8, a firm that connects brands to people like Mr Alli. Most are reaching Instagram users via such celebrities. Hiring "influencers", as they are known, connects brands to a vast network of potential customers. Kim Kardashian West, a reality-TV star, for example, reaches 160m people across Facebook, Instagram and Twitter.

Consumers love the unprecedentedly deep access to the lives of the rich and/or famous that platforms offer. DJ Khaled, a music producer and prolific poster on

Snapchat (another picture-messaging app), delighted millions of his followers with live video updates of himself lost at sea at night on a jet ski. He is also an influencer for a brand of vodka. Paul Pogba (pictured), who became the world's most expensive footballer when he joined Manchester United, often shares videos of himself and friends practising dance routines at home, which all translates into valuable social-media exposure for Adidas, his sponsor.

Advertisers thus build a relationship with potential customers that traditional methods cannot reach. Sponsors value that highly (and whether the celebrity or their social-media manager does the posting seems not to matter).

Yet as media agencies and brands have piled in, the grey area between voluntary celebrity endorsements and paid advertisements has grown murky. Not all influencers label their posts clearly with "#ad". Consumer watchdogs are crying foul. One, Truth in Advertising, recently accused Ms Kardashian and her sisters of running "deceptive marketing campaigns".

Regulators have little choice but to respond. This summer America's Federal Trade Commission (FTC) successfully pursued Warner Brothers, a film studio, for failing adequately to disclose that it paid online influencers to give computer games rave reviews (the firm settled its case). The FTC plans to bring more. Media agencies say defining right and wrong practice would help. The FTC first raised concerns about social-media endorsements in 2009, but the rules are unclear.

The reaction from celebrities has also been swift. High-profile influencers on Instagram and Snapchat quickly began labelling their sponsored content with "#paid" and "#sponsored". The Kardashians amended their social-media feeds to say "#ad", or deleted posts. Nevertheless, social media is likely to remain a powerful enabler of the soft sell.



He's got the moves

to settle a dispute. The firm may need to burnish its reputation further: in August the European Commission told the Irish government to recover up to €13 billion in unpaid taxes from it.

Gaetano Manfredi, the rector of Federico II University, points to buildings nearby the new campus. Residents themselves repainted them to welcome their new neighbours—an almost unheard of happening in the south, he says. The hope is that Apple's

facility could help stem the region's brain drain. Youth unemployment in Campania is 53%. Dario, an engineering student who has just started at the app academy, says he hopes not to have to escape Naples once he graduates. Growing up in difficult circumstances makes you stronger, adds Antonio Caraviello, the boss of Sophia High Tech, a spin-off of the university which tests materials for the aerospace industry. Good news, then, for Apple's new recruits. ■

## Privatisation in Vietnam

## Cream of the crop

HANOI

**Vinamilk is one of the attractive firms on sale from Vietnam's government**

TO CELEBRATE its 40th birthday, Vinamilk, a big Vietnamese dairy firm, filmed a children's choir crooning adorably from the helipad of one of the country's tallest towers. In truth the company hardly needs to sing its own praises. Vinamilk is probably Vietnam's most familiar consumer brand, and it is widely considered to be the country's best-run firm. Over a decade its profits have grown by close to one-third each year.

Hence the interest among foreigners in a 9% share to be sold by the government this year—the first tranche in a disposal which should eventually see Vietnam's communist government give up its entire 45% stake in the firm. It is one of several big companies which the ruling party now promises to part with; two others are the Hanoi and Saigon beer companies, known as Habeco and Sabeco. After years of divesting mainly small slivers of unappealing enterprises, Vietnam is at last offering foreigners a slice of its best assets.

Vinamilk meets much of Vietnam's daily demand for dairy products, including four-fifths of its condensed milk (most often found lurking sweetly at the bottom of the country's famous coffees). Last year it earned pre-tax profits of around \$420m on revenues of \$1.8 billion, and has plenty of further room to grow. Vietnam's economy is expanding at more than 6% annually. For now, its 93m people drink far less milk than their neighbours.

Foreign investors already own about half of the firm (an unusually high share), which has a market valuation of more than \$9 billion. They praise the steady hand of Mai Kieu Lien, its boss for 23 years, who has kept Vinamilk closely focused on its core business while many other large Vietnamese companies have sprawled. It now wants to invest in more foreign ventures, beyond its present outposts in America, Poland, Cambodia and New Zealand. But it also aims to get more raw milk from within Vietnam itself, where dairy farming remains a fairly small business.

One keen bidder may be ThaiBev, a food-and-drink conglomerate attracted in part by Vinamilk's enormous distribution network. It already owns 11% of the dairy firm through a subsidiary, Fraser and Neave, and has cash to spend. Thai companies are piling into Vietnam, driven both by their neighbour's zingy consumer markets and by fears of stagnation at home. In December Singha, another Thai brewer,

said it was pumping more than \$1 billion into Masan Group, a conglomerate with operations in food, mining and banking.

ThaiBev is also thought to be among a half-dozen brewers eyeing the government's stakes in Sabeco and Habeco, which bureaucrats talk of selling by the end of next year. Vietnam's boozers drink almost solely beer. A big swig of it is still home-brewed and served in salty roadside pubs. The industry says production among corporate brewers has been growing by about 7% annually and could jump another quarter by 2020. Sabeco and Habeco hold around three-fifths of the local beer market; the sale of the government's 90% and 82% stakes, respectively, in the two firms should raise more than \$2 billion.

The government's pledges are a relief to investors who worried that after the Communist Party's five-yearly congress back in January, a conservative faction had gained in influence. The new leadership has tightened its grip on civil society, but appears ready to tackle vested interests which have previously held up sales of state-owned firms. It needs cash to fund new infrastructure and to rein in the national debt, which is nearing its legal limit of 65%.

Hiccups are inevitable. Many consumers worry that the impending sales to foreigners will kill off well-loved local brands (though that seems unlikely). There is some ominous talk of creating "golden shares" which could help the party's bigwigs retain influence over firms even when their stakes are depleted. The schedules will doubtless slip. But in contrast to previous sales, the government has made its plans for the country's leading companies surprisingly explicit and its timetables unusually clear. ■

## Technology in China

## Insanely virtual

SHANGHAI

**China leads the world in the adoption of virtual reality**

AT THE heart of an emerging technology cluster in London's Shoreditch lies the Stage, a big mixed-use building complex that is being developed by Vanke, a Chinese real-estate company, among a few others. A potential Chinese buyer of one of the flats in its 37-storey residential tower recently had a look around. She went from room to room, observing the furnishings and fittings. She marvelled at the city views from the balcony and peeped inside the refrigerator. There was no need for a flight to London. She toured the property using virtual reality (VR) goggles at Vanke's global marketing centre in Shanghai.



Better reality

The use of VR kit is quickly becoming widespread in China's property industry. Few real-estate firms in other countries are as advanced. China is fast emerging as the world's most important VR market, thanks to rapid adoption by property firms and by companies in other industries. The prompt take-up is not because Chinese firms make the best VR headsets, which they do not. In fact, the pioneers in cutting-edge hardware are America's Oculus, which is owned by Facebook, Japan's Sony, South Korea's Samsung and Taiwan's HTC. It is in California, not Chengdu or Chongqing, that the best software for VR games and movies is being developed.

But professional use of VR by Chinese companies (rather than by consumers) means that the place where the fledgling industry may make its very first fortune is the Middle Kingdom. Goldman Sachs, an investment bank, forecasts that the global VR market could well expand from next to nothing now to be worth as much as \$60 billion by 2025. Hardware would account for half of the market and software the rest. Goldman also predicts that mainland China will already account for a third of global VR headset sales this year (see chart on next page).

In the West the interest in VR has mainly focused on consumer applications like gaming. By contrast, in China business applications are an immediate and profitable avenue for growth. Property developers like Vanke are using VR to peddle expensive properties that are overseas or not yet built, and architects are using it in design. Education is another promising field. NetDragon, a Chinese software firm that attracted attention when it acquired Britain's Promethean World, an online education outfit, for some \$100m last year, is testing how VR software and hardware can be used in mainland schools (one idea is that ▶▶

The Economist

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▶ headsets could tell when children are tilting their heads, indicating boredom, meaning a change of subject or teaching method is required).

Companies specialising in VR are spending a great deal of time examining the growth in China's market. In addition to the quick adoption by Chinese businesses, this is for two other reasons to do with the consumer side, reckons Huang Zhuang, founder of China's Nao Chuan Yue, a start-up VR outfit. First, mainlanders are enthusiastic early adopters of whizzy technologies, even if the early versions are somewhat imperfect. Second, China leads the world in the use of the mobile internet. Mr Huang is convinced that the majority of users in future will access VR via their web-connected smartphones, not via goggles attached to personal computers or self-contained devices.

In other countries, including America, it is difficult for people to try out VR technology, notes Ryan Wang of Outpost Capital, a Californian venture-capital firm with investments in the sector. They have to fork out \$1,000 or more to experience high-end VR. That means there is as yet no clear, affordable path for American consumers to adopt the technology, says Mr Wang.

China, on the other hand, already has a full infrastructure in place for consumers to try it out. The very best VR equipment, such as HTC's snazzy Vive goggles, can be found at theme parks, shopping malls and experience centres right across the mainland. There are over 100,000 internet cafés offering VR sessions for just a few dollars. Dozens of local manufacturers are making cheap VR adaptors for smartphones. Purists look down on them, yet they could prove useful "gateway drugs" into what VR could eventually become, says Anjney Midha of КРСВ Edge, a technology investment firm in Silicon Valley.

So great is China's potential that HTC is treating the market as its first priority. The firm has forged alliances with Suning and Gome, two Chinese electronics retailers, to distribute its products. It plans to set up over 10,000 sophisticated "experience centres" for VR across the country. It has made

deals with thousands of karaoke bars and gaming cafés. Alibaba, a big e-commerce firm, plans soon to launch a service that will allow the purchase of physical goods using VR equipment. VR movies are soon coming from Tencent, a gaming and messaging giant. "There is faster adoption and a wider embrace of VR here than in any market in the world," declares Alvin Graylin, a VR executive at HTC.

It is possible that VR executives are making overly optimistic projections, as if wearing their own headsets, but the money-men are certainly listening. A consortium of several dozen venture-capital firms that are investing in the sector, organised by HTC, held its first meeting on September 20th. Fittingly, although the group included several Silicon Valley firms, the get-together took place in Beijing. ■



### Business schools

## Campus vs beach

### The full-time MBA is under pressure from specialist degrees and online education

THE CONVICTION that the secrets of commerce can be taught in a classroom, whether real or virtual, shows little sign of fading. In America, more master's degrees are awarded in business than in any other discipline—over 189,000 in the 2013-14 academic year, the latest for which figures are available. Business is the most sought-after master's qualification in the world. The majority are masters of business administration (MBA), covering a broad range of business skills, a qualification that is close to a mandatory requirement for a budding tycoon. At any one time, around two-fifths of chief executives at Fortune 500 companies are likely to hold an MBA.

Yet a fresh case study on the MBA may be in the making. Interest in the full-time variety has waned markedly in recent years. Applications to most programmes are either falling or static, according to the Graduate Management Admission Council (GMAC), an association of business schools. Data from *The Economist's* own latest ranking of full-time MBA programmes tell the same story. Five years ago, a business school on our list could typically expect to receive 17 applicants for each available full-time MBA place. This

year the figure is 10.

The MBA is under pressure on two fronts; from specialist masters degrees, for example in finance or data, which are growing in popularity; and also from online education, which is quickly shedding its former, shoddy reputation. Specialist degrees are taken straight after a bachelor's degree, and appeal to today's new graduates, many of whom are still feeling the effects of the Great Recession. Unemployment among recent graduates in America is back to pre-recession levels, but underemployment is higher, at 12.6% compared with 9.6% in 2007, according to the Economic Policy Institute (EPI), a think-tank.

This has encouraged many to shelter in education for a while longer and to learn a specialised discipline. Yulia Kot, a 21-year-old graduate reading for a masters in international finance at HEC Paris, says she needed a "big push" before embarking on a career in investment banking. Because jobs in that sector are now hard to come by, she says, she has to have the specialised qualification. Big data is another growing area of study. Last year, 94% of schools that offer a masters in subjects such as business analytics saw applications rise significant- ▶▶

### You didn't have to be there

Virtual reality headset shipments, forecast, m

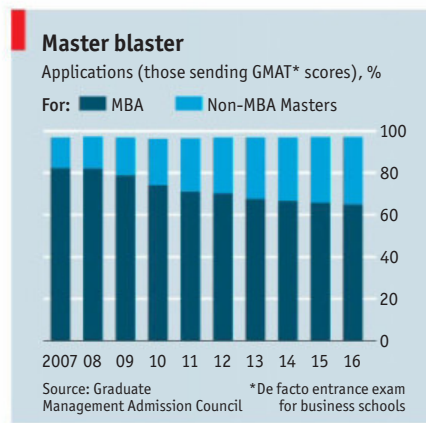


Sources: iResearch; Goldman Sachs

ly. It was big business itself that lobbied for the programmes, says Daniel Wright, vice dean of Villanova University's business school in Pennsylvania, because firms found that traditional MBAs were falling short in areas such as statistics.

Students who take the specialist business degrees and who then start in the workforce are far less likely to want to stop five years into their job and take a full-time MBA. And recruiters, too, are less keen on hiring MBAs. Big banks, in particular, hit by the crisis, no longer run huge business-school recruiting programmes. Employers now have two main needs, say MBA experts. They are looking for people they think have leadership skills, and who can come up with ideas on strategy, but they also need graduates who can carry out specific, complex tasks. They tend to raid generalist MBA programmes for the former and specialised masters programmes for the latter.

Those bent on the generalist qualification, meanwhile, are increasingly choosing internet MBAs. These used to be thought of as a poor substitute for the real thing, offered by so-called degree factories, from which few of the thousands of business students who joined would actually graduate. But things have moved on. The very best business schools are offering online MBA programmes, and their number will grow by 9% next year, according to GMAC. "We often mistake the fact that millennials were born digital with a desire for online formats," says Sangeet Chowfla, the president of GMAC. In fact, millennials want the experiences that come from campus education. Online options appeal most to the



older generation, who can combine them with their full-time jobs, he says.

The high cost of the traditional MBA has left it particularly vulnerable both to specialist degrees and to the online sort. Tuition fees for HEC Paris's 16-month MBA, for example, are €58,000 (\$63,768), compared with €31,000 for its one-year masters in international finance. The return on investment—ie size of salary—from an expensive, traditional MBA has gone down since the recession.

There are online courses that cost nearly as much as their full-time cousins—the online MBA at the University of North Carolina, which comes 22nd on *The Economist's* ranking, for example, costs \$105,000, not much lower than the flagship campus programme—but most are far cheaper. Many students enrolled on the course at the University of North Carolina are firmly attached to their jobs and would not have considered an MBA course were it not for

the chance to study online. Michelle Middleton, the chief operating officer of an insurance firm in New York, says that, 28 years after she took her undergraduate degree, returning to campus for an MBA was never an option, but with the online version she was able to complete classes on planes, trains and even the beach. Her firm promoted her twice as she studied.

Critics of online programmes argue that nothing beats the immersion that a university campus offers, where students mix daily with members of faculty and with well-connected peers. It is a selling point for the best business schools. Mid-ranking institutions may be struggling to fill classes for traditional, full-time, campus-based MBAs, but those at the top have no shortage of applicants. As the number of average MBA courses expanded in recent years, it is seen as more important to make an impression on employers by attending one of the top schools. The dean of the Tuck school at Dartmouth College, Matthew Slaughter, says that nothing could convince him, for that reason, to launch a wholly online MBA (it is a highly-ranked school).

For most in the sector, it seems inconceivable that a serious business school would not offer a full-time MBA. But over the past few years some, including ones formerly included in *The Economist's* ranking, such as North Carolina's neighbour, Wake Forest University, have abandoned their flagship campus programmes and now offer only part-time courses. More may soon depart from the traditional approach. As one old business-school saw has it, organisations must adapt or die. ■

### The world's best MBA programmes

While many MBA programmes are feeling the pinch, life is rosy for the very best business schools. Chicago retains its place at the top of our ranking of full-time MBAs. It is the sixth time in seven years that it has taken first place. Like most of Chicago's peers, nearly all of its MBA class can expect to find a job immediately after graduation, with a basic salary well in excess of \$100,000. Such degrees do not come cheap. The average cost of tuition at the top 15 schools is \$112,000. America, the spiritual home of the MBA, dominates our list, accounting for 11 of the top 15 schools. The ranking is based on a mix of hard data and subjective marks given by students. It weights data according to what students tell us is important. The four categories covered are: opening new career opportunities (35% weighting), personal development and educational experience (35%), increasing salary (20%) and the potential to network (10%).

Which MBA? Our ranking of full-time MBA programmes

Rank 2016 (2015)	Business school	Country	Median salary of new graduates, \$	Increase on pre-MBA salary, %	Graduates in jobs within 3 months, %	Mean GMAT score of students*	Mean work experience of students, years	Total tuition fee, \$	Duration of programme, months
1 ◀ (1)	Chicago (Booth)	US	123,561	71	97	726	5	127,960	21
2 ▲ (7)	Northwestern (Kellogg)	US	121,516	70	96	724	5	128,118	21
3 ▼ (2)	Virginia (Darden)	US	119,819	84	96	706	5	127,240	21
4 ◀ (4)	Harvard	US	141,192	61	94	725	4	127,350	18
5 ▲ (13)	Stanford	US	133,406	66	92	733	4	133,080	21
6 ▼ (3)	Dartmouth (Tuck)	US	123,900	76	99	717	5	128,400	21
7 ▼ (6)	California at Berkeley	US	123,403	69	95	715	5	111,936	21
8 ▲ (14)	IESE	Spain	120,558	125	95	687	6	85,932	19
9 ▼ (5)	HEC Paris	France	121,080	153	90	689	6	67,200	16
10 ▲ (16)	Queensland	Australia	120,780	12	93	n/a	12	49,620	24
11 ▲ (12)	Columbia	US	127,637	69	97	715	5	131,976	20
12 ▼ (10)	Pennsylvania (Wharton)	US	127,406	55	98	732	5	141,740	20
13 ▼ (8)	INSEAD	Fr./Sing.	112,617	65	89	705	6	72,772	10
14 ▼ (9)	UCLA Anderson	US	114,392	78	92	713	5	115,688	21
15 ▲ (19)	Yale	US	119,066	83	93	721	5	128,400	21

For full ranking and methodology go to [Economist.com/whichmba](http://Economist.com/whichmba)

\*De facto MBA entrance exam, out of a possible 800

# Schumpeter | The business of outrage

Some Americans are getting rich by pushing politics to extremes



ONE of the gentler quips uttered by the writer and thinker H.L. Mencken was that nobody ever went broke underestimating the intelligence of the American public. By the same token, nobody ever went broke overestimating the anger of the American people. The country is in an unusually flammable mood. This being America, there are plenty of businesspeople around to monetise the fury—to foment it, manipulate it and spin it into profits. These are the entrepreneurs of outrage and barons of bigotry who have paved the way for Donald Trump’s rise.

The very first of them was Rush Limbaugh who, back in the 1980s, transformed himself from a disc jockey into a radio commentator. Mr Limbaugh shook up the ossified talk-show format by dispensing with the tedious call-ins and adding anarchic humour. Soon an army of “ditto-head” followers hung on his every word. He has 13m regular listeners and hundreds of imitators, ranging from national stars such as Sean Hannity to local ranters.

The second entrepreneur of outrage was Roger Ailes, a Republican operative who teamed up with Rupert Murdoch to build Fox News. Mr Ailes took talk radio and added tv production values and 24-hour news. Mr Ailes has now left Fox News following a sex scandal. But his formula—outspoken conservative pundits (such as Bill O’Reilly and the ubiquitous Mr Hannity) plus serious journalists—continues to produce results. Fox is the highest-rated cable-news channel but is also respectable enough to host presidential debates.

The internet produced a new crop of outrage merchants. Matt Drudge got in early with a quirky website that published material the mainstream press deemed too hot to handle. Then 9/11 and an outpouring of patriotism gave another boost to the conservative blogging industry. But the most successful of the internet generation was Andrew Breitbart. He started in journalism working for Mr Drudge, then helped Arianna Huffington set up her website and put the two experiences together to launch Breitbart News—a no-holds-barred website that spends at least as much time attacking liberal institutions as it does commenting on daily news. Mr Breitbart died of a heart attack in 2012, aged 43, but found an equally hard-edged successor in Stephen Bannon.

Messrs Limbaugh and Breitbart were quintessential examples of Clay Christensen’s “disruptive innovators”. They discovered a

vast, underserved market—people who were interested in the news but who had little in common with the Ivy League university-educated liberals who dominated regular news outlets such as NPR. Mr Limbaugh used a technology that was supposed to be dying—AM radio—but which allowed him to communicate with his followers as they drove to work. Breitbart News built an audience of millions without backing from a bigger media company. Contrary to what Marshall McLuhan, a media scholar, said, what mattered was not the medium but the message.

The message that flew off the shelves was outrage. Messrs Limbaugh & Co divided the world into two camps—hardworking Americans struggling to make a living versus liberals bent on taking them for a ride. They railed at limousine liberals who preached one thing and did another. They reserved particular venom for internal traitors—RINOS (Republicans in name only) and (soft) squishes—who were constantly selling them out in return for establishment kudos. Mr Limbaugh summed up the outrage entrepreneur’s formula for success in a single phrase: “What the hell is happening out there?”

Fury can easily turn into bigotry. Mr Limbaugh called Sandra Fluke, a student who campaigned for free contraception, “a slut”. And, like drug addicts, outrage junkies require ever stronger fixes to achieve the same effect. Breitbart News, in particular, has excelled in pushing boundaries. It has employed undercover “journalists” to get people to say shameful things. It specialises in publishing items of “click bait” that have little factual basis but create an image of a world gone wild. It has provided platforms in its comment section for members of far-right hate groups who rail against immigration and Jews.

The outrage industry has clearly reached a milestone with Donald Trump’s presidential campaign. Mr Trump’s training for his reinvention as a politician was the show “The Apprentice” on NBC. He won the hearts of 13m Republican primary voters by recycling conservative media hits such as “build a wall” and “ban all Muslims”. He tried to rescue his troubled campaign by drafting Mr Bannon as his chief executive.

## There are big bucks in bigotry

The question in American politics is whether the milestone is the end point or another marker on a long road. Many Republicans reckon the outrage industry is a mortal threat to their party, landing them with an unelectable candidate for what should have been a winnable election. “They’re in the hate business, they’re a bunch of nuts,” Stuart Stevens, Mitt Romney’s chief election strategist, said on CNN about Breitbart. The formula may not last. The audience for talk radio and Fox News is ageing. Advertisers are reluctant to be associated with toxic content. Several mainstream brands fled Mr Limbaugh’s show after his “slut” remarks.

Yet anyone who thinks the outrage boom is finished is likely to be disappointed. If Mr Trump wins the election, America will discover what it is like to be run by the entrepreneurs of outrage. If he loses, he may turn his presidential campaign into a media empire, encompassing 24/7 Trump tv and more. Conservative media will still have the doings of the Clinton family to help propel profits from all those who hate them. And foreign markets beckon. Breitbart News has opened offices in London, and is producing a stream of stories about Islamic terror attacks, the refugee crisis and Brexit. It plans to expand into Belgium, Germany and France. Whatever happens on November 8th, Mr Trump’s presidential campaign signals that there is worse to come. ■





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Chinese property

# When a bubble is not a bubble

SHANGHAI

## A severe imbalance in land supply fuels China's wild property market

ESTATE agents in China, as elsewhere in the world, are normally a smooth-talking, self-assured bunch. But Liu Zhendong, a salesman at a large development in the northern reaches of Shanghai, is afflicted by doubts. He had expected business to be solid and steady this year. Instead, it has been manic, with clients jostling to see show apartments. Some had hoped to wait for the market to cool, but capitulated and bought as prices climbed higher week after week. Flats in the area, the once-rural village of Malu, still dotted with fields and scruffy wholesale food markets, now cost 90% more than a year ago. "It feels a bit like a bubble," he says.

Mr Liu is in good company. Even the head of the central bank's research bureau, usually cautious in his choice of language, has said a property bubble must be stopped before it gets too big. House prices have climbed by 16% nationwide over the past year, and double or even triple that in big cities. So in the past two weeks more than 20 municipalities have tried to calm the market down—for example, by requiring higher down-payments or limiting purchases by residents of other cities.

As the past decade has shown, the ups and down of China's housing market are of global significance. Totting up the property sector's impact on investment and consumption (all the furniture and gizmos that fill new homes), it accounts for about a

quarter of Chinese GDP. So this year's rebound has prompted both hope and dread. It has helped GDP growth stabilise at about 6.7%, faster than most analysts forecast in January (third-quarter data will be released on October 19th). Stronger demand for iron ore and copper has given beleaguered miners a measure of relief.

Optimism, however, has been tempered by concerns about the nature of the revival. Surveys indicate that about one-fifth of buyers are investors rather than owner-occupiers. CEBM, a research firm, estimates that this share rises to up to 60% in core districts of mid-sized cities. Even more worrying has been the increase in property developers' borrowing. Zhang

Zhiwei of Deutsche Bank says they face a prisoner's dilemma: if too conservative, they will get squeezed out of the market; so they choose to be aggressive. They have driven up land prices by 66% this year, according to an index of 100 leading cities. Mr Zhang examined 252 of these land auctions and concluded that two-fifths of winning bidders will lose money if house prices level out, let alone decline.

The sharp rise in house prices also seems out of kilter with the broader economic picture. Income growth is slowing as the economy matures, making homes steadily less affordable. That helps explain the frenzy in the market. During a holiday week at the start of October, huge crowds swamped sales centres when new properties were put on the market. In Shanghai, divorces have spiked as people take advantage of a loophole in regulations. Couples can get a preferential mortgage rate only on their first home. Divorced spouses can benefit by buying homes separately and then remarrying.

Such behaviour smacks of irrational exuberance, but caution is in order before delivering that verdict. Investors, analysts and the press have been predicting Chinese real-estate Armageddon for the better part of a decade. But there has been no nationwide crash. Prices have weakened for a time, typically when the government clamps down on buying, only to take off again every few years.

For all the signs of excess, officials have in fact done well to guard against the biggest potential vulnerability: over-borrowing by homebuyers. Despite a recent surge in mortgage lending, household balance-sheets are on the whole in good shape. Moreover, strict down-payment rules mean that buyers typically put up cash for as much as half the price of the home. Even ▶▶



▶ if prices fall, they are unlikely to walk away from their mortgage debt. This helps insure against the downward spiral of foreclosures and falling prices that has wreaked havoc in other countries.

This is not to deny that the Chinese property market faces serious problems. But “bubble” may be a misdiagnosis. The real pathology is a severe imbalance in land supply, argues Larry Hu of Macquarie Securities. Smaller cities have plenty of land for building but shrinking populations. Big cities, where people actually want to live and work, are sitting on large land banks but releasing only small plots.

Shanghai has about 1,800 sq km of farmland but sold only five sq km for homebuilding last year. The result, predictably, has been soaring home prices.

Why not sell much more land in big cities? Doing so would fundamentally alter the rules of the game, causing pain for lots of important players, Mr Hu argues. Governments in big cities count on incremental land sales as a source of revenue; governments in small cities hope the restrictions will eventually send people their way. This is, in other words, a political problem as much as an economic one.

Mr Liu, the agent at the Malu develop-

ment, knows both sides of the property market. A few years ago he bought a flat in his home town of Jiuhuashan, a five-hour drive to the south-west. It now gathers dust, empty except for a week during the Chinese New Year holiday, when he returns home. Still young, he has no intention of moving back to Jiuhuashan permanently. The mountains there are stunning but the economy sleepy. Rather, Mr Liu hopes to buy a home in Shanghai eventually and has started saving up for it. The booming prices of the past year have kept him busy at work, but pushed his dream ever further into the distance. ■

## Buttonwood | Flash and the firestorm

### The pound's weakness is a vote of no confidence

**I**F A country's exchange rate represents international investors' confidence in its government's policies, the markets have given Britain the thumbs-down. So far this year, only the Nigerian naira among major currencies has put in a worse performance.

The decline seems to be accelerating. On October 7th the pound fell from \$1.26 to \$1.18 against the dollar within a few minutes, with one trade reported below \$1.14. The shift occurred during Asian trading, when liquidity in sterling is likely to be thinnest. The most likely explanation for the plunge lies in the action of algorithmic trades—computer programs that automatically buy and sell assets, from currencies to commodities. Such programs may be designed to sell when an asset's price falls below a certain level. These sales can be contagious, with one program's trades setting off the sell signals of other algorithms.

The most famous “flash crash” occurred on Wall Street in May 2010, when the Dow Jones Industrial Average fell by almost 1,000 points in the middle of a trading day. On that occasion, the market righted itself before drifting lower in subsequent weeks. This time, even an initial rebound in the pound still left the currency significantly weaker on the day and it dropped below \$1.21 on October 11th. In trade-weighted terms, it is close to a record low (see chart).

That points to three conclusions. The first is that there was more at work than algorithms. The pound's fall followed a series of speeches at the annual conference of the ruling Conservative Party, which were widely perceived as anti-business and anti-immigrant.

Following the referendum in which Britain voted to leave the EU, the government appears to be pursuing a “hard



Brexit”, in which economic aims (free trade and membership of the single market) are subordinated to the political priorities of legal sovereignty and reduced immigration. Analysts at UniCredit, an Italian bank, said that “investors are now perplexed by the country's vision on immigration, openness and business friendliness. This will be detrimental to the outlook for sterling given the global status that the UK has enjoyed for many years.”

When investors lose confidence in a country's policy, they can show their displeasure by selling its government debt, forcing yields higher. That was the cause of the firestorm in the euro zone in 2010-11. But in Britain, which has issued debt in its own currency, its central bank can buy it. It has recently resumed doing so, via a quantitative-easing (QE) scheme. Its ten-year bond yields have drifted higher but they are still just 1%, close to historic lows.

The second lesson of the flash crash is that volatility will emerge where it can. Europe had tried to reduce foreign-exchange risk by creating a single currency. So the bond market took the strain. Now that several central banks are pursuing QE policies,

the bond-market vigilantes, who so terrorised governments in the 1980s and early 1990s, have been neutered.

According to analysts at HSBC: “The question we have asked hundreds of investors throughout the world is ‘do you want to buy a currency that has massive twin deficits [ie, in its government budget and current account] with an unknown political direction and for that risk you can get zero rates?’ We should have some kind of risk premium.” Since it is not showing up in the bond markets, they argue, the currency takes the heat.

Because inflation is below target, the Bank of England will probably be relaxed about the impact of a weaker pound; indeed, since its last action was to cut interest rates, it seems unlikely to tighten monetary policy to defend sterling. But the effect of higher inflation will be a squeeze on real incomes for British workers. Unless a currency is overvalued (as the pound was in 1992), voters should not generally cheer rapid depreciations. Repeated devaluations have not made Venezuelans or Zimbabweans rich.

The third lesson of the flash crash is that markets are not as liquid as they used to be. This seems to be a consequence of tighter banking regulations after the 2007 crisis: banks are less willing to commit capital to trading.

That is probably a net gain for financial stability. Banks have lots of leverage and big losses create a systemic risk; long-term institutional investors such as pension funds and insurance companies can absorb the pain of short-term asset-price moves. But it means that market-watching will increasingly resemble the life of a soldier: long periods of calm interspersed with moments of blind panic.

Wells Fargo's boss stands down

## Stumped

NEW YORK

What a scandal says about Americans' attitude towards banks

WHEN you consider the hundreds of billions of dollars of losses and fines that the banking industry has made or incurred over the past decade, the affair that has just ended the career of John Stumpf, the boss of Wells Fargo, may at first seem innocuous. In September Wells admitted that its retail-banking sales people had been too pushy, and agreed to pay regulators a \$18m fine, a tiny sum by recent standards (Deutsche Bank is presently in negotiations to pay a fine of perhaps \$5 billion to American regulators). Mr Stumpf probably thought that he had a couple more happy years to go as the head of the world's most valuable bank.

But on October 12th, he stepped down after being roasted alive for weeks in an inferno of criticism. Wells's transgressions have caught the public mood far more than esoteric abuses in the mortgage-backed-security market ever did. The bank admitted that its staff created up to 2m bogus accounts, without customers' permission, in order to meet aggressive sales targets. To many Americans fed up with banks' red tape and lousy service that seemed reckless, unforgivable and possibly criminal.

Wells had already sacrificed some lambs, having fired over 5,000 employees involved in the fake accounts, and engineered the retirement, in July, of the executive in charge of its retail arm. But over the course of the past month the pressure grew on Mr Stumpf, who forfeited \$41m in compensation. He was savaged in a congressional hearing, where he said that he, as chief executive, was accountable to the board, of which he was chairman. Politicians asked why bank regulators took the mass fabrication of accounts so lightly. Chicago's city council said it would boycott the bank. Eventually the episode began to squeeze the bank where it really hurt: its share price. Wells's market capitalisation has dropped by \$25 billion since the start of September, and it has lost the global top spot to JPMorganChase.

Wells will hope that the scandal will now pass. Mr Stumpf has been replaced as chief executive by Tim Sloan, a bank veteran. Unusually for a big American bank, it will now have a non-executive chairman, Stephen Sanger. Despite the fake accounts scandal, the bank is in decent condition. It sailed through the 2008-10 crisis, buying a distressed competitor, Wachovia, and is profitable and well capitalised. It is relatively simple and focused on America.

Even so, investigations and legal cases relating to the affair will simmer for years. The hostility comes from both left and right. Elizabeth Warren, a left-wing senator, has denounced the bank in furious terms. But so has Jeb Hensarling, a libertarian congressman in charge of the House Financial Services Committee, who has previously argued that banks are over-regulated. He has said his committee's inquiry into the bank will continue.

For the rest of the industry, the Wells affair has three lessons. First, the cumulative effect of bank scandals and a mood of populism means that the environment may still be as dangerous as immediately after the 2008-10 crisis. Investors are worried that scandals they once would have viewed as minor can spiral out of control. A mesh of litigation, boycotts and bad publicity can damage long-term profits.

Second, banks may need to make their boards more independent, to create a fire-break when executives mess up. Wells Fargo is not the first big bank to split the chairman and chief-executive roles—Citigroup did in 2007. But JPMorganChase, Morgan Stanley, Bank of America and Goldman Sachs are still ruled by all-powerful figures, such as Jamie Dimon (JPMorganChase) and James Gorman (Morgan Stanley). That is now harder to justify.

The final lesson is for those all-powerful figures. Mr Stumpf was a highly regarded figure in the industry, and Wells viewed as a well-run firm. Yet, at best, he seems to have been unable to control the workings of his organisation, with its \$2 trillion balance-sheet and 265,000 staff. Several other banks are as big as Wells and almost all are more complex than it, straddling lots of different countries. It seems unlikely that Wells Fargo is the only one that has become a nightmare to manage. ■



Retired hurt

Portugal's economy

## Adventure tourism

Weak growth makes Portugal vulnerable again

VISITORS to Lisbon, Portugal's hilly capital, usually seek its nightlife, its sweet custard tarts (*pasteis de nata*) or its gothic architecture. But no guidebook could help two visitors on October 10th. The pair of analysts, from Dominion Bond Rating Service (DBRS), a Canadian credit-ratings agency, went to assess the creditworthiness of the Portuguese government.

Markets are waiting anxiously for October 21st, when DBRS will update its rating of Portuguese sovereign debt. Hints from DBRS have been playing havoc with the ten-year bond yield: in August a gloomy comment from Fergus McCormick, DBRS's chief economist, saw it climb 14 basis points (hundredths of a percentage point). This week, word that DBRS was "totally comfortable" with the government's fiscal position saw it dip by ten basis points.

This unusual attention to a little-known ratings agency is due to the eligibility rules for the European Central Bank's (ECB) quantitative-easing scheme. The ECB will buy only sovereign debt that is rated as investment grade by at least one of four approved ratings agencies: Fitch, Moody's, Standard and Poor's and DBRS. At the moment, only DBRS grades Portuguese sovereign debt above the threshold. A downgrade would also prevent the ECB accepting Portuguese debt as collateral for banks within its liquidity scheme.

A negative decision would hit confidence and demand for Portuguese government bonds. In September alone the ECB bought €1 billion (\$1.1 billion) of them, a big amount in a market worth just €112 billion overall. A rise in borrowing costs would hurt, though a lurch back into full-fledged crisis is unlikely. The government's debt-management agency has a lot of cash on hand, and it has been actively refinancing its borrowing on longer maturities. According to Kathrin Muehlbronner, of Moody's, it "can certainly stay out of markets for quite a while."

Higher debt yields would, however, dampen the economic outlook. A downgrade would also put pressure on the Portuguese banks, by depressing the value of the government bonds they hold and obstructing their access to ECB liquidity. Andre Rodrigues of Caixa-Banco de Investimento, an investment bank, does not think access to liquidity is a problem in the short term, because bank balance sheets are "awash" with liquidity. But a downgrade would make it pricier. ►►

▶ All this puts DBRS in a tricky position. It has become part of the risk it is trying to assess. But Mr McCormick insists its decision will be based on longer-term fundamentals. Even the details of the budget for 2017, due to be presented to the European Commission by October 15th, are unlikely to influence its decision too much, as shaving the deficit by a few percentage points will not alter the basic fiscal position.

Deep problems lurk in the Portuguese economy, particularly in its banking sector. Portuguese banks suffer from a squeeze on profit margins from low interest rates, high costs and murky asset quality. On October 11th the Bank of Portugal, the central bank, revealed that 16.5% by value of corporate loans were non-performing, and as much as 36% in the construction sector. And although in August the European Commission agreed that the Portuguese government would be allowed to inject up to €2.7 billion of capital into Caixa Geral de Depósitos (CGD), the state's exposure to CGD (the country's largest bank) could still amount to 1.5% of GDP.

An even bigger concern is the pace of Portuguese economic growth. In January the government expected GDP to grow at 2.1% in 2016, but so far this year it has staggered ahead at less than half that rate. The outlook is grim: structural reforms have disappointed; euro-zone demand is weak; and the hawkish glare of the commission limits room for a fiscal kick.

Weakness is self-reinforcing. Investment is being stifled by the weight of the corporate sector's debt, which is close to 140% of GDP. And unhealthy banks cannot afford to force borrowers to the wall. In theory, the previous government made it easier to restructure debt, but in practice this is not being seen, says Ms Muehlbronner.

Commenting on the most important factors influencing DBRS's decision, Mr McCormick says, "it's not debt, it's growth." The days up to October 21st will be spent trying to work out whether recent weakness is enough to destabilise the Portuguese government's debt-to-GDP ratio. A decision of no change would be a vote of confidence, at least for now. ■

## America's workers

# Feel the force flow

WASHINGTON, DC

## How long can America create jobs without unemployment falling?

YOU would expect strong job growth to be accompanied by falling unemployment, but America is proving that one does not always entail the other. Over the past year, employment is up by fully 3m but the unemployment rate has stayed around 5%. In fact, a few more workers are unemployed than a year ago (see chart). The reason is that more Americans are seeking jobs. Over the past 12 months the labour-force participation rate of so-called "prime-age" workers—those between 25 and 54—is up by just under one percentage point, the fastest growth recorded since January 1989. Economists trying to spot inflation on the horizon want to know how long this trend can continue.

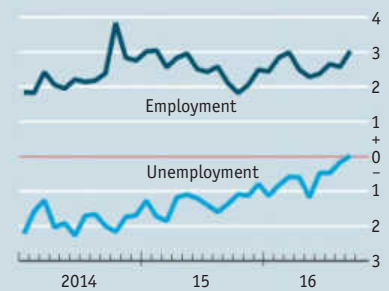
The recent surge in prime-age participation follows a long decline from its peak, 84.6%, scaled in January 1999. Between then and September 2015, it tumbled by an average of about a fifth of a percentage point a year. Among men, it had been falling since the mid-1960s. The long slide accelerated after the financial crisis, as laid-off workers quit the labour force in droves.

Hence the refrain of some that low unemployment is a mirage: stronger economic growth, they say, could draw plenty of folk back into work. Indeed, some 1.8m people say they want a job, but are not technically in the labour force because they have not recently looked for one. Restoring the employment-to-population ratio among prime-age workers to its pre-crisis high would require getting all these hands to work and then some: a total of at least 2.9m new jobs would be needed (or more, since the prime-age population is growing by about 0.3% a year).

This reservoir of potential workers remains untapped. Rising participation does not reflect more Americans getting off the couch to seek work. Rather, the long-term unemployed are less likely to stop looking for a job. The probability of a worker who has been unemployed for 53 weeks or more leaving the workforce in a given month is about 25% today, down from over 30% at the end of 2015, according to Zach Pandl and David Mericle of Goldman Sachs. That more than accounts for higher participation, they say, because rejoining the workforce has become slightly less common over the same period. The newfound reluctance of jobseekers to give up may reflect the restoration in January in 22 states of strict limits on the period when the jobless can claim food stamps.

### On the up and up

United States, change on a year earlier, m



Source: Bureau of Labour Statistics

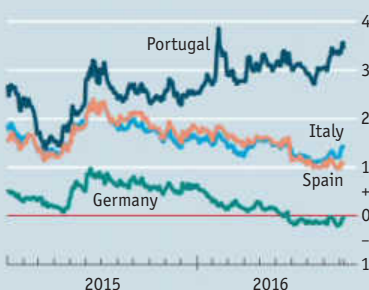
This wealth of potential workers suggests that participation could rise much further. But there are reasons for scepticism. A new paper by Alan Krueger of Princeton University finds that participation is only loosely connected to short-term swings in the economy. Instead, Mr Krueger identifies several underlying factors holding it down. For instance, even within the prime-age bracket, the population has been ageing. Those aged 45-54 have long been less likely to work than those aged 25-34. And prime-age men outside the workforce are in startlingly bad health. Nearly half of them take painkillers daily; 34% report at least one disability (though only 25% receive disability benefits). A vast majority say that their disability is a barrier to employment.

An unpublished paper by Mark Aguiar at Princeton University and three co-authors suggests another potential obstacle: that better video games could be luring young men away from work. Mr Krueger reports that among men aged 21-30 "idleness"—meaning not working, seeking work or studying—rose by 3.5 percentage points between 1994 and 2014. Over the past eight or so years, the time young men outside the labour force spent gaming rose from 3.6 to 6.7 hours per week.

Any of these forces could halt the recovery of participation, but it is hard to know whether they will. Messrs Pandl and Mericle think the remaining slack in the labour market is equivalent to only 0.5% of the workforce. But their estimate has been roughly flat since early 2016, suggesting the economy's speed limit is not being tested. Until it is, the Federal Reserve, which is pondering raising interest rates, should let employment keep growing strongly. ■

### Danger signs

Ten-year government-bond yields, %



Source: Thomson Reuters

## Bangladesh's missing millions

## Hide and seek

DHAKA AND MANILA

**The Great Central Bank Robbery is a mystery—and likely to remain one**

IT WAS one of the most spectacular robberies of modern times. In February thieves tried to steal nearly \$1 billion from accounts held by Bangladesh Bank, the central bank, at the Federal Reserve Bank of New York. They were thwarted, but only after spiriting away \$100m. Since then Bangladesh's government has twice suppressed the publication of a report into the heist, most recently last month, on the ground that making it public would jeopardise efforts to retrieve from the Philippines \$81m that is still missing. Interviews with officials and others in Dhaka lead to an obvious conclusion: the report will almost certainly never be made public.

The investigating panel's remit was to establish why the central bank kept the theft secret for a month, whether bank officials were involved in it and how to avert a similar heist in future. Mohammed Farashuddin, a former central-bank governor, who led the probe and once advocated its publication, will not comment on its findings. The word in Dhaka is that the report is being buried because it exposed lapses at the central bank and implicated its officials or consultants. The government has consistently blamed outsiders: hackers, the New York Fed and SWIFT, the messaging network for cross-border payments on which the transactions took place.

The government is still trying to retrieve stolen money from the Philippines. Much of it flowed through casinos in Manila. The country's president, Rodrigo Duterte, has promised to help. In September a court in the Philippines ordered the central bank, which received some of the stolen money, to return \$15m. Filipino officials may be hoping the Bangladeshis will take their money and leave them in peace. That is a small price to pay for keeping their money-laundering controls lax enough to continue to attract wealthy Chinese gamblers.

Nobody has yet explained how the thieves managed to send the New York Fed properly authenticated SWIFT transfer orders. Nor is it clear why the Fed's controls failed to stop odd-looking transfers to accounts held by individuals. Few think it possible to hack into the SWIFT systems at Bangladesh Bank and issue transfer orders without the physical presence of a person inside the central bank. If it did turn out to be possible, it would be hugely worrying for the global payments system: SWIFT covers half of all big cross-border transfers. It is more likely that the criminals did have

access to the SWIFT terminals in the bank. That would suggest the heist was at least in part an inside job: a collaboration of hackers and bank employees or others who were allowed close to its SWIFT terminals.

As Bangladesh's politicians stonewall, that is the line of inquiry that its sleuths are pursuing. The police's Criminal Investigation Department (CID) wonders if the SWIFT staff or consultants who installed the central bank's systems were involved (or at least negligent); SWIFT denies this. The CID wants to talk in Dhaka to these eight individuals—Indian and Sri Lankan nationals—but has not yet managed it. The race is not always to the SWIFT. ■

## Payment-card fees

## Marked cards

## The credit-card industry's reliance on processing fees keeps mounting

IN 1966 a medical journal identified a condition it dubbed "credit-carditis": lower-back ache, with pain radiating down the leg—caused by a back-pocket wallet stuffed with plastic. Payment cards still inflict pain of a different sort. American merchants paid more than \$40 billion to process debit- and credit-card transactions in 2015. Despite a reform by the Federal Reserve in 2011 aimed at reducing these costs, revenue from these so-called "interchange fees" has more than doubled since the financial crisis. Retailers are still in revolt; banks are still resisting. That is not surprising, since they rely on the fees for a large and growing share of their income.

American consumers favour debit and credit cards over cash by more than two to one. But this convenience comes at a cost. The seller is charged a fee for every card purchase: in America, typically 0.5% to 3% of its value. These fees are set by payment-card networks, such as Visa and MasterCard and collected by card issuers, such as Wells Fargo and JPMorgan Chase. Some portion of these fees is borne by consumers, including those who pay by cash, in the form of higher prices.

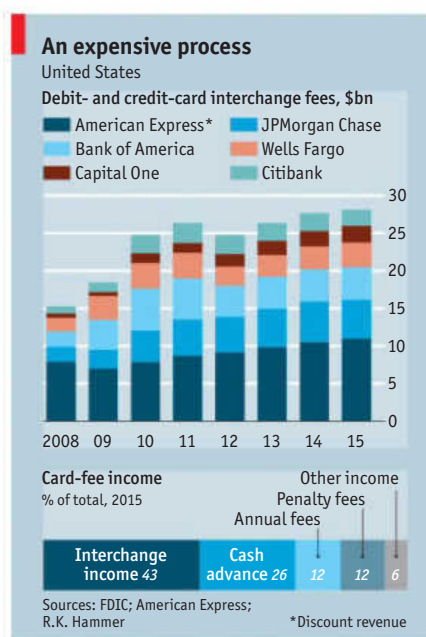
Retailers have long argued that card networks use their market power to set excessively high fees. Card providers maintain that such fees are necessary to cover the cost of processing payments and combating fraud. Policymakers have struggled to settle the debate. Payment-card markets are hard to regulate. Cap fees too harshly and banks may not bother issuing cards; allow them to climb too high and merchants will stop accepting them. Either way, the consumer would be the loser.

In 2011 the Federal Reserve capped fees on most debit-card transactions at 21 cents plus 0.05% of the value of the transaction. Payment networks responded by ending discounts on low-price transactions, so fees went up for many small outlets, such as convenience stores. Meanwhile, banks raised customer fees and cut rewards. In 2014 economists at the Federal Reserve estimated that banks recouped nearly half of the lost income with higher service charges and lower card rewards.

Interchange fees have continued to grow—by over 8.5% a year between 2012 and 2015. Many banks have become increasingly reliant on these fees, which now account for 43% of card fees, according to R.K. Hammer, a bank-card advisory firm (see chart). Chase, America's largest credit-card issuer, earns nearly 16% of its total revenue from interchange fees.

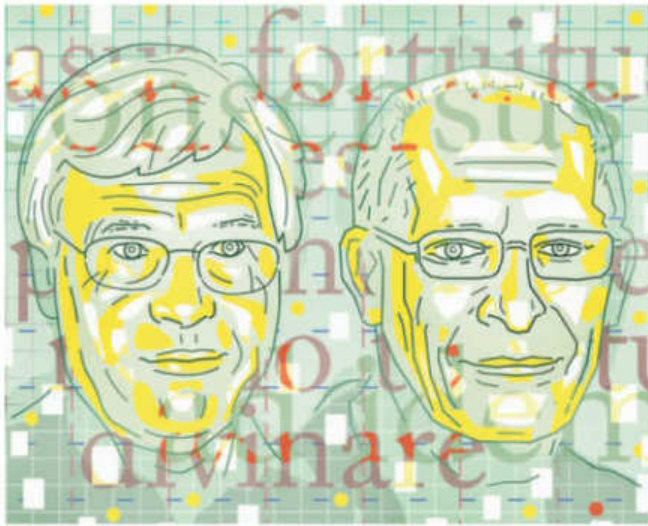
Merchants have developed strategies for avoiding card fees. Some no longer accept more expensive cards, or impose credit-card minimums. Others steer their customers to cheaper payment methods. In 2015, Kroger, a Cincinnati-based grocer, installed point-of-sale terminals that routed debit-card payments over PIN debit networks, rather than more expensive, less secure signature networks. After Visa fined it \$7m for the offence, Kroger filed suit. Walmart and Home Depot have each sued Visa over similar disputes.

To offset rising costs, some merchants—from taxi-drivers to utilities—now charge customers for paying with cards. This practice, known as "surcharging", is no longer banned by payment-card rules, but is still illegal in ten states. The Supreme Court will soon weigh in, hearing a case brought by a group of New York retailers who say the state's ban on credit-card surcharges is unconstitutional. Whoever wins the legal battle, the plastic wars will rumble on. ■



# Free exchange | Hard bargains

Two economists win the Nobel prize for their work on the theory of contracts



**E**CONOMICS can seem a rather bloodless science. In its simplest models, prices elegantly balance supply and demand, magically directing individuals' pursuit of their own self-interest towards the greater good. In the real world, humans often undermine the greater good by grabbing whatever goodies their position allows them. The best economic theorising grapples with this reality, and brings us closer to understanding the role of power relationships in human interactions. This year's Nobel prize for economic sciences—awarded to Oliver Hart and Bengt Holmström—celebrates their study of economic power, and the tricky business of harnessing it to useful economic ends.

Behind the dull-sounding “contract theory” for which the two were recognised lies an important truth: that when people want to work together, individual self-interest must be kept under control. For a chef and a restaurant-owner to work together productively, for example, the owner must promise not to use the power he has to change the locks in order to deny the chef his share of future profit. Mr Hart, a British economist working at Harvard University, tackled power dynamics while seeking to explain the existence of firms—a question which has troubled economists since the work of the late Ronald Coase, another Nobel, starting in the 1930s. Firms provide some advantage over dealing with others through exchanges of cash for services in the open market, but economists have struggled to pinpoint what that advantage is.

The difficulty in writing contracts that cover all future situations seems to be crucial. Agreeing beforehand how any hypothetical future windfall or loss ought to be shared can be impossible. Yet the uncertainty of working without such a complete contract could be big enough to prevent potentially profitable partnerships from forming. In work with Sanford Grossman, (an economist who might plausibly have shared the prize), Mr Hart reasoned that firms solve this problem by clever use of the bargaining power bestowed by the ownership and control of key assets, such as machines or intellectual property. Instead of fussing over how to divide up the spoils in every possible future, in other words, workers agree to sell their labour to a firm that owns the machinery or technology they use, in the knowledge that ownership gives the firm the power to Hoover up a disproportionate share of the profits.

This power comes with costs as well as benefits, which help shape how big companies become and exactly what they do. In other work, Mr Hart noted that workers and managers who look after equipment can make decisions to improve its productivity (like maintaining the machinery and investing in training). But just how much time and energy they spend on such efforts depends on what share of future profits they can expect. A publisher might buy a printing company in order to have more control over its assets, and ensure its presses are used to print its own books first. Yet if the takeover means that the workers tending the presses see smaller rewards for their efforts, and their managers cannot keep tabs on them, they might shirk the extra sorts of work that keep the presses running as productively as possible. So the theory has real-world relevance; Mr Hart used it to explain precisely why inmates may fare worse at privately run prisons than at public ones. Managers of both care about the bottom line, but the incentive to cut costs is sharper in private prisons, because the profits flow into the pockets of owners who benefit directly.

The work of Mr Holmström, a Finnish economist at the Massachusetts Institute of Technology, centres on the behaviour of individuals rather than organisations. Many of the basic power dynamics in society boil down to the relationship between one person—a principal—who needs another—an agent—to do something for him. The principal can use contracts to shape the incentives facing the agent, the better to get him to direct his activities. Yet getting the incentives just right is no easy feat.

A firm owner setting pay for a senior manager wants to get his employee to deliver the best possible results. Linking a bonus to performance—to profits, for example—would seem to be the order of the day. Yet profits rise and fall for reasons which have nothing to do with managerial effort, such as the health of the economy. Bonus payments that mostly reward this sort of noise actually dull the incentives facing the manager. Better to base contracts only on information (like profits relative to the industry average) which sheds light on the manager's true performance.

## The small print

Yet surprisingly often, firms opt not to structure pay in this way. Mr Holmström's work describes why that might be so. Most jobs are made up of many different tasks, for instance, some of which are easier to assess than others. Bonuses linked to the easily measured stuff, like profits, encourage agents to spend more time boosting those measures, at the expense of other, harder-to-measure things that are nonetheless important, like brand reputation or product quality. In some cases, firms might therefore opt to pay fixed salaries, or to separate roles into those specialising in the easy-to-assess tasks, who can be offered high-powered incentive pay, and others paid fixed rates for woollier sorts of work. Throughout his career, Mr Holmström has worked out how the ways contracts can and cannot be made to manipulate others determine the structure of jobs, firms and even industries.

Like many of the most deserving laureates, Mr Hart and Mr Holmström opened whole new lines of inquiry to later economists (indeed, the winner of the prize in 2014, Jean Tirole, did important work in response to their contributions). The Nobel committee should be applauded for rewarding economists who place power dynamics front and centre. Economic life is messy, but it is also, occasionally, comprehensible. ■






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**Depression and its treatment**

## Sniffing at a new solution

### A new generation of drugs could change the way depression is treated

IT STARTED out as LY110141. Its inventor, Eli Lilly, was not sure what to do with it. Eventually the company found that it seemed to make depressed people happier. So, with much publicity and clever branding, Prozac was born. Prozac would transform the treatment of depression and become the most widely prescribed antidepressant in history. Some users described it as “bottled sunshine”. It attained peak annual sales (in 1998) of \$3 billion and at the last count had been used by 54m people in 90 countries. And, along the way, it embedded into the public consciousness a particular idea about how depression works—that it is caused by a chemical imbalance in the brain, which the drug corrects. Unfortunately, this idea seems to be only part of the story.

In science it is good to have a hypothesis to frame one’s thinking. The term “chemical imbalance” is just such a thing. It is a layman’s simplification of the monoamine hypothesis, which has been the prevalent explanation for depression for almost 50 years. Monoamines are a class of chemical that often act as messenger molecules (known technically as neurotransmitters) between nerve cells in the brain. Many antidepressive drugs boost the level of one or other of these chemicals. In the case of Prozac, the monoamine in question is serotonin.

The monoamine hypothesis, though, is under attack. One long-standing objection is that, although drugs such as Prozac raise levels of their target monoamine quite quickly, the symptoms of depression may take weeks, or even months to abate—if, indeed, they do abate, for many patients do not respond to such drugs at all. Now, to add to that, a second objection has emerged. This is the discovery that ketamine, a drug long used as an anaesthetic and which is also popular recreationally, works, too, as a fast-acting antidepressant. Ketamine’s mode of action is not primarily on monoamines, so the race is on to use what knowledge there is of the way it does work to design a new class of antidepressant. This is a change of direction so radical that some think it heralds a revolution in psychiatry.

#### Special K

Ketamine works for 75% of patients who have been resistant to other forms of treatment, such as Prozac (which works in 58% of patients). Moreover, it works in hours, sometimes even minutes, and its effects last for several weeks. A single dose can reduce thoughts of suicide. As a result, although it has not formally been approved for use in depression, it is widely prescribed “off label”, and clinics have sprouted up all over America, in particular, to of-

fer infusions of the drug (which must be taken intravenously, if it is to work). Anecdotal reports suggest that it has already saved many lives.

Ketamine’s rise has been gradual. The discovery of its efficacy against depression happened a decade ago. Conducting clinical trials of new uses for drugs whose patents have expired is not a high priority for pharmaceutical companies, which generally prefer to test new molecules whose patents they own—and without such trials, formal approval for a new use cannot be forthcoming. Now, though, novel ketamine-related treatments are emerging.

One such is esketamine. Normal ketamine is a mixture of two molecules that are mirror images of each other. Esketamine is just one of these “optical isomers”. Though it, too, is off-patent, Johnson & Johnson, a large American drug company that is developing it for use, hopes it will have the same positive effects as the unsorted isomeric mixture, but without side-effects such as hallucinations, dizziness and “dissociation”—a feeling of being awake but detached from one’s surroundings.

By changing its formulation so that it can be administered in the form of a nasal spray, the firm both makes esketamine easier to use than isomerically mixed ketamine and creates something patentable. Preliminary evidence suggests esketamine does indeed work, and the firm is seeking approval for it to be used to treat two conditions: major depressive disorder with imminent risk of suicide, and treatment-resistant depression.

Other companies, though, are taking a different approach, by studying ketamine’s mode of action and attempting to imitate the way it works. Many people think ketamine affects the action of a common neu- ►►

▶ rotransmitter called glutamate, by blocking the activity of receptors for this molecule. One hypothesis is that it interacts with a glutamate receptor called NMDA that had never previously been thought to be involved in depression. Several firms are therefore seeking to mimic the effect of ketamine by aiming at the NMDA receptor.

One such is Allergan, an Irish company that last year paid \$560m to buy Naurex, an American biotech firm whose NMDA-blocking drug rapastinel is intended as a once-a-week intravenous treatment. Evidence from an early trial shows rapastinel is well tolerated, does not induce hallucinations and seems to work quickly. Allergan plans to start more extensive trials later this year. Nor is Allergan alone in its interest in the NMDA route. Other firms working on molecules that interact with this receptor, or with a special flavour of it called NR2B, include AstraZeneca, Avanir Pharmaceuticals and Cerecor.

### Reception committee

It would be a mistake, though, to think that science has now reached a neat conclusion about how depression acts in the brain. One surprise came earlier this year in the form of work published by Carlos Zarate of America's National Institutes of Health,

who is a pioneer in the field. This study suggests that, in mice at least, ketamine is not working directly on the NMDA receptor, but rather on another glutamate receptor. This finding will not matter to Johnson & Johnson, because esketamine mimics the effects of normal ketamine, which is known to work. But it may mean those taking the NMDA route with other molecules are barking up the wrong tree.

As to the specifics of Dr Zarate's study, Hussein Manji, the head of neuroscience at Johnson & Johnson, says it is possible that this work identified an additional way to generate antidepressive effects. Even if ketamine is found to work via another receptor, this does not preclude it working via NMDA. Armin Szegedi, who runs clinical development of the drug rapastinel at Allergan, makes the same argument. He explains that all the glutamate receptors seem to interact with each other as well, and act as a complicated system.

Time will tell who is correct, but such minutiae will matter less than whether one of these new approaches works. Lots of drugs, for many indications, work well, even though no one knows precisely how. The important point, though, is that ketamine has opened up a new line of attack on a horrible illness—and that this attack is being pressed relentlessly home. ■

equipped with sensors on its fingers.

Sensations from the hands are processed in parts of the brain called the somatosensory cortices, of which there is one in each cerebral hemisphere. But these areas process input from the rest of the body too, so Dr Gaunt had first to locate the precise areas within that dealt with the hands. Choosing the left hemisphere, which controls the right-hand side of the body, and asking the patient to imagine feeling sensations in his hands while he did so, he monitored tiny fluctuations in blood flow, and in the magnetic fields generated by the brain's electrical activity. This told him exactly where the electrodes should go.

A week after the surgery which implanted them, his team began a series of tests, sending tiny pulses of electricity through the electrodes and into the patient's brain. For the first three weeks the only feelings he reported were tinglings in his hand and arm, often when no stimulus was being applied. These, however, faded away and after four weeks of testing he began to report sensations that correlated with the electrodes firing.

Stimulating different electrodes led to sensations that seemed to the patient to be coming from different parts of his hand. Only some of the hand was covered (see diagram), but within the areas that were, he was able to pinpoint the apparent origin of the feeling quite precisely.

The final step was to hook the patient up to a prosthetic hand equipped with sensors of its own. He was then blindfolded while members of the team touched individual fingers on the prosthesis. Accuracy was good. Even with no prior training, he identified the correct finger 84% of the time. When he did make a mistake, it was usually to attribute sensation to a finger adjacent to the one being touched.

There were snags. The patient reported that some sensations seemed to be coming from below the skin of his hand, rather than from the surface. And none of the sensations extended to any of his fingertips, despite the electrodes being placed in what should have been the correct parts of the brain. These, though, are teething troubles. The important thing is that Dr Gaunt has shown his approach works, and also that it is safe. Though the data in the paper cover just the first six months of the experiment, it has now been going on for three times that period, without any sign of safety problems.

The next step, says Dr Gaunt, is to combine his team's work with that of another group at Pittsburgh, which is using the same sorts of implanted electrodes to listen to the brain rather than talking to it. The goal is to merge these areas of research and produce a limb that is both controlled by thought, and provides natural-feeling feedback to its user. ■

## Prosthetic medicine

# Once more, with feeling

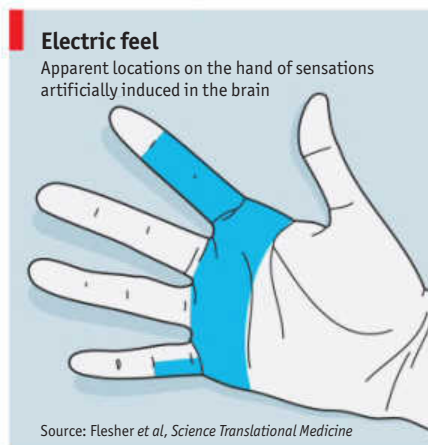
### Electrodes in the brain can mimic sensations from the hand

ARTIFICIAL limbs are nothing new. An *Arsatz* toe, made of wood and leather and found attached to the mummified body of an Egyptian noblewoman in Cairo, in 2000, is thought to be between 2,500 and 3,000 years old. Things have moved on since then. Modern prostheses sport things like articulated fingers that can be controlled by picking up impulses from their wearer's remaining nerves.

But a bionic limb receiving commands is only half the picture. To be a true replacement, it should also be able to send sensations back to its wearer, to enable him to control it precisely. And, in a study just published in *Science Translational Medicine*, a group of researchers led by Robert Gaunt, an engineer at the University of Pittsburgh, have taken an important step towards this goal. Their paper describes a way of restoring sensation by using implanted electrodes to stimulate a patient's brain directly.

The patient in question is a 30-year-old man whose spinal cord was damaged in a

car crash. He is not an amputee, but his injury means his brain and his hands can no longer communicate. Dr Gaunt's aim was, first, to create an illusion in the patient's brain that this was not the case, and then to use that illusion to send to that brain signals from an artificial hand which was



## Civil engineering

## Scouring, the future

## New ways to detect when bridges are in trouble

ON AUGUST 2nd a century-old bridge carrying the road from Mumbai to Goa over the Savitri river collapsed (see picture), killing at least 20 people. The probable cause was that the river, swollen by monsoon rains, had scoured away the foundations of the bridge's piers. Such erosion-induced collapses are not peculiar to India. In 2009 the Malahide viaduct, north of Dublin, failed similarly just after a train had crossed it. This was despite its having been inspected and pronounced safe a few days earlier. In America, meanwhile, foundation-scouring is reckoned to be the leading reason for bridge failure. Half of the 500 collapses that happened there between 1989 and 2000 were caused by it.

If detected early enough, foundation-scouring is easy to fix. Dumping rubble, known as riprap, into the water around a bridge's piers stabilises the riverbed they are sunk into. But until now such detection has involved the deployment of teams of divers, which is expensive. Hence a search for technology which can substitute for the men and women in the wetsuits.

Ken Loh of the University of California, San Diego, thinks he has an answer. He has created flexible rods that, when inserted into a riverbed, monitor erosion quite simply. The exposed portion of a rod undulates in the water. Piezoelectric polymers in the rod convert this motion into electricity, with the frequency of the undulation (and therefore of the electric current) indicating the length of the rod's exposed part. As the bed erodes, this portion gets longer and the

frequency drops. That tells the riprap tipers when to get busy.

Genda Chen of Missouri University of Science and Technology has a more unusual proposal: to throw magnetic "rocks" (artificial boulders with magnets embedded inside them) into the river. These rocks roll around in the riverbed until they settle in dips in the sediment, which are generally places where erosion is at its greatest. Sensors fitted to a bridge's piers then estimate the amount of scouring, and where it is, from the strength and direction of the magnetic field they detect.

Some researchers, like Luke Prendergast of Delft University of Technology in the Netherlands, think installing sensors below the waterline like this is too expensive—and is also unreliable. He worries that heavy storms will wash them away when they are needed most. He has focused instead on monitoring the part of the bridge above the water, using accelerometers of the sort found in most smartphones. All bridges vibrate, as traffic bumps over them or winds rattle their decks. If their foundations begin to erode, the pattern of these vibrations will change, much as the pitch of a tuning fork varies with its length. Accelerometers, Dr Prendergast suggests, could monitor such changes and forewarn of problems.

Accelerometers are not the only way to measure vibrations, though. David Mascañas of Los Alamos National Laboratory videos them. He then uses a computer algorithm to analyse the resulting footage

and determine a structure's properties, even if the vibrations recorded have an amplitude of less than a millimetre.

Whether methods that study vibrations in these ways can detect problems early enough to prevent collapses remains to be seen. Branko Glisic of Princeton University, by contrast, thinks the best approach is to detect threatening cracks directly. He has created special sensor sheets, designed to be pasted onto the sides of a bridge. Wires within a sheet elongate if a crack opens underneath them. That changes their resistance. The arrangement of the wires means such changes in resistance give away precisely where the crack is.

If methods such as these can be made to work in practice, then it will, more often, be possible to send the riprappers in at the appropriate moment to save a bridge that is otherwise sound. And, for those bridges that are not, timely warning will be provided that a crossing needs to be closed before someone is killed traversing it. ■

## Manufacturing ultracapacitors

## Baltic exchange

## An Estonian firm gives electricity storage more oomph

ALMOST every week seems to bring reports in scientific journals of new electricity-storage devices—batteries and capacitors—being invented in laboratories around the world. The journey from bench-top to assembly line, though, is fraught with hazard and few of these ideas end up as products able to withstand the rough and tumble of industrial and consumer use. Fewer still hail from beyond the laboratories of North America, western Europe and Japan. But one which does is Skeleton Technologies' ultracapacitor, which was developed, and is now being manufactured, in Estonia.

Unlike batteries, which store energy chemically by squirrelling it away in the materials of their electrodes, capacitors store it physically as static electricity clinging to the surfaces of their equivalents of electrodes, which are known as plates. This static can be tapped or added to more swiftly than any chemical reaction can manage, so capacitors both store and discharge electricity more rapidly than batteries do. That makes them ideal for delivering short bursts of power. But they cannot accommodate nearly as much energy as batteries, so they soon run out of vim.

Supercapacitors, and their upscale cousins ultracapacitors, attempt to bridge this gap by increasing the surface areas of their plates, and also by adding an electro- ▶▶



Scoured away

lyte of the sort found in batteries. Skeleton Technologies' device, the company claims, does these things so well that it can deliver four times more power per kilogram than anything else on the market. Its secret is that its plates are coated with graphene, a form of carbon a single atom thick. Graphene has a surface area of more than 2,000 square metres per gram, and Skeleton's graphene is also penetrated by pores that permit the passage of ions from the electrolyte. These are inculcated by a proprietary process, using silicon carbide and titanium carbide, and are precisely engineered to permit the ions' passage.

Skeleton Technologies itself is the creation of Taavi Madiberk and Oliver Ahlberg, who set up their company in 2009 based on the work of a group of Estonian researchers. Initially, it produced a limited number of ultracapacitors for motor racing, where they are used in kinetic-energy recovery systems (KERS) that recycle energy which would otherwise be lost as heat during braking and turn it into electricity to assist acceleration. Another early customer was the European Space Agency. It uses ultracapacitors to handle peak-power demand in its satellites, such when they are moving the arms of their solar panels. Not only are ultracapacitors more efficient than lithium-ion batteries at harvesting energy from solar panels, they are also lighter, smaller and have a longer life—up to 1m cycles of charging and discharging, according to Mr Madiberk. A lithium-ion battery fades after about 1,000 cycles.

Back on Earth, the company is now working with vehicle-makers. Adgero, a French firm, is using Skeleton's devices to fit KERS to diesel-powered lorries. Adgero's system, which it claims provides fuel savings of 25%, is being tested by operators including Eddie Stobart and Fraikin, two large British trucking companies. Similar arrangements would work well on trains, and also on dockside cranes, providing spurts of power when goods need to be lifted and recovering energy when they are lowered again.

With new investment the company went into full production in April, when it opened a new factory near Tallinn, Estonia's capital, that is capable of turning out half a million of the devices a year. Next February, if all goes well, this will be joined by a second plant near Dresden, Germany, to take the company's combined output to 5m a year. At the moment, then, Skeleton's ultracapacitor seems the bee's knees. How long that will last depends on when the next big idea makes it from the lab to the world. The latest candidate is offered by Mircea Dinca and his colleagues at the Massachusetts Institute of Technology in this week's *Nature Materials*. Its plates are coated with materials called metal-organic frameworks. Whether it will ever be heard of again remains to be seen. ■

## Social attitudes

# Not worth a second glance

Your class determines how you look at your fellow creatures

IN 2009 a team of psychologists at the University of California, Berkeley, who were studying people from different walks of life, noticed that those from the upper classes were less good than those from the lower at discerning emotions on the faces of others. This led them to speculate that such empathy weakens as you go up the social scale. The theory might be true. But a paper just published in *Psychological Science*, by Pia Dietze and Eric Knowles of New York University, offers an alternative hypothesis—that it is not the emotional sensitivity of patricians to plebs which is impaired, but their attention to them.

Dr Dietze and Dr Knowles began their study with an experiment that they told participants was a study of Google Glasses. They were, though, lying. The test was not of these pieces of apparatus (tiny video cameras hidden in pairs of spectacles, which let wearers take surreptitious footage of whatever they are looking at), but rather of the participants' behaviour. The 61 volunteers were all asked to wear a Google Glass headset, walk for a block in New York and focus their attention on whatever captured their interest. Their souped-up specs then recorded everything they looked at. Afterwards, they filled out a questionnaire that asked, along with matters of age, sex and ethnicity, about their income, their level of education and the social class they believed they belonged to.

This done, the researchers handed the videos over to six "coders"—people trained to parse video recordings for teams of psychologists without knowing the purpose of an experiment. The coders were asked to identify participants' glances at other

people, and also to record the duration of each gaze.

When Dr Dietze and Dr Knowles correlated the coders' conclusions with the data from the questionnaires, they found that the number of gazes at strangers did not vary with social class, but their duration did. Specifically, upper-middle-class and upper-class people gazed at the faces of others for a fifth of a second less than members of lower social classes.

To explore further, the two researchers set up a second experiment. In this they asked 82 volunteers to place their heads on chin rests and have their eyes monitored as they were shown a variety of street scenes from New York, San Francisco and London. This time, working-class people spent a tenth of a second longer looking at faces than did upper-middle-class people—a difference that did not apply when the same people looked at inanimate objects.

Dr Dietze and Dr Knowles then ran one more experiment. This was a version of Kim's game, in which they presented 397 participants with an array of six randomly arranged images (one of a face and five of inanimate objects such as fruits, houseplants or musical instruments) that alternated with a second array which either had identical images to the first, but differently arranged, or had one of those images changed (and was also differently arranged). Participants had to work out which image, if any, had been substituted.

Once again, there was no difference between classes' success in doing this when the altered image was of an object. When it was of a face, though, lower-class people did better than upper-class ones.

It seems, then, that those from the lower classes really do take more notice of faces than those who inhabit the top of the heap. Why, is open to speculation. Dr Dietze's and Dr Knowles's own view is that the upper classes pay less attention because they believe random strangers have little to offer. Perhaps one way to test that hypothesis would be to rerun their experiment at a Buckingham Palace garden party. ■



Not only looking down, but for less time




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China today (1)

## To have and to hold

Two books show how China's elite has taken control of the economy and the country—both in fact and in fiction

**I**N 1989 the movement for democracy brought the Chinese Communist Party to within days of extinction. According to official reports, on one day alone, May 22nd, 6m people joined demonstrations in 132 cities across the country. The party's immediate response was to use the people's army to crush the people by force, in Tiananmen Square. To rebuild the loyalty of those who would continue to rule in the party's name, its leaders went on to create the conditions in which officials at all levels could loot state property. Thus, the biggest democracy movement in history was countered by the greatest opportunity for predation the world has ever seen.

China has never had a formal privatisation programme. Instead, as Minxin Pei, a professor of government at Claremont McKenna College in California, writes in "China's Crony Capitalism", decentralising the rights of control over state property without clarifying the rights of ownership gave those who rule "maximum advantage to extract wealth from society". Rights of control have been separated from rights of ownership in China—and where ownership is uncertain, control is key.

Mr Pei's book is quietly devastating. In sober, restrained language, he exposes the full gravity of corruption in China. Presenting a wealth of evidence, he shows that this is not the unfortunate by-product of rapid economic growth but the result of strategic choices by the party. With clinical

**China's Crony Capitalism: The Dynamics of Regime Decay.** By Minxin Pei. *Harvard University Press*; 365 pages; \$35 and £25.95

precision, Mr Pei explains how corruption operates at every level, perverting each branch of the party-state and subverting the political authority of the regime. The party cannot mitigate, let alone eradicate, "crony capitalism" because, since 1989, it has been "the very foundations of the regime's monopoly of power", the author argues. The conclusion, he believes, is that far from saving the regime, President Xi Jinping's anti-corruption drive may accelerate its demise by creating divisions within the ruling elite even as it reinforces strong popular resentment of corruption.

The state continues to hold the residual property rights to at least half of the net worth of the economy. Since 1978, when Deng Xiaoping launched his economic programme, the party-state has jealously guarded this walled garden for its officials and their business cronies. Throughout this time there has been some economic reform but no political reform. Thus the party, as Mr Pei points out, can only protect its interests with the full Leninist range of repressive instruments—and daily displays its willingness to do so.

This exercise of power is not subject to any of the checks and balances of a liberal

democracy. China's structure of government makes it impossible to staunch the corruption. There is a lack of probity at the highest levels of the party, as seen in the imprisonment of former members, including the former chief of security, Zhou Yongkang. The improper exercise of power is most obvious in property development, mining and the restructuring of state-owned enterprises. Corrupt officials collude with superiors as well as subordinates. Their venality has infected every province. Some regions have become mafia states. Only highly competitive sectors, where property rights are better defined, such as consumer goods and high-tech manufacturing, mostly in the private sector, are largely free of it.

Thanks to the extensive decentralisation of administrative power, local party chiefs have "acquired the authority to allocate capital, award large contracts and determine land use". Local businessmen bribe these local bosses to their own advantage. Starting in 1994, local governments have been allowed to keep all the receipts from land sales, using them largely to finance infrastructure projects.

But lax controls have allowed officials to exploit these projects for personal enrichment. State assets are not the only area in effect to have been privatised; so too has the power of the state. Appointments and promotions in every department have been for sale for a quarter of a century. "Bribes, instead of merit, determine who is chosen," Mr Pei writes. Mr Xi said the same to a gathering of party officials on October 16th 2014: "Corruption in personnel matters is a prominent problem... Our system of cadre management is for show only." Court documents reveal that this practice has extended to environmental-protection agencies, the police, secret intelligence services, judiciary and the highest ranks of ►►

▶ the armed forces.

As Mr Pei explains, anti-corruption investigations are carried out by the party itself. Courts rubber-stamp the party's own verdicts on its own officials. The author exposes the weaknesses of the investigatory organisations and shows that only a small percentage of officials are seriously sanctioned. He goes on to point out that Mr Xi's anti-corruption campaign is dealing only with the symptoms of the disease, not the underlying causes.

Corruption in China has been made easy by ill-defined property rights, decentralised administrative authority and the absence of democratic checks and balances, such as an independent judiciary, a free press and political competition. Only by improving all of these can it be permanently reduced. Belatedly, the party under Mr Xi has recognised that corruption poses a mortal threat to the regime, but it has, at the same time, rejected the very reforms that offer the only prospect of a remedy.

Mr Pei grew up in Shanghai and lived there in the hopeful early 1980s, but he is not optimistic now: "Even a revolutionary overthrow of the old order may not usher in the dawn of a liberal democracy. The legacies of crony capitalism...will enable those who have acquired enormous illicit wealth under the old regime to wield outsized political influence in a struggling new democracy that will have poor odds of survival," he writes. He fears that Russia and the Ukraine may show China what can happen when a one-party dictatorship is overthrown, as it so nearly was in 1989. This book is essential reading for anyone who wishes to understand China today, or engage with it at any level, in any field. ■

China today (2)

## Build, and they will come

**The Explosion Chronicles.** By Yan Lianke. Translated by Carlos Rojas. *Grove Press*; 457 pages; \$26. To be published in Britain by *Chatto & Windus* in March 2017

**I**N BOOM-TIME China, the mayor of an expanding city only has to sign a decree for its weather to brighten. A brand new subway line and Asia's biggest airport are completed in a week. The civic militia had merely to march around a building site, and a Hall of the People that holds 50,000 "sprang up like a tree". When a decision in Beijing upgrades the city of Explosion to a "provincial-level metropolis", "all of the seasonal fruits began to mature at lightning speed". No wonder Mayor Kong Mingliang commands obedience from the wildlife in his courtyard: "Even the insects



and sparrows listened to him."

The elements of fairy-tale fantasy scattered across "The Explosion Chronicles" help to sweeten a tough-minded satire. Yan Lianke, one of China's most forthright and versatile novelists, enlists extravagant comedy and far-fetched fable to propel his critique of a society where "power and money have colluded to steal people's souls". As the four Kong brothers and their equally ambitious wives and concubines steer Explosion from obscure mountain village to seething mega-city, pride swells into megalomania. Hope rots into hubris. Crazy for wealth, the folk of Explosion rush headlong into a high-consumption future and lose the habit of "weeping at the graves" of their relatives. Early in the novel, which parodies the dynastic histories that have been well-known in China for two millennia, the author makes plain that his fictitious township "replicated in miniature the pain and prosperity undergone by the nation itself".

Born in 1958 in rural Henan, Mr Yan wrote propaganda for the army before breaking free. He depicts China through an assortment of lenses: rip-roaring Swiftian satire in "Lenin's Kisses", when a village buys the corpse of the Soviet patriarch and builds a sort of Red Disneyland around it. In the haunting "Dream of Ding Village", an HIV epidemic caused by contaminated blood plasma shows how corruption ripens into tragedy. "The Four Books", which was shortlisted for the Man Booker International prize this year, borrows the conventions of legend, history and even scripture to count the human cost of Mao Zedong's Great Famine. Serially banned on the mainland but protected by his global renown, Mr Yan still lives in Beijing.

The fantastical world of "The Explosion

Chronicles", in which official decrees make flowers bloom out of season and skyscrapers rise overnight, follows the principles of what Mr Yan's afterword calls "mythorealism". This style aims to capture the "hidden internal logic" behind China's thunderous stampede into modernity. Even in Carlos Rojas's robust and well-paced translation, such a diet of supersized wonders can try the reader's patience. Like his greedy citizens, Mr Yan sometimes fails to put a brake on grotesque excess. Many of the strongest episodes keep to a more domestic scale. The plot pivots on the strategic marriage between the mayor and Zhu Ying: iron-willed entrepreneur, brothel madam and grieving daughter of the old village chieftain. In the midst of miracles, their love-hate liaison never loses its rivalry—or its poignancy.

Alone among the siblings, a younger brother, Kong Minghui, forsakes wealth and status to rediscover the ancient pieties. His fellow citizens decide that he must be suffering from "mental illness". But this defection allows Mr Yan to liberate the subtler, more lyrical side of his writing. When, under the eerie gaze of a prowling cat, Minghui gathers shards of moonlight and learns the future from a long-lost almanac, post-Mao "mythorealism" falls away. The reader slips into a literary China of poetry and mystery that flourished long before the boom—and will certainly outlive it. ■

Afghanistan

## Karzai Inc

**A Kingdom of Their Own: The Family Karzai and the Afghan Disaster.** By Joshua Partlow. *Knopf*; 422 pages; \$28.95. *Simon & Schuster*; £20

**M**IGHTY things have turned out better in Afghanistan without Hamid Karzai? The many critics of the former Afghan president blame him for tolerating corruption and for undermining the West's war against the Taliban. As Robert Gates, once America's defence secretary, said: Mr Karzai was the most "troublesome ally in war since Charles de Gaulle".

America initially regarded the dashing Pushtun tribal leader as just the man to run post-Taliban Afghanistan. Joshua Partlow, a journalist with the *Washington Post*, writes in "A Kingdom of Their Own". Western diplomats made sure he was appointed interim leader in 2001 and elected president in 2004. But America came to have grave doubts about him. "I hate that guy," Richard Holbrooke, then a senior American diplomat in the region, let slip to Afghan officials in the run-up to the fraud-ridden ▶▶



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den presidential election of 2009. Mr Karzai's naive pacifism and his disdain for military affairs maddened American generals. When one commander reported that a remote town had fallen to the Taliban, Mr Karzai snapped back: "So it was liberated."

Things went from bad to worse as America became increasingly frustrated at its inability to crush a ragtag Islamist militia. In 2010 it seized on the notion that public anger with government corruption was behind the growing support for the Taliban. But an anti-corruption campaign provoked a confrontation with members of Mr Karzai's family, which included some thoroughly Americanised Afghans who had returned from exile after making their careers in the restaurant trade.

Mr Partlow describes how American officials, tapping telephones, uncovered the brazen malfeasance of the Afghan elite. Much of this focused on Kabul Bank, an institution that turned out to be little more than a Ponzi scheme which provided multi-million-dollar, interest-free loans to its shareholders. Among them was Mahmood Karzai, Hamid's elder brother, a dealmaker and businessman who dreamed of creating American-style suburbia in the deserts of Kandahar.

Mr Karzai personally abhorred corruption and angered his relatives by frustrating their attempts to obtain government contracts and jobs. But he also blocked foreign would-be corruption-busters. Any arrests would undermine Mr Karzai's own political base of tribal leaders and the businessmen who had made millions out of the wartime economy and vast amounts of civil aid after 2001.

America also bears much of the blame for its failures in Afghanistan, as this finely reported book shows. Policy changed with each new rotation of diplomats and generals. Early on, the Bush administration was

not interested in nation-building and was happy with a conciliatory president who would co-opt corrupt warlords, not imprison them. Later, when it decided to throw money and troops into a massive counter-insurgency campaign to boost the war effort, it wanted a no-nonsense technocrat in charge. That was not the style of Mr Karzai, who loved to rule in the manner of a king, meeting tribal delegations and micromanaging the country by mobile phone from his presidential palace. The historic compound, with its gardens and its decorative giant employed to "walk around the palace and be tall", looms large in this book.

One of America's biggest u-turns was over Ahmed Wali Karzai, another sibling who became the president's man in Kandahar, the historic heartland of the Push-tuns. Over the years many Americans, from Vice-President Joe Biden down, argued that Ahmed Wali was like a mafia godfather, his behaviour fuelling support for the Taliban. But when President Obama decided to increase the number of troops in Afghanistan in 2010, Ahmed Wali became essential to the war effort after all.

Mr Partlow overstates the extent to which the Afghan people shared their president's disillusionment with his tormentors. But he is right that Mr Karzai identified many of the mistakes America made, only to be ignored. He railed against the killing of civilians and harassment of villagers during NATO raids long before General Stanley McChrystal tried to confront the problem. And he was right to blame the Taliban's resilience on Pakistan's harbouring of Afghanistan's enemies.

Some American officials who were sent to Afghanistan came to wish they had listened more. Of all the many brothers and lesser Karzai cousins Mr Partlow encountered in his reporting, Hamid was, he believes, the "most misjudged of all". ■

## Classical music

# Piano man

**Moscow Nights: The Van Cliburn Story—How One Man and His Piano Transformed the Cold War.** By Nigel Cliff. Harper; 452 pages; \$28.99. To be published in Britain in November; £20

ONE night in April 1958, the cold war was broken by a gap-toothed smile. The jury of the International Tchaikovsky Competition in Moscow had reached a near-unanimous decision and the audience was going wild over the likely winner: a 23-year-old Texan called Van Cliburn. But Stalin was barely five years dead and no one was going to risk a spell in Siberia by awarding first prize to an American. So a nervous Emil Gilels, a pianist, was dispatched to see the minister of culture, and the minister went trembling to report to the Communist Party chief, Nikita Khrushchev, who was just back from reimposing Russian terror in Budapest.

"We don't know what to do," bleated the minister, presenting the jury's report.

"Is he the best?" Khrushchev demanded. "In that case, give him the first prize."

The Soviet leader followed up with a beaming public bear-hug for the victorious Cliburn, who towered a head above the pudgy Khrushchev. In that historic freeze-frame, the cold-war ice cap began to melt.

Nigel Cliff, a British journalist and one-time contributor to *The Economist*, has written a freshly sourced account of these momentous Moscow nights. He places them aptly at the heart of the nuclear conflict and poignantly in the personal odyssey of a lanky, gay pianist from a small prairie town who never wanted to do much except play Russian music. His mother, it was said, had once met Rachmaninoff.

When the Soviet Union announced a contest that would demonstrate cultural and educational superiority over a decadent West, Cliburn was living in digs near Carnegie Hall, taking lessons with Rosina Lhevinne at the Juilliard School. He had always wanted to see Moscow and many other Westerners were too scared to go. The Russians rustled up two front-runners, Lev Vlassenko and Naum Shtarkman. The Chinese sent Liu Shikun. But from the moment Cliburn first played, the Moscow public took him to their hearts. He had a unique stage presence, at once languid and intense, projecting an almost papal serenity. No other pianist matched Cliburn's poise or his physical appeal. The inimitable Sviatoslav Richter, a loner in the jury room, reportedly awarded him full marks for each round and zero to other contenders. In the streets of Moscow the winner ►►



Keep looking over your shoulder



▶ was mobbed like a Hollywood star.

His victory made headlines in New York, but it took two days for the State Department to wire official congratulations and even longer for President Eisenhower to respond. Returning home to a ticker-tape parade, Cliburn insisted on being conducted in America by Kirill Kondrashin, a Russian, thus doing all he could to extend the cultural thaw, even as the Cuban crisis was growing.

Cliburn enjoyed a life of glory, with a Texas piano competition endowed in his name and recordings that sold in millions. Arriving once in Washington, DC, without his concert wear, he borrowed tie and tails from a fellow Texan, Lyndon B. Johnson. Leaders of both powers vied for his attention. Spy agencies kept him under a wary

eye. Cliburn returned to Moscow for the last time in 2011, two years before his death, to serve as honorary chairman of the Tchaikovsky piano competition. He did not vote for fear of harming another artist.

His fellow runners-up in 1958 all had to give up music. Vlassenko became a teacher, Shtarkman spent eight years in Soviet jails for homosexuality and Mr Liu was incarcerated for seven years during Mao's Cultural Revolution. Cliburn knew that his glory was earned at the expense of his Moscow friends. Mr Cliff does well, despite some musical infelicities, to describe the big game of culture wars and Khrushchev's capricious adventurism. Cliburn himself remains an enigma, even if his triumph was to show that music sometimes has the power to shape history. ■

McIntyre set up camp, he spotted a few Mayorunas and followed them deep into the jungle, armed with only his Minolta. His scramble to get the perfect shot left him lost and at the mercy of the tribe, which he joined as they migrated steadily away from the threat of developers and towards a place they called "the beginning". Although McIntyre was unable to communicate with the Mayorunas, he claimed he was able to exchange telepathic messages with the tribe's leader.

"I was fascinated by this book," Mr McBurney says. "On a superficial level, it seems to be a sort of classic tale about a white man going into a situation that he doesn't understand. But what became clear to me is that this is a man who is utterly lost in every sense. He comes in with all of these assumptions about who he is, why he's there, and gradually has every single one challenged, right down to the question of what is time, how do we perceive it, how do we live it."

Mr McBurney knew he wanted to adapt the book ever since a friend gave him a copy in 1991. But he wasn't sure how to make McIntyre's existential loneliness feel palpable to theatregoers. Inspired by "Swimming to Cambodia", the one-man monologue that Spalding Gray wrote first for the stage and then for the screen, Mr McBurney experimented with telling the story into a microphone. But it was only with the binaural technology that he felt he could really put theatregoers in McIntyre's shoes and put McIntyre's voice in everyone's head. With the help of Gareth Fry and Pete Malkin, both sound designers, Mr McBurney was at last able to "achieve what I was looking for, a profound sense of solitude while sitting amongst a large group of people."

Mr McBurney narrates the show and performs most of the voices, including McIntyre's swaggering American drawl. Other elements are pre-recorded, including the throbbing sounds of the Amazon and the musings of academics on whether time exists in multiple dimensions. In a few cases Mr McBurney's ingenious use of a prop creates an apt new sound, such as when he moves a water-bottle to evoke lapping waves. Recordings of Mr McBurney's young daughter, Nona, also break into the narrative occasionally, calling attention both to the artifice of storytelling and the competing timelines on stage. Without these interruptions it can be easy to get lost in the Amazon yourself.

"The truth is I find it very difficult to talk about the piece," Mr McBurney says. Indeed, the play poses far more questions than answers, in part because it addresses matters—about consciousness and memory, time and nature—that defy easy resolutions. But Mr McBurney hopes it will show viewers how the stories people tell go on to shape their reality. ■



On Broadway

## The stories people tell

NEW YORK

Simon McBurney's "The Encounter" takes an existential journey into the Amazon

FOR a couple of hours each night a modest stage with little more than a desk, some water bottles and a funny-looking microphone is transformed into a humid Amazonian forest. Leaves crunch, crickets chirp, birds trill and mosquitoes buzz right into your ears. The dense murmur of the jungle is somehow vivid enough to evoke a thicket of trees before the audience's very eyes. This feat of alchemy is the handiwork of Simon McBurney, director of a reliably adventurous British theatre company, Complicite, who has brought his acclaimed "The Encounter" to the John Golden theatre in Manhattan.

The production has delighted audiences since its premiere at the Edinburgh festival last year, selling out its limited run at the Barbican in London before it even opened this past February. But it is a daring choice for Broadway. The 59-year-old Mr

McBurney stars in this strange and often mesmerising trip into the Amazon basin, which uses the story of one man's interactions with an elusive tribe to raise all sorts of questions about the nature of consciousness, the tyranny of time, the power of stories and the mutability of reality. The layered soundscape of the jungle is piped through headphones worn by every member of the audience, with separate sounds transmitted into each ear, courtesy of a binaural microphone on stage (which looks rather like an Easter Island head). The effect is as unsettling as it is transporting.

"The Encounter" is based on Petru Popescu's book, "Amazon Beaming", an account of Loren McIntyre's attempt in 1969 to take the first-ever photographs of the Mayoruna tribe, otherwise known as "the cat people" for their habit of piercing their noses with palm spines. Soon after



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## Tenders



### GOVERNMENT OF TAMILNADU (GoTN) DEPARTMENT OF FISHERIES (DOF), CHENNAI

Invites International Tender from Potential Developers or Consortium of Developers for Development of Mid sea fish processing services through Carrier Mother Vessels at Kanniyakumari District  
Tender No. 22360/R1/2011, Date: 21.09.2016

The Department of Fisheries (Dof), Government of Tamil Nadu (GoTN) proposes to implement mid sea fish processing services through Carrier mother Vessels at Kanniyakumari District. The Deployment of two carrier vessel for collection of fish from fishing vessels at mid sea, preservation of collected fish and delivering the fish at shore on daily basis is proposed to implement through "tender" basis. The potential bidder is proposed to be chosen through a single stage Competitive Bidding Process. The potential bidders are required to submit Bid for the specified location.

Description of work	Location	EMD	Operation period
Mid sea fish processing services through Carrier Mother Vessels	50-100 nautical miles from Kanniyakumari district shore	Rs. 12,00,000	2 years

The Department of Fisheries (DoF), GoTN invites 'International tender' from eligible operators on their own or in Consortium, having experience in implementation of similiar projects like operation and maintenance of minimum 50 tonne capacity of modern fish carrying vessel / processing vessels suitable to operate in mid sea. For further details, download the tender document from [www.tenders.tn.gov.in](http://www.tenders.tn.gov.in) & [www.fisheries.tn.gov.in](http://www.fisheries.tn.gov.in)

Schedule of bidding process is given below.

Sale of tender Document	22 - September 2016
Cost of tender Document	Rs. 10,000/-
Last date for receiving queries	06 - October 2016
Pre-application conference	14 - October 2016
Tender inviting authority response to queries and issue of corrigendum/addendum if any	21 - October 2016
Last Date of tender Submission	08 - November 2016

(Note: Any announcements, pre-bid replies, addendum relating to the project will be published only through the website)

For further information , please contact

**The Commissioner of Fisheries, Department of Fisheries,**  
Admin Buildings, DMS Complex, Teynampet, Chennai – 600 006, Tamil Nadu, India.  
Ph: 044 – 2432 1927 / 24336311 Fax: 044- 2433 5585 e-mail: [jdrfisheries1@gmail.com](mailto:jdrfisheries1@gmail.com)

DIPR/3883/TENDER/2016

Commissioner of Fisheries

## Appointment of Consultants

for Project Management Consultancy Services for  
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Islamabad, Pakistan

Capital Development Authority (CDA), Islamabad, Pakistan intends to engage the services of a Project Management Consultant for the Project "Margalla International Convention Centre, Islamabad, Pakistan". The scope of work comprises of establishment of a State of Art Convention Centre, Six Star Hotel and State Guest House on 37 acres of land at Islamabad, Pakistan. Joint Ventures of International & National Consulting Firms, with International Firm as Lead Partner, having similar experience are invited to submit their Technical and Financial Proposals. Request for Proposal (RFP) Document may be downloaded from CDA website ([www.cda.gov.pk](http://www.cda.gov.pk)).

The Consulting Firm will be selected under Quality and Cost based selection method as laid down in RFP.

Last date for submission of Proposals to the address below is **Nov. 15, 2016** by 4:00 PM PST.

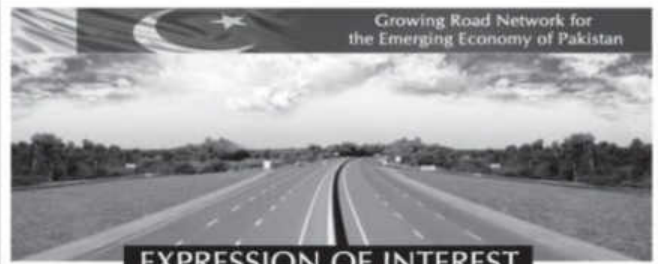
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2. Now NHA intends to undertake construction of Hyderabad - Sukkur Motorway, 296 Km, 6-lane divided, limited access facility ("Project") on Build-Operate-Transfer ("BOT") basis. To improve the viability of the Project, a certain portion of the project cost will be arranged by the Concessionaire in the form of Supplier/Buyers Credit. Land for the Project will be provided free of encumbrances. Project details shall be defined in the Request for Proposal ("RFP").
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5. Last date for submission of PQ Documents is **November 15, 2016 till 1530 hours**.
6. NHA shall issue RFP of the Project to the pre-qualified party(ies) only.
7. The NHA reserves the right to reject any or all applications of EOI.
8. Further information/clarifications may be obtained from the office of the undersigned on any working day during working hours.



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% change on year ago

	Gross domestic product			Industrial production	Consumer prices		Unemployment rate, %	Current-account balance		Budget balance % of GDP	Interest rates, %	Currency units, per \$	
	latest	qtr*	2016 <sup>i</sup>		latest	latest		2016 <sup>i</sup>	latest 12 months, \$bn			% of GDP 2016 <sup>i</sup>	% of GDP 2016 <sup>i</sup>
United States	+1.3 Q2	+1.4	+1.5	-1.1 Aug	+1.1 Aug	+1.3	5.0 Sep	-488.2 Q2	-2.6	-3.2	1.75	-	-
China	+6.7 Q2	+7.4	+6.6	+6.3 Aug	+1.3 Aug	+2.0	4.1 Q2 <sup>s</sup>	+260.9 Q2	+2.6	-3.8	2.53 <sup>s</sup>	6.71	6.32
Japan	+0.8 Q2	+0.7	+0.6	+4.6 Aug	-0.5 Aug	-0.2	3.1 Aug	+173.6 Aug	+3.6	-5.1	-0.05	104	120
Britain	+2.1 Q2	+2.7	+1.8	+0.8 Aug	+0.6 Aug	+0.7	4.9 Jun <sup>††</sup>	-161.2 Q2	-5.6	-3.9	1.05	0.82	0.65
Canada	+0.9 Q2	-1.6	+1.3	-0.7 Jul	+1.1 Aug	+1.6	7.0 Sep	-51.1 Q2	-3.3	-2.6	1.20	1.33	1.30
Euro area	+1.6 Q2	+1.2	+1.5	+1.8 Aug	+0.4 Sep	+0.2	10.1 Aug	+378.0 Jul	+3.2	-1.9	0.06	0.91	0.88
Austria	+1.2 Q2	-0.9	+1.3	-0.3 Jul	+0.6 Aug	+1.0	6.2 Aug	+8.2 Q2	+2.4	-1.3	0.23	0.91	0.88
Belgium	+1.4 Q2	+2.2	+1.3	+5.3 Jul	+1.9 Sep	+1.8	8.2 Aug	+4.8 Jun	+1.2	-2.8	0.36	0.91	0.88
France	+1.3 Q2	-0.4	+1.3	+0.5 Aug	+0.4 Sep	+0.3	10.5 Aug	-27.3 Aug <sup>†</sup>	-0.4	-3.3	0.32	0.91	0.88
Germany	+1.7 Q2	+1.7	+1.7	+2.0 Aug	+0.7 Sep	+0.4	6.1 Sep	+305.6 Aug	+8.4	+0.4	0.06	0.91	0.88
Greece	-0.4 Q2	+0.7	-0.6	-0.3 Aug	-1.0 Sep	nil	23.2 Jul	+0.1 Jul	-1.1	-4.5	8.41	0.91	0.88
Italy	+0.7 Q2	+0.1	+0.8	+4.1 Aug	+0.1 Sep	nil	11.4 Aug	+43.9 Jul	+2.5	-2.6	1.41	0.91	0.88
Netherlands	+2.3 Q2	+2.6	+1.6	+2.2 Aug	+0.1 Sep	+0.3	7.2 Aug	+59.7 Q2	+9.2	-1.2	0.15	0.91	0.88
Spain	+3.2 Q2	+3.4	+3.0	+6.8 Aug	+0.3 Sep	-0.4	19.5 Aug	+22.0 Jul	+1.4	-4.3	1.10	0.91	0.88
Czech Republic	+3.6 Q2	+3.7	+2.4	+13.1 Aug	+0.5 Sep	+0.6	5.2 Sep <sup>s</sup>	+3.7 Q2	+1.5	nil	0.34	24.5	23.8
Denmark	+0.8 Q2	+1.5	+1.0	+2.1 Aug	nil Sep	+0.4	4.3 Aug	+25.8 Aug	+6.4	-1.0	0.18	6.76	6.56
Norway	+2.5 Q2	+0.1	+1.0	-5.6 Aug	+3.6 Sep	+3.5	5.0 Jul <sup>††</sup>	+23.6 Q2	+5.3	+3.0	1.31	8.24	8.07
Poland	+3.0 Q2	+3.6	+3.1	+7.4 Aug	-0.5 Sep	-0.8	8.4 Sep <sup>s</sup>	-2.5 Jul	-1.0	-2.9	3.06	3.90	3.71
Russia	-0.6 Q2	na	-0.7	+0.7 Aug	+6.4 Sep	+7.3	5.2 Aug <sup>s</sup>	+30.2 Q3	+3.1	-3.7	8.35	63.0	61.3
Sweden	+3.4 Q2	+2.0	+3.1	-4.8 Aug	+0.9 Sep	+1.0	6.6 Aug <sup>s</sup>	+25.4 Q2	+5.1	-0.4	0.24	8.83	8.16
Switzerland	+2.0 Q2	+2.5	+1.4	-1.2 Q2	-0.2 Sep	-0.5	3.3 Sep	+66.1 Q2	+9.3	+0.2	-0.45	0.99	0.96
Turkey	+3.1 Q2	na	+3.2	+2.8 Aug	+7.3 Sep	+7.8	10.2 Jun <sup>s</sup>	-31.0 Aug	-4.7	-2.0	9.92	3.09	2.92
Australia	+3.3 Q2	+2.1	+2.8	+3.7 Q2	+1.0 Q2	+1.2	5.6 Aug	-52.8 Q2	-4.2	-2.1	2.26	1.32	1.36
Hong Kong	+1.7 Q2	+6.5	+1.6	-0.6 Q2	+4.3 Aug	+2.7	3.4 Aug <sup>††</sup>	+13.6 Q2	+3.0	+0.1	1.10	7.76	7.75
India	+7.1 Q2	+5.5	+7.6	-0.7 Aug	+5.0 Aug	+5.2	5.0 2015	-16.2 Q2	-1.0	-3.8	6.82	66.6	64.8
Indonesia	+5.2 Q2	na	+5.0	+4.8 Aug	+3.1 Sep	+3.6	5.5 Q1 <sup>s</sup>	-18.7 Q2	-2.2	-2.4	7.08	13,019	13,405
Malaysia	+4.0 Q2	na	+4.3	+4.9 Aug	+1.5 Aug	+1.9	3.5 Jul <sup>s</sup>	+5.3 Q2	+1.2	-3.4	3.60	4.20	4.14
Pakistan	+5.7 2016**	na	+5.7	+2.9 Jul	+3.9 Sep	+3.9	5.9 2015	-3.3 Q2	-0.8	-4.6	8.03 <sup>†††</sup>	105	104
Philippines	+7.0 Q2	+7.4	+6.4	+13.6 Aug	+2.3 Sep	+1.7	5.4 Q3 <sup>s</sup>	+3.2 Jun	+1.1	-1.0	3.85	48.6	45.8
Singapore	+2.1 Q2	+0.3	+1.8	+0.1 Aug	-0.3 Aug	-0.7	2.1 Q2	+58.4 Q2	+19.4	+0.7	1.91	1.38	1.40
South Korea	+3.2 Q2	+3.2	+2.6	+2.3 Aug	+1.2 Sep	+0.9	3.6 Sep <sup>s</sup>	+101.3 Aug	+7.2	-1.3	1.59	1,124	1,144
Taiwan	+0.7 Q2	+0.2	+0.6	+7.7 Aug	+0.3 Sep	+1.3	4.0 Aug	+75.7 Q2	+13.5	-0.6	0.79	31.6	32.3
Thailand	+3.5 Q2	+3.2	+3.1	+3.1 Aug	+0.4 Sep	+0.2	0.9 Aug <sup>s</sup>	+42.4 Q2	+5.3	-2.5	2.30	35.7	35.4
Argentina	-3.4 Q2	-8.0	-1.5	-2.5 Oct	— ***	—	9.3 Q2 <sup>s</sup>	-15.4 Q2	-2.4	-5.1	na	15.2	9.42
Brazil	-3.8 Q2	-2.3	-3.2	-5.2 Aug	+8.5 Sep	+8.3	11.8 Aug <sup>s</sup>	-25.8 Aug	-1.1	-6.4	11.24	3.22	3.73
Chile	+1.5 Q2	-1.4	+1.7	+2.8 Aug	+3.1 Sep	+3.9	6.9 Aug <sup>s††</sup>	-5.1 Q2	-1.9	-2.5	4.18	667	676
Colombia	+2.0 Q2	+0.8	+2.0	-6.2 Jul	+7.3 Sep	+7.7	9.0 Aug <sup>s</sup>	-15.7 Q2	-5.4	-3.7	7.07	2,921	2,869
Mexico	+2.5 Q2	-0.7	+2.1	+0.3 Aug	+3.0 Sep	+2.9	3.7 Aug	-30.9 Q2	-2.9	-3.0	6.09	18.9	16.4
Venezuela	-8.8 Q4~	-6.2	-14.2	na	na	+485	7.3 Apr <sup>s</sup>	-17.8 Q3~	-3.0	-24.3	10.57	9.99	6.30
Egypt	+6.7 Q1	na	+3.0	-10.0 Aug	+14.1 Sep	+11.6	12.5 Q2 <sup>s</sup>	-18.7 Q2	-6.8	-11.4	na	8.88	7.83
Israel	+2.7 Q2	+4.0	+3.0	+1.7 Jul	-0.7 Aug	-0.4	4.6 Aug	+12.1 Q2	+3.3	-2.4	1.82	3.82	3.83
Saudi Arabia	+3.5 2015	na	+1.1	na	+3.3 Aug	+4.2	5.6 2015	-61.5 Q2	-6.5	-12.0	na	3.75	3.75
South Africa	+0.6 Q2	+3.3	+0.4	+0.1 Aug	+5.9 Aug	+6.4	26.6 Q2 <sup>s</sup>	-12.9 Q2	-4.1	-3.4	8.93	14.3	13.3

Source: Haver Analytics. \*% change on previous quarter, annual rate. <sup>†</sup>The Economist poll or Economist Intelligence Unit estimate/forecast. <sup>§</sup>Not seasonally adjusted. <sup>††</sup>New series. ~2014 \*\*Year ending June. <sup>†††</sup>Latest 3 months. <sup>††††</sup>3-month moving average. <sup>§§§</sup>5-year yield. <sup>\*\*\*</sup>Official number not yet proved to be reliable; The State Street PriceStats Inflation Index, Sept 35.92%; year ago 26.47% <sup>†††††</sup>Dollar-denominated bonds.



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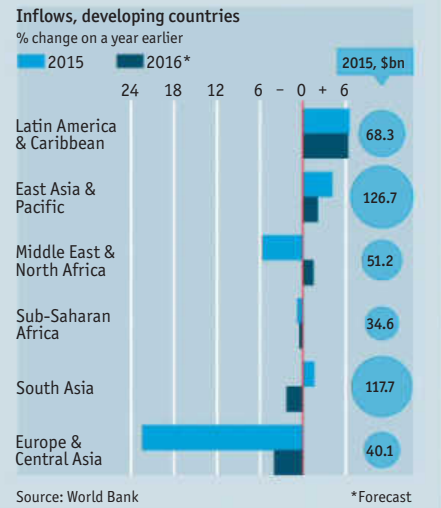


Markets

	Index Oct 12th	% change on		
		one week	in local currency terms	in \$ terms
United States (DJIA)	18,144.2	-0.7	+4.1	+4.1
China (SSEA)	3,201.6	+1.8	-13.6	-16.4
Japan (Nikkei 225)	16,840.0	+0.1	-11.5	+2.3
Britain (FTSE 100)	7,024.0	-0.1	+12.5	-7.0
Canada (S&P TSX)	14,619.0	+0.1	+12.4	+17.6
Euro area (FTSE Euro 100)	1,025.7	-0.8	-6.3	-5.0
Euro area (EURO STOXX 50)	3,008.0	-0.6	-7.9	-6.7
Austria (ATX)	2,409.5	-0.3	+0.5	+1.9
Belgium (Bel 20)	3,525.4	-1.0	-4.7	-3.4
France (CAC 40)	4,452.2	-0.8	-4.0	-2.7
Germany (DAX)*	10,523.1	-0.6	-2.0	-0.7
Greece (Athex Comp)	586.2	+1.9	-7.1	-5.9
Italy (FTSE/MIB)	16,470.3	nil	-23.1	-22.0
Netherlands (AEX)	450.7	-1.2	+2.0	+3.4
Spain (Madrid SE)	876.0	-1.0	-9.2	-8.0
Czech Republic (PX)	890.7	+1.1	-6.9	-5.6
Denmark (OMXCXB)	802.3	-2.0	-11.5	-10.0
Hungary (BUX)	28,396.9	-0.3	+18.7	+24.5
Norway (OSEAX)	697.8	+0.5	+7.5	+15.5
Poland (WIG)	47,925.0	-0.2	+3.1	+4.3
Russia (RTS, \$ terms)	996.0	-0.1	+13.5	+31.6
Sweden (OMXS30)	1,442.5	-0.7	-0.3	-4.8
Switzerland (SMI)	8,068.6	-1.5	-8.5	-7.5
Turkey (BIST)	77,461.3	-0.5	+8.0	+1.9
Australia (All Ord.)	5,555.2	+0.3	+3.9	+7.6
Hong Kong (Hang Seng)	23,407.1	-1.6	+6.8	+6.7
India (BSE)	28,082.3	-0.5	+7.5	+6.9
Indonesia (JSX)	5,364.6	-1.0	+16.8	+23.7
Malaysia (KLSE)	1,667.0	+0.2	-1.5	+0.8
Pakistan (KSE)	41,404.0	+0.4	+26.2	+26.4
Singapore (STI)	2,813.7	-2.4	-2.4	nil
South Korea (KOSPI)	2,033.7	-0.9	+3.7	+8.2
Taiwan (TWI)	9,252.6	-0.2	+11.0	+15.3
Thailand (SET)	1,406.2	-6.9	+9.2	+10.0
Argentina (MERV)	17,207.9	+0.8	+47.4	+25.8
Brazil (BVSP)	61,021.9	+1.3	+40.8	+74.3
Chile (IGPA)	20,600.0	+1.2	+13.5	+20.6
Colombia (IGBC)	10,008.6	+1.1	+17.1	+27.3
Mexico (IPC)	47,915.1	-0.5	+11.5	+1.6
Venezuela (IBC)	13,488.9	-0.3	-7.5	na
Egypt (Case 30)	8,186.0	-2.2	+16.8	+3.0
Israel (TA-100)	1,266.2	+0.4	-3.7	-1.9
Saudi Arabia (Tadawul)	5,692.7	+1.9	-17.6	-17.6
South Africa (JSE AS)	51,548.1	-0.6	+1.7	+10.4

Remittances

Migrants from developing countries sent home \$439 billion during 2015, slightly less than the year before. However, the World Bank forecasts that remittance flows will grow this year, driven by a 6% increase in the amount sent back to Latin America and the Caribbean. In Haiti, remittances made up 25% of GDP in 2015. Flows into Europe and central Asia fell by 23% last year, pushed down by the weak Russian economy. The value of remittances sent back to south Asia is likely to drop in 2016, in part due to labour-market policies in Saudi Arabia which favour hiring nationals over migrants. Although India is forecast to receive \$66 billion this year, the most of any country, this is still 5% less than in 2015.



Other markets

	Index Oct 12th	% change on		
		one week	in local currency terms	in \$ terms
United States (S&P 500)	2,139.2	-1.0	+4.7	+4.7
United States (NAScomp)	5,239.0	-1.4	+4.6	+4.6
China (SSEB, \$ terms)	357.3	+0.9	-13.4	-16.2
Japan (Topix)	1,342.4	-0.4	-13.2	+0.3
Europe (FTSEurofirst 300)	1,336.2	-1.5	-7.1	-5.8
World, dev'd (MSCI)	1,700.3	-1.2	+2.3	+2.3
Emerging markets (MSCI)	905.6	-1.1	+14.0	+14.0
World, all (MSCI)	413.1	-1.2	+3.4	+3.4
World bonds (Citigroup)	943.5	-1.0	+8.5	+8.5
EMBI+ (JPMorgan)	808.8	-0.7	+14.8	+14.8
Hedge funds (HFRX)	1,191.2 <sup>§</sup>	nil	+1.5	+1.5
Volatility, US (VIX)	16.1	+13.0	+18.2 (levels)	
CDSs, Eur (iTRAXX) <sup>†</sup>	74.5	+1.2	-3.4	-2.1
CDSs, N Am (CDX) <sup>†</sup>	75.8	+1.3	-14.2	-14.2
Carbon trading (EU ETS) €	5.5	+0.7	-33.4	-32.5

Sources: Markit; Thomson Reuters. \*Total return index. <sup>†</sup>Credit-default-swap spreads, basis points. <sup>§</sup>Oct 10th.

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The Economist commodity-price index  
2005=100

	Oct 4th		Oct 11th*		% change on	
	Oct 4th	Oct 11th*	one month	one year		
<b>Dollar Index</b>						
All Items	136.6	136.2	+2.0	+1.9		
Food	154.2	153.3	+0.5	-0.9		
<b>Industrials</b>						
All	118.3	118.3	+4.2	+5.9		
Nfa <sup>†</sup>	125.2	126.5	+3.3	+13.5		
Metals	115.3	114.8	+4.7	+2.6		
<b>Sterling Index</b>						
All items	194.8	202.5	+10.0	+26.8		
<b>Euro Index</b>						
All items	152.2	153.1	+3.7	+4.8		
<b>Gold</b>						
\$ per oz	1,283.5	1,256.7	-5.1	+7.7		
<b>West Texas Intermediate</b>						
\$ per barrel	48.7	50.8	+13.1	+8.9		

Sources: Bloomberg; CME Group; Cotlook; Darmann & Curl; FT; ICCO; ICO; ISO; Live Rice Index; LME; NZ Wool Services; Thompson Lloyd & Ewart; Thomson Reuters; Urner Barry; WSJ. \*Provisional <sup>†</sup>Non-food agricultural.

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## The music of English

**Trinh Thi Ngo (“Hanoi Hannah”), broadcaster for Voice of Vietnam, died on September 30th, aged 87**

THE voice was faint, for the signal was weak between Hanoi and the Central Highlands. Nonetheless, at 8pm Saigon time, after a day spent avoiding mantraps and pursuing the ever-elusive Vietcong, GIs would try to unwind by listening to the young woman they called “Hanoi Hannah”. As they cleaned their rifles, smoked herbs and broke out a beer or two, their precious radios, strapped up for protection with ragged black tape, crackled with tones that might have been those of a perky high-school cheerleader. “GI Joe, how are you today?” asked the sweet-sounding girl, of men to whom any girl would have sounded sweet. “Are you confused? Nothing is more confused than to be ordered into a war to die or be maimed for life without the faintest idea of what’s going on. You know your government has abandoned you. They have ordered you to die. Don’t trust them. They lied to you.”

Some soldiers would scoff or talk loudly for the time the programme lasted. Others would throw empty cans towards the voice. They listened, though, to the songs she played, sent over by Stateside sympathisers: Joan Baez, Bob Dylan, Elvis Presley and her own favourite, Pete Seeger’s deeply melancholy “Where Have All the Flowers Gone?” Upbeat numbers, such as Petula Clark’s “Downtown”, would have even dog-tired men frenziedly dancing. But then Hannah would switch the mood again, reading out (courtesy of *Stars and Stripes*, the soldiers’ own newspaper) the names of recent American casualties and their home towns. “Defect, GI,” she would urge each man. “It is a very good idea to leave a sinking ship. You know you cannot win this war.”

The range of her knowledge was disturbing. She announced exactly where units were and, though troops cheered when she mentioned them, they were chilled to be tracked down. She knew the names of all the crew on ships that had just arrived, and once wished a wistful happy birthday to a soldier who had just

been killed. Many listened because her information, written by the North Vietnamese defence ministry, was sometimes more accurate than what could be gleaned from sanitised US Armed Forces Radio: revealing in 1967, for example, that rioting was going on in Detroit. Some believed she even knew whether their girls were cheating on them back home, and with whom.

### Schooled by the stars

Of course, she was not omnipotent at all: just a petite, smiling, lively young woman who translated, and then read faithfully in faultless American-English, the scripts she was given. Voice of Vietnam had started, in 1945, with Ho Chi Minh’s declaration of the independence of his country; but when she joined ten years later, at 25, she was reading English-language news bulletins rather than full-fledged propaganda. With the mass arrival of American troops in 1965 her broadcasts, previously 5-6 minutes once a day, were extended to 30 minutes three times a day. And it was she who had

the exaltation of announcing to the world, on April 30th 1975, that Saigon was at last liberated and Vietnam unified.

She spoke out for the cause, but also because she adored the English language: the language, that is, as mediated by Hollywood and spoken by stars. Her education, in a prosperous family under French colonial rule, had been in French schools, but she was lured very early by the cinema and, there, the fascinating “music” of English. She reckoned she went five times to “Gone with the Wind”, fortified with bread and sausages for the length of the film, listening intently to the raptures of Vivien Leigh and whatever Clark Gable drewled from under his pencil moustache. Private English lessons soon followed, and English at university. As well as perming her hair and applying bright lipstick to look at least a little like a starlet, she practised and practised her English intonation. In her early days at Voice of Vietnam she had Australians for mentors; but it was America that echoed in the way she spoke.

This being so, her broadcasts were not aggressive. Ideology played little part in them; she never joined the Communist Party, feeling patriotic enough. Her delivery was pitched to be persuasive, neither intimate nor tough: striving to demoralise each man a little, advising him to go AWOL or frag his officers, yet evincing concern for him. Only the bombing of Hanoi in December 1972, which forced them to abandon the studio, made her angry. The programmes were explicitly dedicated “to the American people”, or “our American friends”, meaning all Americans who opposed the war. Early on, that meant agitators like Jane Fonda, who sent her good tapes and then, mystifyingly to her, seemed to abandon the cause. Later, increasingly, she felt she had the tacit support of most citizens of the United States.

Ex-soldiers who visited her in later years, when she had given up her broadcasting in Hanoi for domestic calm in hotter, noisier Saigon, found a woman of impeccable manners in exquisite silk blouses and strings of pearls. She dreamed of following her painter son to America, of seeing New York and the Golden Gate Bridge. She had no animus against Americans. Her English, however, was getting rusty, and needed the lubricant of speaking it. So she was happy to say, laughing, “Let bygones be bygones,” as often as she was asked. ■



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